ADDRESS BY COMMISSIONER OF THE

SOUTH AFRICAN REVENUE SERVICE TO THE

STANDING COMMITTEE ON FINANCE

ON THE PRESENTATION OF THE

SARS STRATEGIC PLAN 2013/14-2017/18 AND

THE 2013/14 SARS ANNUAL PERFORMANCE PLAN

14 MAY 2013

Introduction

Honourable chairperson and members

Thank you for the opportunity to brief you on our plans to meet our mandate of delivering sustainable revenue to the fiscus as outlined in the SARS Strategic Plan and the SARS Annual Performance Plan for 2013/14.

I know time is limited and I am sure you are eager to ask questions so I will limit my introductory remarks to a brief overview of our key strategic priorities and initiatives for the year ahead.

The global tax environment

Honourable members, our Minister has provided an overview of the challenging global and domestic economic environment in which we find ourselves and which continues to place pressure on us and many other revenue authorities around the world to meet the fiscal demands of our countries.

These economic conditions of subdued growth are further exacerbated from a revenue collection perspective by the proliferation of sophisticated tax avoidance and evasion schemes which rob countries of their rightful share of tax.

At the G20 summit held last month, tax base erosion and profit shifting were key topics of discussion based on a recent OECD report which highlighted the potentially crippling effects this can have on countries' self-sufficiency.

Just last week here in Cape Town at the World Economic Forum on Africa hosted by our Minister, Oxfam International estimated that illicit financial outflows from Africa in the form of tax evasion and trade mispricing by extractive industries were estimated at $200 billion each year.

You might expect those at highest risk to be countries with less sophisticated tax and financial services systems. But you would be wrong. In part because of our world-class financial systems, along with the large extractive industry of mining and resources, the presence of large multinational corporations, and our open economy and tradable currency, South Africa is at very high risk of this.

We are currently engaged with a number of large multinational companies around transfer pricing over the past few years with an estimated revenue loss of over R3 billion to our fiscus. And this is just the tip of the iceberg.

The upcoming Ministerial meeting of the OECD taking place at the end of the month is expected to endorse a declaration specifically on this issue and supporting the OECD's development and implementation of an action plan to address base erosion and profit shifting.

Honourable members, the point I am making is that over the medium term, revenue is likely to remain under significant pressure both from economic conditions and from aggressive avoidance and evasion by both corporate and individual taxpayers.

While we may have limited ability to affect macro economic change, our challenge is how we respond to those circumstances within our control – namely:

- How do we continue to grow tax and customs compliance?

- How do we facilitate the conditions for faster economic growth by making it easier to do business with SARS and by speeding the flow of legitimate goods through our borders?
- And how do we do our work in the most cost effective and efficient way possible so as to free up limited government resources for other critical priorities?

These are the core outcomes of the SARS Strategic Plan as outlined on page 21 of the Strategic Plan.

Our Strategic direction

Honourable members, you will all by now be very familiar with our Modernisation Progamme which for the past six years has been the driving force behind our strategy to achieve these objectives.

This Modernisation Programme is nearing completion but will continue to underpin our strategic approach for the next two years – and in some ways for far longer in that we will never be finished with the quest to find ways of improving and enhancing the way we work and the way taxpayers and traders interact with us.

What will begin to happen over the next few years is, using the foundation created by our modernised environment, we will increasingly be able to realise our vision for a more active and engaged citizenry as part of the social compact between citizens and the state.

This is the true essence of our compliance model in which citizens voluntarily meet their obligations in an engaged, active and meaningful way. To do this means they each need to have a relationship and interaction with SARS.

This means encouraging tax and customs compliance from the start: through education, through engagement and through registration even before they may be liable for tax.

It also means engaging with taxpayers and others in the compliance process as partners in the tax compliance process – including working with corporate boards, industry bodies, practitioners, trade intermediaries and other key stakeholders to advance tax morality.

What this will require from SARS over the next five to seven years is:

- Improving access and availability of our services to all citizens. We will do this by:
    - Increasing the use of mobile technology to allow easy and convenient access to services wherever you are
    - Reviewing our branch footprint to better reach taxpayers and traders where they are located
    - Increasing the presence of mobile offices and shared locations for those who do not have access to such technology or choose to interact face-to-face

- Ensuring all taxpayers have a relationship with SARS. We will do this by:
    - Bringing all economic activity with our purview even when there is no revenue to be derived. This includes having sight of all informal businesses
    - Increasing collaboration with other government departments to help achieve and maintain this including DHA, CIPC, Social Security and local and provincial government
    - Increasing our education and engagement with taxpayers and traders throughout their lifetime

- Working to ensure that compliance is as easy, convenient and cost-effective for all taxpayers. We will do this by:
    - Developing a single registration process for businesses to reduce the costs of compliance
    - Establishing a small business office within SARS to champion and coordinate our efforts to address the needs and concerns of small business
    - Working with other government departments and other stakeholders to explore synergies in reducing administrative burdens

- Continue to simplify and reduce the compliance process wherever possible

Honourable members, further detail on these strategic shifts and longer term strategic objectives is provided on pages 21 to 35 of the Strategic Plan. For now, though, allow me to briefly highlight our key priorities for the coming year as outlined in our Programme of Action.

Increased Customs compliance (pp 37 – 41 of Strategic Plan; pp 19 – 23 of APP)

One of the key ways in which SARS supports government's aims of growing the economy and creating jobs as outlined in the National Development Plan is through customs compliance.

Facilitating speedy access to global markets for South African products is a critical economic enabler while at the same time effective border control must protect local industry and those who work there from unfair competition and unwanted goods.

To **increase Customs Compliance** over the next year we plan to focus on the following key initiatives**:**

- Continue the rollout of the preferred trader programme which will allow traders who have met stringent risk mitigation conditions more rapid movement for their goods

- The implementation of a new customs system replacing multiple legacy systems and positioning SARS for decades to come with a cutting edge customs solution

- A review of the process of customs bond stores to enhance the control and movement of goods into and out of bonded warehouses

- The implementation in collaboration with various border management agencies of the One Stop Border Post with Mozambique subject to ratification of the legal framework

- The roll out of a new improved passenger processing system to all ports of entry
- Expanding the deployment of cargo and baggage scanners at border posts

Honourable members, as part of our Compliance Programme launched last year, we have also highlighted tobacco smuggling and the clothing and textiles industry for special attention and intervention over the next five years.

The on-going trade in illicit cigarettes in South Africa poses serious health risks to consumers and also results in a considerable loss of revenue to the fiscus. We will continue to focus strongly on this area during the year ahead including:

- Improving the tracking of cigarettes in South Africa to ensure that declared quantities are accounted for at points of entry and exit, and that they are securely warehoused while in transit through the country.
- Enhancing collaboration with industry experts to develop targeted risk criteria for the detection of illicit cigarettes.

On clothing and textiles, significant progress has been made in terms of creating an even and fairly competitive playing field between local and international suppliers in the industry. Key points in the 2012/13 financial year included:

- An improvement in the declaration of clothing and textile imports, after the introduction in November 2011 of a reference pricing tool. There has been a significant increase in the average price of specific items that are monitored against reference prices.
- The modernisation of the Customs system has resulted in better detection of importers who change ports of entry in an attempt to avoid the detection of under-declared consignments.

Focus areas for 2013/14 include:

- The continued enhancement and sharpening of the Price Referencing tool
- Continued collaboration with industry to address the entire value chain of textiles

Increasing tax compliance (pp42 – 46 of Strategic Plan; pp 23 – 29 of APP)

Honourable members will by now be well aware of the voluntary compliance model based on a balance between service, education and enforcement. This will continue to guide our initiatives and programmes for the period ahead to enhance tax compliance.

Our priority initiatives over year in this area include:

- Targeted compliance interventions in the five high-risk areas identified in the Compliance Programme which are large business and transfer pricing; high net worth individuals and the trusts they use to minimise tax; small businesses; tax practitioners; and the construction industry.

- Strengthening risk management for all tax types through, amongst others, enhanced use of third party data

- Enhancing the administrative penalties process including improving mechanisms for interacting with taxpayers who are in default and improving the collection of administrative penalties through the Agent Appointment process. It is worth noting that the administrative penalties process is having a significant impact on compliance among individual taxpayers. Since its introduction in 2009 over 560 000 taxpayers have remedied their non-compliance in respect of submitting outstanding returns directly as a result of receiving penalties. During last year's Tax Season alone, an additional 1.4 million outstanding returns were received which is 25% higher than outstanding returns submitted by the 2011 deadline. This is a very encouraging indicator that the administrative penalties that SARS impose for outstanding returns are having the desired effect of improving levels of compliance.

- Continue our outreach programmes to build a culture of fiscal citizenship including registering all South African citizens and all businesses – including those operated by foreign national in South Africa - in conjunction with the CIPC, Home Affairs and local government

- Working with other tax jurisdictions and international groups to collaborate on global threats to compliance including concluding agreements on the exchange of information to help identify and address transfer pricing, base erosion and profit shifting

- Improving debt management through the use of credit screening to identify low value, high volume debt

Increase ease and fairness of doing business (pp 46 – 50 of Strategic Plan; pp 29 – 32 of APP)

Honourable members, to increase the **ease and fairness of doing business with SARS** this year we plan to:

- Modernise the CIT process including simplifying the IT14 return and automating the process. In this regard, I am pleased to announce that the new ITR14 income tax return for companies was released last week. The return is a dynamic electronic return which means that it grows according to the company's needs and key parts of the form are pre-populated so where the old IT14 return was a minimum of 6 pages, most micro and small companies now only need to fill in a few minimal fields depending on their turnover and income. And the form has built in validation and assistance to help taxpayers complete it. This new return is a quantum leap forward in simplification and in helping us to assess companies and identify compliance risk.

- Secondly we plan to introduce a single registration process for corporate taxpayers for all tax and customs types. This will have a major impact on reducing the administrative burden for businesses in terms of tax and customs registration. We are collaborating with the CIPC on this project to further facilitate easier and more convenient business registration.

- Then we plan to further modernise the VAT process including the development of a software application based on the popular e@syFile application to help businesses complete and submit VAT returns

- We are also well advanced with the transformation of the Tax Clearance Certificate system as announced by the Minister in his Budget speech. The new process will address a number of shortcomings of the current TCC namely that taxpayers need to collect their printed TCC at a branch, that it is susceptible to forgery, and that it does not account for on-going compliance. The new process will allow taxpayers to obtain a tax compliance status electronically via eFiling which will show their compliance status and allow them to rectify any instances of non-compliance for themselves. Last year we issued over 460 000 TCCs at our branches. In future these taxpayers will be able to manage this process for themselves without ever having to visit a branch.

- Finally we are also enhancing our various electronic interaction channels for taxpayers. In this regard I am pleased to announce that earlier this month we launched a completely redesigned SARS website which has received very positive comments from users.

Cost effectiveness, internal efficiency, respectability (pp 50 – 52 of Strategic Plan; pp 32 – 34 of APP)

Honourable members, our final core objective is to increase **cost effectiveness, internal efficiency and institutional respectability.** This year we plan to**:**

- Continue to collaborate with other government departments and agencies to achieve synergies and efficiencies including supporting Home Affairs on its modernisation and working with the CIPC to develop and implement the single registration process

- Combating corruption and fraud by implementing a new investigations and prosecutions management system, enhancing our vetting process and raising awareness internally around ethics and integrity

- Ensure our people continue to perform at their peak by optimising the SARS Academy to ensure our people have the necessary skills to meet the ever-changing needs of our organisation

Measuring our performance (pp 38 – 39 of APP)

Honourable members, we continue to strengthen the alignment of our performance management approach to that of government's planning, performance monitoring and evaluation approach.

We hold ourselves accountable against clear, objective and specific targets for each of these outcomes as per the annual and quarterly targets published on pages 38 and 39 of the Annual Performance Plan.

Resource Plan

Finally, Honourable Members, we are doing this within a constrained budget environment in which our projected Treasury allocations for the next three years are R9.53 billion for 2013/14; R9.98 billion for 2014/15; and R10.3 billion for 2015/16. In percentage terms these represent below-inflation increases for each of these three years as follows: 4.2% this year; 4.7% next year and 3.5% in year three.

In terms of our estimated head count, this is also expected to stay constant at 14 800 employees over the current and next financial years before declining by approximately 2% during the 2015/16 year.

Thank you for your patience and attention.

We look forward to your questions.