

ADDRESS BY COMMISSIONER TOM MOYANE TO THE NDP SUMMIT

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Programme Director

DG of Justice and Constitutional Development, Ms Nonkululeko Sindane

National Commissioner of SAPS, Lt General Riah Phiyega

Business Sector and Captains of Industry

Other Senior Government Officials

Distinguished Ladies and Gentleman

Fellow Friends

All Protocol Observed

I would like to express my deep appreciation for the invitation extended to me and the more than 14000 of men and women I lead. As you are all aware we charged with the critical responsibility of collecting all the revenue that is due to the state. We believe at the institution I represent, that our mandate is to embed and engender a culture of compliance. Thus as we say in one of our slogan "It is cool to pay taxes".

You may rightfully ask why such a preoccupation with paying taxes? It is our honest belief for the state to achieve its primary responsibility of addressing centuries of neglect and abandonment, it must build the necessary capacity to not only ensure that what is due to the fiscus is paid on time and in full but to also deal with the most creative methods of depriving our country its fair share of resource rent. Given the ambitious national task of mobilising trillions of rand to fund our National Development Plan, it goes without saying that, we must as a matter of principle, be fixated with the moral question of paying taxes.

Ladies and Gentleman

My talk deals with “How do we make the NDP a reality and take it forward”. At SARS we recognise that the National Development Plan is our country’s roadmap to extricate itself from the quagmire of poverty, unemployment and underdevelopment and to lay a firm foundation for a prosperous country were all the ills besetting South Africa will be consigned to the past.

As one of the critical organs of state, SARS supports and will continue to effectively and efficiently carry out its mandate and objectives as defined for us to fund government programmes and to obviate the burden of increasing the country’s debt obligation. Of equal importance to our mandate is the facilitation of trade and passenger movement across our borders to help boost and grow trade and to stem the tide of illicit trade activities. Trade growth is sine quanon (analogous) to economic growth.

NDP is a plan for the whole country and SARS will continue to play its part in the endeavour to attain the objectives as set out in the Plan. The NDP is a long-term programme that must be financed sustainably. This requires a fair and equitable tax system that balances the nation’s economic growth and socio-economic development objectives. In line with the plan, SARS as the administrator of the tax and customs system, will:

- Continue to improve tax and customs compliance,
- Protect South Africa’s tax base
- Play its part in enhancing regional integration by facilitating trade,
- Contribute towards reducing the cost of doing business in South Africa,
- Continue to improve customer service by, among other things, expanding its network of offices.

Ladies and Gentlemen

The National Development Plan (NDP) proposes a new trajectory for accelerated and inclusive future growth, and invites all of us to look beyond the current constraints towards our transformation imperatives for the next twenty to thirty years. GDP growth is a primary indicator of the health of an economy. Strong GDP growth generally indicates an economy where investment is increasing and jobs are being created. Since taxes are levied on economic activity, high GDP growth rates increase the size and value of the tax base that funds public spending.

In line with the NDP objectives, if the economy grows by more than 5% per year, government revenue will double in 14 years (compound growth), or more than double in 20 years. Without faster growth, South Africa's finances will remain vulnerable to external shock for years to come. Over the past decade, SARS has steadily broadened the tax base, both through policy reforms and improved revenue administration. This has made substantial tax relief possible, contributing both to disposable household income and lowering the cost of doing business for companies. The revenue we collect is in the main to support domestic investment imperatives

Pursuant to the foregoing, SARS's will continue to work to ensure optimal compliance with tax and customs legislation. Such compliance must be achieved in a manner that does not unduly impede trade, economic growth and development by imposing an excessive and unfair administrative burden on taxpayers, traders and businesses. Moreover, compliance must be achieved in the most efficient and cost effective manner.

In May last year, SARS introduced the first phase of the single registration process. This is meant to consolidate the registration of taxpayers and traders

for their tax and customs products under one single entity. This initiative should also reduce the administrative burden on taxpayers.

Some priorities the NDP emphasizes to improve economic performance and competitiveness include-

- Raising exports while taking steps to prevent excessive overvaluation of the currency
- Taking measures to increase competition in regulated sectors or broadening price regulation in sectors that are natural monopolies
- Lowering the costs of transport and logistics and investing in remedies to address spatial divides

In particular, fast-growing African economies represent strong growth opportunities and new markets for South African goods. The NDP targets an increase in intra-regional trade in Southern Africa from 7 per cent to 25 per cent of trade by 2030 and that South Africa's trade with regional neighbours should increase from 15 per cent of total trade to 30 per cent. To achieve these targets, South Africa will, among other measures, have to reduce delays at border posts.

A number of reports, including a 2010 study by the World Bank, identify inefficient customs procedures at border posts, which raise the cost of moving goods, as a key barrier to greater regional integration. The need to capture and verify large quantities of data at border posts and poor border post infrastructure give rise to costly delays for business. Beit Bridge is the biggest land border post in the continent. In this respect, from August 2013, SARS has implemented a major component of an ambitious Customs management system which converted some 26 older legacy and paper-based systems into a fully automated and centralized processing system for all commercial trade across our borders. The new customs system will, over time, include all the elements in the supply chain.

Ladies and Gentlemen,

One way of achieving faster movement of goods at our border is the establishment of one-stop border post (OSBP) arrangement to reduce the compliance burden on taxpayers, traders and travellers at our ports of entry. We have embarked on this path with Mozambique to work together and implement OSBP project. The implementation has commenced in earnest and it is hoped that there will be a faster and seamless movement of goods and passengers, and hopefully this step will graduate to a Single Window clearance process. SARS is also working with the Department of Home Affairs (DHA), SAPS and SANDF to accelerate the implementation of the Border Management Agency (BMA).

To protect the South African economy from erosion of its tax base, SARS will continue to work with other tax agencies and international organizations on global tax compliance and enforcement issues. South Africa participates in the OECD's initiatives on base erosion and profit shifting (BEPS). Central to tax base erosion is the abuse of transfer pricing through under or over-invoicing between subsidiaries. It cannot be denied that South Africa has lost billions of rand through this practice.

In order to effectively combat tax base erosion is the multilateral work undertaken by the Global Forum on Exchange of information that is chaired by a South African that championing exchange of information. The multilaterally negotiated approach on exchange of information will see exchanges of information between different jurisdictions and that will foster transparency. In this regard, South Africa is participating in a pilot project, together with forty (40) other jurisdictions, to implement automated exchange of tax information by 2017.

Distinguished Friends

Even as we make strides to foster legitimate trade, it is the scourge of illicit trade that is global in nature, afflicting all countries and sectors of the economy that remains a concern. South Africa is not immune to the impact of illicit trade in all its forms. As part of the vast global international trade, market illicit trade activities have exploited the legitimate trade channels. The illicit economy is perceived to be more apparent in emerging economies, however there is growing demand for illicit goods in advanced economies. According to the latest report by the United Nations Research Report (October 11- illicit trade accounts for US\$2.1 trillion (ZAR 18.4 trillion) or 3.7% of global GDP in 2009 which was estimated at US\$58.1 trillion (ZAR 510.2 trillion). Currently World GDP is estimated by the IMF to be US\$77.3 trillion (ZAR678.7 trillion) in 2014.

The illicit economy continues to be a serious threat to legitimate forms of business and financial activity and undermines economic growth and the tax revenue base. Illicit economic activities contribute towards many of the social ills e.g. bribery, corrupt officials and financial institutions; money laundering and capital flight currently found in South African society. Some of these activities include smuggling and the sale of contraband cigarettes, drug abuse, wildlife exploitation and illegal immigration which affect national security and the well-being of citizen of a nation. Illicit economic activities also have the effect of eroding the formal tax base from which SARS will collect tax revenue. It is estimated that there is an annual loss of between R4.5 billion and R6 billion to the fiscus due to the smuggling and consumption of contraband cigarettes

SARS is aggressively developing strategies and already some operation and technical capabilities have been put in place to disrupt, mitigate, arrest those individuals, syndicates and companies involved in the illicit trade e.g. reducing

the tax gap – tax avoidance, evasion capital flights are amongst key areas of focus. SARS where situation demands collaborative work with partners by:

- Introducing a new integrated border management tools.
- increasing our inspection capability
- Pursuing a common customs working philosophy across Africa. So help us to fight tax crime in South Africa.
- Increasing supervision of cigarettes exported via warehouses.
- Improving the manual tracking of cigarettes in transit through South Africa.
- Working with Tobacco industry experts to develop a way of detecting illicit cigarettes.
- Improving authentication marking on cigarettes
- Conducting more retail inspections.

SARS also works along with other key stakeholders of government in the Economic Cluster --SARB, DTI, Energy, NT, DEA , and etc.; and the JCPS Security Cluster (DHA, SAPS, SSA, SANDF and etc.), private sector (banking industry and labour associations) directly and through NEDLAC are working in various way no reduce and eradicate the threats posed by illicit activities.

SARS over the years, has focused on disrupting illicit trade in cigarettes estimated between R5.6 billion and R9.5 billion illicit cigarettes consumed in South Africa every year, with excise revenue losses in the region of R3.75 billion annually.

Last financial year, through customs interventions, we collected R1.9bn in duties and VAT from non-compliant traders. Undervaluation, particularly in high duty items such as textiles and clothing remains prevalent as importers seek evade paying 45% duty. Imports of these commodities last year totalled

R34.9bn and it is estimated that the annual loss of revenues in clothing imports alone due to undervaluation could total R8.4bn

The threats and challenges of illicit trade are not for SARS or other enforcement services only, but must involve every law abiding citizen. They can with simply acts:

- Refuse to buy counterfeit goods or contraband cigarettes;
- Report poaching incidents to SARS, the Police and the Department of Environmental Affairs; and
- Report informal trade in precious stones such as diamonds to SARS and the Police.
- SARS fighting clothing and textile smuggling citizens can be assisted by being vigilant in “In simple terms if it’s a real bargain it may be illegally smuggled in to this country. Thus beware of bargains. If it’s too good to be true it usually is”

SARS is committed to continuously support governmental efforts to increase employment opportunities, improve conditions for small businesses and help improve government performance across the whole of government. Recently we have been tasked with the implementation of important pieces of legislation such as the Employment Tax Incentive Scheme (ETI) and Tax Exempt Savings Account and the National Health Insurance Scheme.

These are some of the incentives that are meant to grow our economy and will be administered through our tax system. It is a testament to our capability that government entrusts us with the implementation of these important policy initiatives. However, we are mindful that these additional responsibilities may begin to strain our already limited leadership and technical capability and may affect delivery on our core tax and customs mandate.

Ladies and Gentlemen, it is a truism that Small Business is the life blood of any economy and the creator of much needed jobs and in this respect SARS supports government's objective of boosting the economy by supporting them. If carefully nurtured Small Business can play a decisive role of employment creation and drive growth in our country. SARS will in the interim put in place interventions that support small business growth and make it easy for them to comply with their tax obligation. We are targeting and tailoring our education and support for small businesses through simplified and improved processes and systems, and through our education and outreach programmes.

We strive to align our processes, tools and organizational structure to address the specific needs of small businesses. SARS will allocate resources to increase the participation of small businesses in the turnover tax regime. SARS is currently embarking on a drive to set up Small Business Desks in its SARS branches around the country as part of government's commitment to support SMEs (small- to medium-sized enterprises) and to make it easier for them to comply with their tax obligations. The launch of the service is contributing towards minimizing the "mortality rate of small businesses in South Africa". The initiative will act as support mechanism to the National Development Plan (NDP), which places small business at the epicentre of South Africa's future economic development and job creation.

Summary of tax incentives /packages offered by SARS to micro and small business:

- Small business corporation tax rates and accelerated depreciation;
- Turnover tax payable by registered micro businesses; and
- Equity provided by venture capital companies to unlisted companies and junior mining companies.

1. Turnover tax for micro businesses

- The presumptive turnover tax was implemented as part of a simplified tax system for businesses (companies and individuals) with a qualifying turnover of not more than R1 million per year of assessment with effect from 1 March 2009. Such entities are taxed on taxable turnover.
- Unlike the normal income tax system that makes use of comprehensive inclusion rules and a reduction process that requires proof of expenditure to be maintained, turnover tax is calculated by simply applying a progressive tax rate to taxable turnover. The taxable turnover basically consists of the turnover of the business with a few specific inclusions and exclusions.
- However, a business that is registered for turnover tax purposes still needs to register for PAYE if there are employees that earn annual remuneration which is above the tax threshold.
- The main objective of turnover tax is to reduce the tax compliance burden of micro businesses. It works on a cash receipts basis and effectively replaces income tax, provisional tax, capital gains tax (CGT), dividends tax and VAT (however, from 1 March 2012, such taxpayers can elect into the VAT system). With the new tax bands and tax rates for the 2016 year of assessment, the taxable turnover works on an assumption of a profit margin of 10%.

Small business corporations

- Small business corporations (SBCs) are companies (co-operatives and close corporations included) with a gross income not exceeding R20 million per annum (and with limited shareholding requirements and certain other limitations). The SBC system was introduced in 2001. SBCs are not taxed in the same way that normal corporates are taxed at, namely a flat rate of 28%; they are taxed at progressive tax rates based on income bands. There are also generous deductions with regard to depreciation of assets used in the course of trade. If the assets are used in a manufacturing process, there is a 100% write off in one year.

Otherwise the deductions are over three years at rates of 50 / 30 / 20 percent.

Venture capital companies

- To try and overcome the challenge of increasing investment in small businesses in South Africa, government announced a venture capital tax incentive in the 2008 National Budget. A venture capital company is a highly regulated entity that is compelled to provide finance to unlisted companies and junior mining companies that meet certain requirements. This incentive became effective from 1 July 1 2009.
- There are currently 14 SARS approved venture capital companies.
- Investors invest in a SARS approved VCC in exchange for investor certificates. Investors can then claim tax deductions in respect of their investments in such VCCs. The approved VCC will in turn invest in qualifying investee companies (unlisted companies and junior mining companies) in exchange for qualifying shares.

Amidst the economic and other uncertainties that beset our environment, we must all work together to safeguard our country and its reputation. We must focus on doing our jobs to the best of our ability and continue to shoulder the huge burden we carry with humility and in the best interests of our country. We acknowledge that our efforts to carry out the SARS mandate and to contribute to important government programmes will not be successful if we work in isolation from other stakeholders.

SARS advocates for an increase in collaboration with other state entities, business, labour organizations, NGOs and society to make this Plan a reality. Placing the economy onto a more robust growth path is not a task for government alone; all role players are needed to take ownership of their part. We believe that together we can do more.

We also acknowledge that we all operate under increasing fiscal and resource constraints, and this could affect the progress of our collaborative efforts. According to the Plan, South Africa can realize these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

The concept of active citizenry underpins the goals of the National Development Plan. According to the NDP, citizens have the right to expect government to deliver certain basic services and to hold leaders accountable for their actions. They also have responsibilities to other citizens, including mutual respect, tolerance and abiding by the laws of the land. To accelerate this, SARS needs the active support of all citizens to pay their fair share and comply with their tax obligations. SARS intend to make fiscal citizenship a reality for all South Africans and businesses operating in South Africa by increasing their engagements with all South Africans even if they are not eligible to pay any tax directly. This includes building a relationship with all South Africans by educating them on the importance of their tax contribution.

SARS aims to have its points of service (POS) within a reasonable reach of every taxpayer. In this regard, SARS will build additional branches and increase the number of mobile tax units across the country.

SARS is embarking on education campaigns and workshops which will focus on the different sectors/segments. We want to tailor our education programme to be segment specific, so that we are able to make a real impact with relevant information for each sector. We will continue with our general public workshops which are not necessarily sector specific. This will address all general tax matters relevant to the South African public. SARS fully understand and appreciate the diversity of our taxpayers in terms of culture and language. SARS plans to ensure that SARS communication is inclusive of all South Africans.

Historical factors, particularly the past political environment, fostered a legacy of widespread noncompliance, which SARS now seeks to address. The growing public perception of government inefficiency affects our compliance efforts. Government needs to fight even harder corruption within its ranks by strengthening the corruption fighting structures. This requires strong leadership from government who will take accountability.

SARS plays a vital role in ensuring the health and stability of our fiscal framework. A strong revenue service and customs administration is the fundamental cornerstone of a capable state and the key enabler is government's ability to fund expenditure and provide for its people.

CONCLUSION

On building a capable and developmental state, SARS has adopted a strategic shift from an isolated departmental view of SARS efficiency to a whole of government view which sees SARS assisting in the enhancement of value chain activities both before and after it enters SARS domain in order to build a chain of institutional respectability in pursuit of service delivery excellence and other government partners.

The rise of the Asian Tigers economies as we know today was contingent on a long-term and sustainable development plan. This has helped make these countries of the East important players in the global supply chain. Accordingly, the National Development Plan is our compass to navigate the often turbulent waters of global economy. It is our national contract to build a successful future for posterity, and thus we should make it work and ensure that her objectives are achieved. As SARS we are committed and support the NDP's economic and social objectives by ensuring a sustainable revenue stream for government to meet its policy and delivery priorities.

Thank you

