# Tax Management framework and Tax Risk policy

## Purpose

To formalise the goals, principles and governance of the tax function within the Capitec group. This document only deals with South African resident companies within the Capitec group

## Read along with this content

Delegation of authority policy

Enterprise Risk Management policy

Ethics management framework

FATCA/CRS policy

IT governance policy

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|---|---|
| **Version** | V05 |
| **Effective Date** | 06/05/2024 |
| **Document Adherence** | All Taxation Management employees (Goals, principles and governance of the tax function) |
| **Committee to Approve** | Audit Committee |

# Table of Content

# 1. Background

## 1.1 Introduction

1.1.1 With more than 15 000 employees, serving millions of clients, the actions of Capitec Bank Holdings Limited and its subsidiaries (Capitec or the group) have a significant impact on its stakeholders, on society and on how business is done in the industry. Acting with integrity and exercising the right behaviour is critical to fulfilling Capitec's role as a good corporate citizen and ensuring that it maintains a sustainable business.

1.1.2 The group's values are to be fair, accountable and driven and ensure that the group operates in an environmentally friendly and responsible manner. The group complies with rules and regulations, operating at the highest levels of integrity and ethics, and ensures that its business practices are not discriminatory.

1.1.3 The primary objective of the tax management framework is to ensure compliance with the various tax laws affecting the group. The Tax Management framework and Tax Risk policy align with Capitec's ethics management framework.

## 1.2 Objectives

1.2.1 Capitec is committed to being a responsible taxpayer, based on sound tax compliance and constructive engagement with tax authorities underpinned by valid business purposes.

1.2.2 An optimal system of tax management as well as policies aimed at managing and limiting tax risk safeguards the group's reputation as a responsible taxpayer.

1.2.3 This policy applies to all taxes including corporate income tax on profits, indirect taxes, withholding taxes and employment-related taxes (PAYE, UIF and SDL).

1.2.4 A similar policy document will be prepared dealing with non-resident companies in the group which will be appropriate for each jurisdiction.

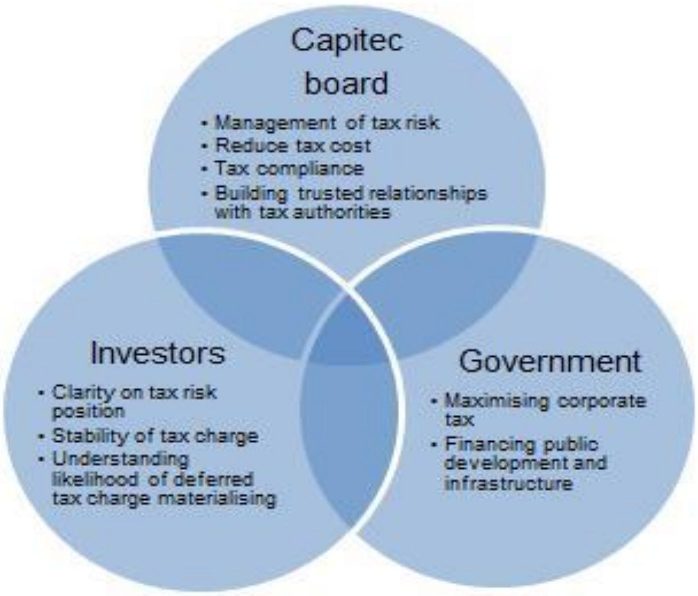
1.2.5 The following abbreviations apply:

| Term | Description |
|---|---|
| **ASISA** | Association for Savings and Investment South Africa |
| **BASA** | Banking Association South Africa |
| **CbCR** | Country-by-Country Reporting |
| **CFC** | Controlled foreign company |
| **CFO** | Chief financial officer |
| **CRS** | Common Reporting Standards |
| **DWT** | Dividend withholding tax |
| **ETI** | Employment tax incentives |
| **FATCA** | Foreign Account Tax Compliance Act |

| Term | Description |
| --- | --- |
| **IT** | Information technology |
| **PAYE** | Pay as you earn (employee's tax) |
| **SAICA** | South African Institute of Chartered Accountants |
| **SARS** | South African Revenue Service |
| **SDL** | Skills Development Levies |
| **TAA** | Tax Administration Act |
| **UIF** | Unemployment Insurance Fund |
| **VAT** | Value added tax |
| **VDP** | Voluntary disclosure programme |

## 1.3 Stakeholders

The focus regarding tax matters for each stakeholder may differ.




## 1.4 Approach

1.4.1 A responsible and transparent approach to the management of all tax affairs and related risks is taken, and the approach is aligned with the long-term strategy of the group.

1.4.2 The group strives to comply with the SARS compliance expectations by following the approach promoted by SARS that focuses on:

- People
- Systems
- Processes

# 2. Tax Risk policy

## 2.1 Policy statement

All persons engaged in the management of Capitec tax matters should do so having due regard for compliance with tax law, protection of shareholder value and constructive engagement with tax authorities.

| | |
|---|---|
| **Compliance** | • Capitec is committed to compliance with the spirit and the letter of the tax laws and regulations in the countries in which it operates. Capitec follows a zero-tolerance approach to non-compliance. Strict controls are in place to ensure compliance with all tax legislation and regulations at all times<br>• Capitec aims to ensure it is aware of all relevant tax risks, including those relating to compliance matters, financial reporting, tax audits and legislative developments. We have established policies which govern our approach to identifying, managing and mitigating tax risks. Identified tax risks are actively managed within an appropriate tax risk framework and control procedure. Significant risks are routinely reported to the board and audit committee, and recorded on the appropriate risk register. The tax policy and tax management framework are approved by the audit committee, a subcommittee of the board |
| **Shareholder value** | Under and overpayment of taxes negatively affect shareholder value. Capitec management should manage tax matters to minimise the risk of under or overpayment of taxes. Management should be aware of available incentives put in place by tax authorities and apply these where relevant. Capitec is committed to using structures of commercial substance and not to transfer value created to low-tax jurisdictions or 'tax havens' for tax avoidance purposes |
| **Engagement** | Management recognises the important role of SARS and National Treasury, and it is our policy to be transparent and proactive in all interactions with them. Management should foster positive working relationships with SARS representatives. Additionally, Capitec should follow industry developments on tax matters and be represented on relevant industry committees in order to stay abreast of such developments and ensure that Capitec's views are represented |

## 2.2 Principles

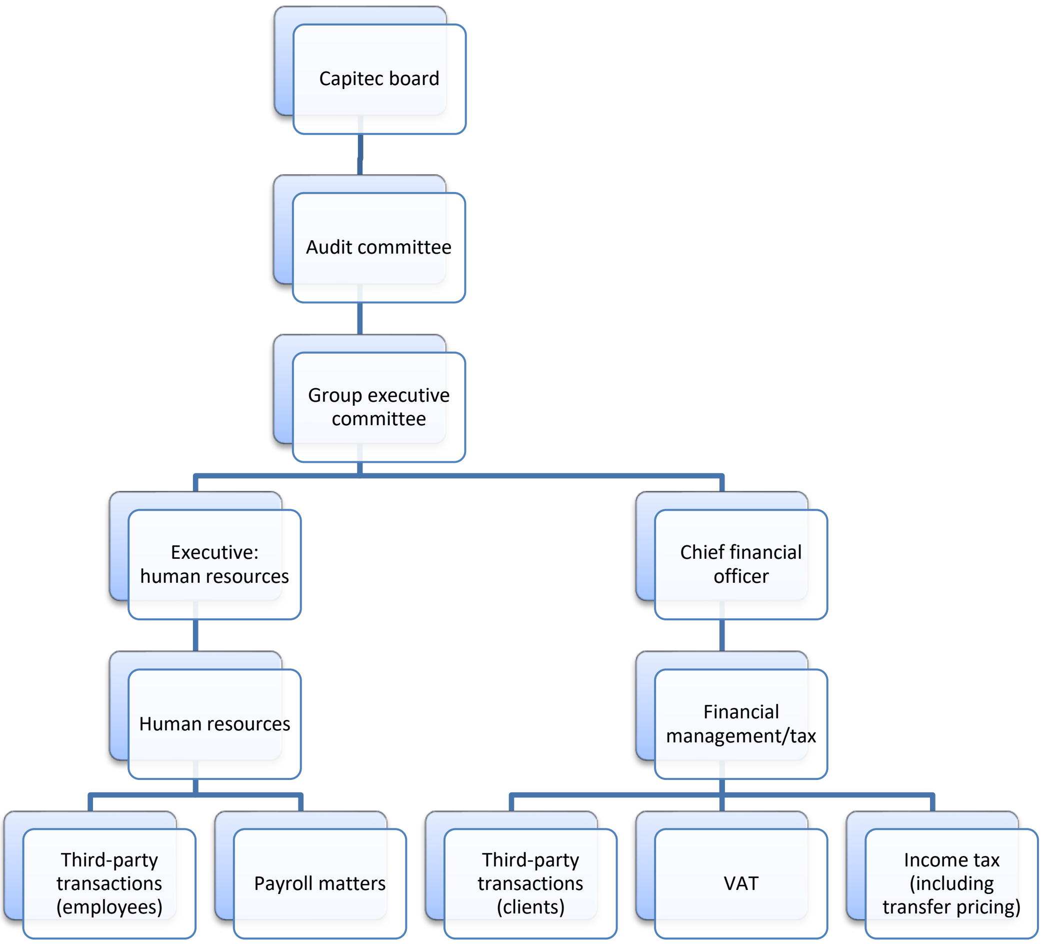
The Capitec tax management framework is based on the following principles:

| Principle | Description |
|---|---|
| **Prudence** | A degree of caution must be exercised in matters of tax uncertainty |
| **Competence** | As a general or preferable rule, where possible, Capitec seeks to perform work in-house with tax resources available. The use of experts and tax consultants is considered where necessary |
| **Skills and experience** | All employees involved in tax-related matters must have adequate skills and experience to perform their functions |
| **Timeliness** | Project management of tax matters to ensure timeliness of submissions and payments |
| **Supervision and** | All tax calculations, submissions and payments must be subject to |

| Principle | Description |
|---|---|
| **validation** | appropriate review and authorisation by an experienced tax specialist |
| **Accuracy** | All tax calculations must aim for maximum accuracy |
| **Transparency** | Management should communicate with all tax stakeholders in a transparent manner |
| **Reputation** | Due care should be given to the group's reputation and the impact that all tax matters have on the reputational risk of the group |

## 3. Tax management framework

In order to comply with the relevant tax legislation and regulations, the group has established a tax management framework.



## 3.1 Tax risk management roles and responsibilities

| Title | Roles and responsibilities |
|---|---|
| **Capitec board** | • Overall responsibility for the management and control of the group<br>• Approval of and ultimate responsibility for corporate governance and the Tax Management framework and Tax Risk policy<br>• Oversight of the establishment and continued effectiveness of the risk management and internal control system<br>• Responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal controls<br>• Oversight of the group's management of tax risks and compliance with tax-related obligations |
| **Audit committee** | • Review of legal and regulatory risks, including tax<br>• Compliance with legal and regulatory obligations, including tax<br>• Monitor tax risk classifications (high, moderate, low) and financial and non-financial risks associated with tax risks<br>• Monitor effective tax rates and cash taxes paid and consider whether these align with business results<br>• Consider the impact on the group of new accounting practices (including tax disclosures) and tax legislation<br>• Periodic oversight of the tax risk management programme established and maintained by management<br>• Biannual review of the tax status report prepared by the Lead: Taxation and the CFO |
| **Chief financial officer** | • The CFO, an executive director of the board, is ultimately responsible for tax governance within the group. The CFO is accountable for tax accuracy, completeness and transparency<br>• The CFO relies on the group tax function and subsidiary CFOs to ensure that the group complies with its tax responsibilities towards SARS and that tax is reported accurately in the annual financial statements<br>• The CFO ensures that the group tax strategy aligns with the Capitec code of conduct and the group's core values. The CFO is responsible for ensuring that relevant tax matters are reported to the board of directors and the audit committee<br>• Ensures that tax risks are managed within the risk appetite in the context of Capitec's enterprise risk management framework |
| **Group tax function** | • The group tax function is an independent risk and control function separate from the business divisions and forms part of the group shared services.<br>• The group tax function is headed up by the Lead: Taxation who reports directly to the Head of Financial Reporting. The Head of Financial Reporting reports to the CFO.<br>• The primary responsibilities of the Lead: Taxation include, but are not limited to the following:<br>– To manage the group tax function in such a manner that it provides assurance to the CFO and executives that the group is compliant with regard to its tax affairs and that there are no material unknown tax liabilities or unutilised tax opportunities within the group<br>– To provide a 'tax technical center of excellence' within the group that can be used by the various functional and divisional heads as a source of advice and guidance<br>– To ensure that the group tax function has suitably skilled employees who are relevant to the Capitec business |

| Title | Roles and responsibilities |
|---|---|
| | – To ensure that all employees in the group tax function remain technically proficient, have appropriate career plans and are managed in accordance with human resources policies<br>– To manage the relationships with external tax service providers including but not limited to senior counsel, law firms and independent registered tax practitioners. The Lead: Taxation will ensure that the deliverables from such external service providers are appropriate to the group's business and are in compliance with the various tax laws<br>– To manage the relationship with SARS with regard to the following:<br>o SARS audits and the SARS requests for information<br>o Disputes and the dispute resolution process<br>o Submissions with regard to proposed legislative amendments<br>o Submission of requests for advance tax rulings<br>o Requests for relief under the VDP process<br>o Requests for reduced assessments<br>The Lead: Taxation must ensure that communication with the tax authorities is undertaken in a proactive, transparent, professional, courteous and timely manner. The Lead: Taxation must ensure that a good working relationship exists with tax authorities<br>– To ensure that the group is tax compliant with regard to its responsibilities towards SARS. This includes all tax filings, reporting and tax payment obligations. It also includes reportable arrangements and third-party submissions required by law<br>– To manage the relationships with other role players within the group. This includes the various divisional heads of departments, finance business partners, internal audit, information technology and human resources<br>– To provide regular status reports to the CFO and the group's audit committee including the status of tax uncertain positions, contingencies, disputes and the impact of new legislation<br>– To ensure that all tax returns are reconciled to the accounting records and that all relevant adjusting entries are accurately processed<br>– To provide support to the financial reporting team in ensuring that the normal and deferred tax charges and related disclosures in the annual financial statements are reasonable<br>• The Lead: Taxation may delegate some of the above responsibilities to a suitably qualified person in the group tax function but will remain responsible for ensuring that the above outcomes are achieved |
| **Others including but not limited to:**<br>• Financial reporting<br>• Remuneration<br>• Treasury<br>• Finance business partners | • While the group tax function is primarily responsible for the submission of income tax and consolidated VAT returns, it is also responsible for establishing 'best practices' regarding tax risk management throughout the group. It is recognised that many persons outside the group tax function have responsibilities regarding various forms of tax compliance and tax reporting<br>• It is the responsibility of the group tax function to create a 'responsibility matrix' that clarifies the tax responsibilities of the various role players in this regard<br>• The Lead: Taxation will engage on a regular basis with the key role players to ensure that they are suitably equipped to comply with their tax responsibilities |

## 3.2 Scope of the framework

3.2.1 The scope of the framework includes, but is not limited to, the following tax legislation:

- Tax Administration Act, Act 28 of 2011
- Income Tax Act, Act 58 of 1962
- Value-Added Tax Act, Act 89 of 1991
- Securities Transfer Tax Act, Act 25 of 2007
- Any other statutory compliance that may be construed as tax legislation

3.2.2 Consideration of the tax legislation requires management to address 4 specific areas on an ongoing basis:

| Group tax function | Description of tax function |
|---|---|
| **Tax operations, risk and planning** | Consideration of the impact of changes in legislation, business, products or structure |
| **Reputational and strategic risk** | • Uncertainties and untapped opportunities embedded in the business' overall strategic intent (Example: Reputational risk resulting in negative publicity, creating a high-risk profile within the tax office or a higher risk rating leading to increased costs of compliance)<br>• Ensure that tax risks are managed within the risk appetite in the context of Capitec's enterprise risk management framework |
| **Tax accounting and reporting** | Reporting to SARS, executive management and board committees on tax matters, developments, risks and non-compliance |
| **Tax compliance** | Day-to-day administration of payments, submission of returns and audit reviews |

## 3.3 Processes

The foundation of the tax management framework is a reliable documented tax control environment with effectively designed and operating key controls to address tax risk within the various tax processes.

| | Daily/Weekly/Monthly | Annually/Biannually | *Ad hoc* |
|---|---|---|---|
| **Income tax** | • Monthly tax calculation<br>• Completion of monthly tax pack including expense analysis (capital versus revenue nature) and other tax analyses | • Provisional tax payments and submissions on eFiling<br>• Income tax return submissions on eFiling<br>• DWT return submissions<br>• Transfer pricing reporting | • SARS requests for information and audits |

| | Daily/Weekly/Monthly | Annually/Biannually | *Ad hoc* |
|---|---|---|---|
| **Payroll matters** | • EMP201 submissions | • EMP501 submissions<br>• Tax certificates (IT3 and IRP5) submissions | • SARS requests for information and audits<br>• Requests for tax directives in respect of fringe benefits and other payroll payments |
| **Third-party transactions** | | • FATCA and IT3 submissions | • IT88 agent appointment requests (employers)<br>• AA88 agent appointment requests (clients) |
| **VAT** | • VAT invoice checking prior to payments<br>• VAT vendor checks<br>• VAT output reconciliations<br>• VAT201 submissions<br>• Monthly VAT apportionment calculation | • Annual VAT apportionment calculation | • SARS requests for information and audits |

## 3.4 Approach regarding past errors identified

While the group takes great care to ensure that tax submissions are made in accordance with various laws, errors may arise that affect prior periods. These errors may give rise to either an underpayment of taxes or an overpayment of taxes.

### 3.4.1 Errors giving rise to the underpayment of taxes

3.4.1.1 All such events must be referred to the Lead: Taxation who will consider the appropriate legislation, the financial impact and any ancillary consequences of the error identified.

3.4.1.2 The Lead: Taxation will consider the appropriate action to be taken which may include the following:

- Obtaining external advice from a suitable tax practitioner and/or senior counsel. This is of particular importance where the relevant tax return has prescribed
- Making use of the VDP to regularise the tax affairs

3.4.1.3 The Lead: Taxation will make submissions to the CFO regarding the appropriate corrective action to be taken.

3.4.1.4 It is the policy of the group to be transparent with tax authorities whenever underpayments of taxes are uncovered.

3.4.1.5 All correspondence with SARS must, however, be channelled via the Lead: Taxation who is responsible for ensuring that the non-compliance position is rectified while minimising the risk of penalties and interest.

#### 3.4.2 **Errors giving rise to the overpayment of taxes**

3.4.2.1 All such events must be referred to the Lead: Taxation who will consider the appropriate legislation, the financial impact and any ancillary consequences of the error identified.

3.4.2.2 The Lead: Taxation will consider the appropriate action to be taken which may include the following:

- Obtaining external advice from a suitable tax practitioner and/or senior counsel
- Requesting reduced assessments in terms of section 93 of the Tax Administration Act

3.4.2.3 The Lead: Taxation will make submissions to the CFO regarding the appropriate corrective action to be taken.

3.4.2.4 In the event that the CFO decides to pursue a refund of taxes, all correspondence with SARS must be channelled via the Lead: Taxation.

### 3.5 Tax uncertain positions

#### 3.5.1 **Overview**

3.5.1.1 A tax uncertain position is any tax position where it is possible that SARS may challenge the tax position taken by the group in its various tax returns.

3.5.1.2 For purposes of this policy document, the term ‘tax uncertain position’ includes existing as well as possible future disputes with the tax authorities.

3.5.1.3 It should be differentiated from a ‘known error’ position that is dealt with in paragraph 3.3 above. Tax uncertain positions are split into 2 main categories:

- Income tax uncertain positions governed by IFRIC 23
- VAT, PAYE and other tax uncertain positions not governed by IFRIC 23 but governed by IAS 37

3.5.1.4 The Lead: Taxation is responsible for implementing a process that will ensure the following:

- That all tax uncertain positions arising in the various Capitec subsidiaries, businesses and functions are reported to the group tax function
- That group tax evaluates the potential financial and non-financial impact of the tax uncertain positions
- Implementing procedures to minimise the risk arising from tax uncertain positions. This includes but is not limited to obtaining section 223 of the TAA opinions
- Considering the reporting requirements under IFRIC 23 for income tax positions and IAS 37 for other tax uncertain positions
- Managing the external audit process regarding IFRIC 23 and IAS 37 with the external auditors

- Providing the CFO and the audit committee with regular reports on all tax uncertain positions

## 3.6 Classification of tax risks

3.6.1 The Lead: Taxation must classify each tax uncertain position as a 'high', 'moderate' or 'low' risk.

3.6.2 In allocating an appropriate risk classification, the Lead: Taxation must assume that the appropriate tax authority is familiar with all the facts and circumstances giving rise to the tax uncertain position.

3.6.3 The tax risk classification must take cognisance of the following elements of tax risks:

3.6.3.1 **Financial risk** – an adverse impact on cash as a result of the group reaching an incorrect view on the application of tax laws.

3.6.3.2 **Compliance systems risk** – an instance of inability to comply with regulatory and statutory requirements (Example: Use of incorrect data, late lodgement of a tax return and SARS scrutiny).

3.6.3.3 **Operational risk** – the risk of loss arising from inadequate or failed internal processes, people and systems (Example: Inadequate documentation to support transactions or a transaction is not implemented in accordance with advice).

3.6.3.4 **Reputational or strategic risk** – uncertainties and untapped opportunities embedded in the business' overall strategic intent (Example: Reputational risk resulting in negative publicity, creating a high-risk profile with SARS or a higher risk rating leading to increased costs of compliance).

3.6.4 Tax risks include existing obligations to pay an amount as a result of events happening in the present, past and future.

| Tax risk | Description |
|---|---|
| **Low** | A low-risk classification applies where:<br>• there is a potential instance of non-compliance with taxation laws and the tax, interest and penalties at risk are less than R10 000 000<br>• the application of the tax law to the facts is straightforward<br>• on policy or practical grounds, SARS is unlikely to take a contrary position to that adopted by the company<br>• there is little risk of reputational damage accruing to the company |
| **Moderate** | A medium risk classification applies where:<br>• there is a potential instance of non-compliance with taxation laws and the tax, interest and penalties at risk are at least R10 000 000 but less than R50 000 000<br>• there is some material uncertainty concerning the application of the law by SARS<br>• there is complexity concerning the application of the law to the facts<br>• the situation involves some reputational risk |

| | |
|---|---|
| **High** | A high-risk classification applies where:<br>• there is a potential instance of non-compliance with taxation laws and the tax, interest and penalties at risk are greater than R50 000 000<br>• there is significant complexity concerning the application of the law to the facts<br>• there is some material uncertainty concerning the application of the law by SARS<br>• there is a reasonable likelihood of adverse legislative change<br>• the transaction is of strategic importance to the company<br>• the position or event falls within the definition of a 'reportable arrangement'<br>• the transaction involves significant reputational or promoter risk |

3.6.5 The Lead: Taxation, in consultation with the head of financial reporting, must prepare a tax risk register to be presented to the CFO and submitted to the audit committee on a quarterly basis. This risk register must, at a minimum, contain the following information:

| | Type of tax | Risk description | Existing/ Possible dispute | Recurring/ Once-off | Risk rating | Treatment, monitoring, remedial action | S223 of TAA opinion sought? | Annual financial statements reporting (IAS 12, IFRIC 23 or IAS 37) |
|---|---|---|---|---|---|---|---|---|
| **1** | VAT, PAYE, income tax | Sufficient facts to enable the reader to evaluate the financial and non-financial implications | If an existing dispute, indicate at what phase of the dispute resolution process the matter has progressed to | Is the risk a once-off risk that could lend itself to a settlement, or is it a recurring risk (Example: Transfer pricing) that may increase the risk exponentially | High/ Moderate/ Low | Provide what actions have been taken to mitigate the risk. This may include obtaining external advice (including senior counsel), applying for a VDP, amending contracts, to name a few | Risk of understatement penalties largely eliminated if in possession of an independent tax opinion that concludes a 'more likely than not' basis and a court of law will agree with the tax position taken | Provide maximum financial exposure to tax, interest and penalties. Also provide the most likely outcome if a settlement can be reached |

## 3.7 Tax certainty and tax planning

3.7.1 Capitec aims to keep its tax affairs simple and focuses primarily on business outcomes. While it is the inherent right of each taxpayer to plan its affairs in such a manner that the tax liabilities are minimised, Capitec does not undertake aggressive tax planning.

3.7.2 Capitec is committed to ensuring that the tax impact of a transaction is underpinned by the business rationale thereof. Capitec does not embark on any transaction where the sole or main purpose of the transaction is to achieve a tax benefit. Stated differently, Capitec always concludes transactions on the basis that its sole or main purpose is for business reasons, other than to obtain a tax benefit.

3.7.3 The focus of Capitec with regard to 'tax planning' is to obtain 'tax certainty' and to reduce tax uncertain positions as far as possible.

3.7.4 To increase tax certainty within the group, it is required that the Lead: Taxation must be consulted and approve the following before implementation:

- Major contracts or transactions
- Acquisitions or disposals of companies or businesses
- Change in the legal structure of the group, including, but not limited to share buy-backs, internal reorganisations, liquidations and deregistrations.

## 3.8 Tax reporting: annual financial statements

3.8.1 The primary responsibility for the reporting of normal tax and deferred tax in the annual financial statements remains with the financial reporting team.

3.8.2 The role of the group tax function in relation to tax reporting in the annual financial statements is as follows:

- To communicate with and advise the financial reporting team of any overstatement/understatement of normal tax and deferred tax arising from differences between the prior year's ITR 14 submission and the prior year's annual financial statements disclosure. To this end, group tax will ensure that they process any over or understatement of normal and deferred tax accurately
- To review the standard accounting pack for completeness, accuracy and appropriateness insofar as it deals with normal tax and deferred tax
- To identify and collate all tax uncertain positions throughout the group and to prepare an IFRIC 23 and IAS 37 compliant register of tax uncertain positions
- Together with the head of financial reporting and the CFO, consider the financial impact of any requests for information and audits conducted by tax authorities

## 3.9 Tax reporting: ITR 14

3.9.1 The primary responsibility for the completeness and accuracy of the ITR 14 rests with the group tax function. The divisional finance business partners are responsible for providing relevant, complete and accurate information to the group tax function to facilitate the preparation of a compliant ITR 14.

3.9.2 The group tax function is responsible for preparing and maintaining a comprehensive standard tax pack that will assist in the collation of the relevant information necessary to complete the ITR 14.

3.9.3 For the separate legal entities, the group tax function provides the finance business partners with their income tax assessments and the SARS statement of account and ensures that the necessary adjustments are made in their accounting records.

## 3.10 Tax reporting: VAT 201

3.10.1 The primary responsibility for the completeness and accuracy of the VAT 201 rests with the group tax function. The divisional finance business partners are responsible for the accurate recording of the VAT consequences of transactions in the output VAT and input VAT accounts.

3.10.2 The group tax function will provide regular VAT training to the divisional and subsidiary accountants which will increase VAT awareness throughout the group.

3.10.3 The group tax function provides formal feedback to the various divisional finance business partners regarding process improvement issues and non-compliance issues.

3.10.4 All responses to SARS audits as well as applications for VDPs and reduced assessments must be approved by the group tax function before submission to SARS.

3.10.5 Group tax will ensure the accuracy of VAT returns by performing monthly reviews of the VAT 201 returns and periodic VAT technical reviews.

## 3.11 Tax reporting: PAYE, UIF, SDL and ETI (EMP 201 and EMP 501)

3.11.1 The primary responsibility for the completeness and accuracy of the EMP 201 and EMP 501 forms rests with the head of remuneration. The head of remuneration is also responsible for the accurate treatment of UIF, SDL and ETI. The responsibility for ensuring that the VAT implications of fringe benefits provided by the group are captured on the VAT 201 forms also rests with the head of remuneration.

3.11.2 The head of remuneration is furthermore responsible for ensuring that payroll staff are suitably qualified to deal with the various PAYE, UIF, SDL and ETI implications.

3.11.3 All responses to the SARS audits as well as applications for VDPs and reduced assessments must be approved by the group tax function before submission to SARS.

## 3.12 Related party transactions

3.12.1 The Capitec group consists of a large number of entities that make regular supplies to other.

- Insofar as international related party transactions are concerned, all transactions occur on an arm’s-length basis.
- Insofar as South African related party transactions are concerned, the policy is that the minimum charges between group companies will be on a cost-recovery basis. All transactions between group companies are supported by valid tax invoices ensuring that VAT is properly charged thereon

3.12.2 The group tax function will provide guidance to the finance business partners with regard to the VAT and income tax implications of any cross-charges made.

## 3.13 Tax advisors

3.13.1 Taxation is an extremely complex area necessitating specialist tax advice from time to time.

3.13.2 The Lead: Taxation will consider whether external tax advice should be obtained whenever faced with a particular challenge. In considering the need for external tax advice, the Lead: Taxation will inter alia consider the following:

- The technical complexity of the issue for consideration and whether in-house skills are available
- Whether or not the issue is a tax uncertain position and protection against understatement penalties is required in terms of section 223 of the TAA
- Resource constraints within the tax department

3.13.3 The Lead: Taxation will evaluate the skill set of the external service provider and ensure that it is appropriate for the advice required. Capitec only uses reputable tax advisors who provide advice within the spirit and the letter of the tax laws.

3.13.4 While external tax advice is valuable in assisting management to make appropriate decisions, the final responsibility of ensuring that the tax advice is legal, appropriate and relevant rests with the Lead: Taxation. The final responsibility for any tax position taken remains with the Lead: Taxation who is also responsible for ensuring that tax advice is implemented in accordance with the advice given.

## 3.14 Interaction with the legislator and SARS

3.14.1 The Capitec group is a key role player in the South African banking sector. Amendments to tax legislation may significantly impact the viability, competitiveness and economic contribution to be made by the group to the South African economy.

3.14.2 The group tax function should consider proposed legislation, draft interpretation notes, discussion documents and other relevant documentation for public comment published by SARS and National Treasury. The Lead: Taxation should consider the impact of these publications on the business of Capitec and should make suitable recommendations to ASISA, BASA or SAICA as part of an industry response.

## 3.15 Non-resident companies

3.15.1 This policy document records the policy regarding South African resident companies. It is recorded that the CFO of each non-resident company is responsible for that entity's own tax affairs and tax risk management.

3.15.2 The responsibility of the Lead: Taxation and the group tax function is limited to the following:

- To obtain quarterly status reports from the various non-resident companies within the group that contain the following details:
  - Tax compliance status (For instance: Filings made, outstanding filings)
  - Status of tax disputes, requests for information and tax audits
  - Tax uncertain positions (income tax, VAT, PAYE and others)

- The collation of sufficient information that will enable the group tax function to consider the appropriate South African tax treatment (Example: Controlled foreign companies, permanent establishment, section 6quat credits or deductions, transfer pricing, to name a few)
- To ensure that non-resident companies adopt and maintain this policy, as amended for local laws and regulations

## 3.16 People

The group drives all tax matters by means of the following hierarchy:

| Income tax | Payroll matters | Third-party transactions | VAT |
|---|---|---|---|
| **Board of directors** | | | |
| **Audit committee** | | | |
| Risk and capital management committee: Prior to proposal to the audit committee | | | |
| Chief financial officer | Executive: human resources | All parties listed in this table | Chief financial officer |
| Head: group financial reporting | Head: remuneration | | Head: group financial reporting |
| Group tax function | Manager: payroll | | Group tax function |
| | Senior payroll officer | | Finance business partners |
| | Payroll officer | | Finance business partner: projects/general |

## 3.17 Public officer

3.17.1 The appointed Capitec public officer for the group must be aligned with the legislative requirements as envisaged in section 246 of the TAA. Section 246 prescribes that the public officer should be a senior official of the company.

3.17.2 The CFO is responsible for evaluating who within the Capitec group is suitable to act as a representative and public officer.

3.17.3 The appointment of the public officer should also be aligned with the employment grading and should be representative of someone who is part of the senior leadership of Capitec.

## 3.18 Qualifications and competencies of personnel

3.18.1 The Lead: Taxation must ensure that the personnel in the group tax function are suitably qualified and trained to fulfil their tax responsibilities.

3.18.2 The following departments require tax-specific training which should be included in the annual training planning.

- Group tax function:
  - General tax updates regarding new legislation and case law
  - Regular tax workshops and seminars
  - Specialist-specific training (Example: Transfer pricing, CFCs)
- Remuneration:
  - General tax updates regarding new legislation and case law insofar as it affects payroll
  - Training insofar as eFiling changes are concerned
  - Training with regard to management of the payroll programmes
- Finance:
  - Tax disclosures (IAS 12, IFRIC 23 and IAS 37)
  - General VAT training
  - General income tax training

3.18.3 The head of remuneration and finance should liaise with the Lead: Taxation to evaluate whether training can be provided in-house or should be outsourced.

## 3.19 Systems

The detailed processes and technology systems for the tax management framework are the responsibility of the financial management and human resources functions detailed above.

| | **Daily/Weekly/Monthly/Annually/Biannually/*Ad hoc*** |
|---|---|
| **Income tax** | SAP<br>Microsoft Office<br>SARS eFiling |
| **Payroll matters** | SAGE 300 People system<br>SARS E@syfile<br>SARS eFiling |
| **Third-party transactions** | Connect Direct (used through a third party who submits data on Capitec group’s behalf) |
| **VAT** | SAP<br>Microsoft Office<br>SARS eFiling |

# 4. Internal procedures

The board retains responsibility for tax compliance, however, structures must be put in place to ensure that tax compliance objectives are achieved. The following structures must be in place to oversee that all processes are conducted in accordance with the relevant tax legislation and regulations:

| | Control | Completeness | Accuracy | Validity | Restricted access |
|---|---|---|---|---|---|
| **4.1** | Tax compliance must be the responsibility of the audit committee which must be well qualified and suitable to oversee the tax function | √ | √ | √ | |
| **4.2** | The administration of the various tax types must be distributed to various departments to make use of each department's tax expertise | √ | √ | √ | |
| **4.3** | All calculations must be performed by qualified employees | | √ | | |
| **4.4** | The calculations must be reviewed and signed off by independent senior employees | √ | √ | √ | |
| **4.5** | All statutory submissions must be checked for completeness and accuracy prior to submission and payment | √ | √ | | |
| **4.6** | The delegation of authority must be applied (refer to the delegation of authority policy) for all payments, including tax payments | | | √ | |
| **4.7** | All internal forms must include tax checks to ensure compliance from commencement of the transaction | √ | √ | | |
| **4.8** | Tax knowledge must be kept up-to-date through regular in-house and | √ | √ | √ | |

| | Control | Completeness | Accuracy | Validity | Restricted access |
|---|---|---|---|---|---|
| | external training sessions | | | | |
| **4.9** | Tax advisors must be used in matters of uncertainty | | √ | √ | |
| **4.10** | Tax advisors' fees must be specifically included in the annual budget which must be approved by the board | | | √ | |
| **4.11** | All tax advisors must be registered tax practitioners and must undergo a thorough vetting process prior to commencement of services | | | √ | |
| **4.12** | All *ad hoc* tax matters must be taken to the executive committee for further discussion and decision-making | √ | √ | √ | |
| **4.13** | The information technology function must ensure that all systems required for tax matters are maintained and upgraded regularly (refer to the IT Governance policy) | | √ | | |
| **4.14** | All tax matters must be kept confidential and only the relevant tax employees must have access to tax documents | | | | √ |
| **4.15** | Only authorised employees may communicate with SARS on tax matters | | | √ | |
| **4.16** | Specific validation and compliance must be facilitated in the following areas: | | | | |
| | • VAT must be reviewed | √ | √ | √ | |

| | Control | Completeness | Accuracy | Validity | Restricted access |
|---|---|---|---|---|---|
| | every 3 years by VAT consultants with specific focus on the apportionment ratio and compliance with the VAT Act. The external auditors perform an annual VAT review as part of their audit procedures | | | | |
| | Income tax must be reviewed annually by the external audit function. Income tax returns must be reviewed independently by a reputable tax advisor prior to submission to SARS | √ | √ | √ | |
| | Employee tax must be reviewed annually by either external or internal audit. VAT will be reviewed on a transactional basis by internal audit as part of other audit procedures performed | √ | √ | √ | |
| | • Compliance team to provide oversight and guidance over FATCA and CRS-related processes<br>• Standard tax-related legislation (employee tax, VAT, income tax, to name a few, out of scope for the compliance team as expertise resides with the finance and audit teams) | √ | √ | √ | |