

Address by Commissioner Moyane to the NDP Vision 2030 Summit

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Programme Director

Honourable Minister in the Presidency – Mr Jeff Radebe

Honourable Minister of Home Affairs – Mr Malusi Gigaba

Dr Mathews Phosa – Mathews & Associates

Ambassador Kingsley Makhubela – CEO Brand SA

Advocate Makhosini Msibi – CEO RTMC

Distinguished Ladies and Gentlemen

Let me start off by expressing my appreciation to the organisers of this Summit for inviting me to address you. I would like to begin my address by quoting the Preamble to the National Development Plan. It states:

“We, the people of South Africa, have journeyed far since the long lines of our first democratic election on 27 April 1994, when we elected a government for us all. Now in 2030 we live in a country which we have remade”.

Ladies and gentlemen, this wonderful preamble to the National Development Plan (NDP) sums up what the plan is all about.

In 1994 we ushered in freedom for all in our country – this was remarkable in itself but not enough. We have a collective responsibility to all our citizens to

reshape the country and create something greater which our fathers, mothers, children and grandchildren deserve. A country reshaped for the benefit of all who live in it.

My colleagues at the South African Revenue Service (SARS) and I are acutely aware of the role we play in bringing the NDP to life. Revenue collection, in my opinion is the lifeblood of creating a better life for all South Africans.

My team and I are seized with doing our bit in ensuring that we collect every single cent owed to the Republic of South Africa. You may recall that SARS recently broke all revenue records in this country by collecting more than a Trillion rand in taxes - a historic first for South Africa.

Providing revenue for Government to deliver on its programme of creating a better life for all in South Africa is what SARS is about.

I would like to thank each and every taxpayer for paying their fair share. Together we can reshape the country in line with Vision 2030.

Economic factors:

When trying to surmount the NDP it is important to analyse and navigate the local and global economic landscape. We live in challenging times. As indicated in the 2016 National Budget Speech growth rates of below 1 per cent short fall of what we need to create employment and reduce poverty and inequality.

The National Treasury currently expects growth in the South African economy to be just 0.9 per cent this year, after 1.3 per cent in 2015. This reflects both depressed global conditions and the impact of the drought.

The poor economic conditions clearly play their part in our revenue collection ability. Tax buoyancy is an important indicator as it measures the extent to which tax revenues vary with changes in economic growth.

Economists will tell you that the buoyancy effect which correlates to taxpayer behaviour and overall compliance with tax realisation places an additional burden of tax administrations during difficult economic times.

South African tax revenue has remained buoyant despite tough economic conditions. Year-on-year revenue buoyancy has increased from a low of -0.71 in 2009/10, at the height of the global financial crisis, to 1.48 in 2014/15.

Despite this achievement much more needs to be done if we are going to find the resources to achieve the NDP Vision 2030.

Policy and Administrative Changes:

As indicated our tax policy framework has proved resilient in a period of global volatility, but tax revenue collections depend on improved tax compliance and strong economic growth.

As Government, our focus is very much on fiscal consolidation. Cabinet has constantly reiterated that we cannot spend money we do not have. We cannot borrow beyond our ability to repay. Until we can ignite growth and generate more revenue, we have to be tough on ourselves.

This underlines the vital importance of SARS meeting its revenue collection target. PIT, CIT and VAT account for about 80% of total tax revenue. The Fuel levy together with Specific excise and Customs Duties account for a further 12% while other taxes account for the remainder.

The impact of the global financial crisis has changed the relative contributions of the various taxes over the past five years. As highlighted by SARS in the 2015 Tax Statistics, the relative PIT contribution has increased while the relative CIT contribution has declined.

With the local and global context in mind, it is more important than ever before to remain focused on the wonderful plans outlined in the National Development Plan. It is a roadmap to success.

Lessons in our past that will help reach a new trajectory:

As nations emerge from the global financial crisis they face similar challenges in the effort to rebuild and strengthen their economies. But successful transformation does not come without growing pains. Looking back at what worked in the past; society, business and government know and expect that some things must change — whether that means embracing new technology, changing inadequate strategic and operating models, or even borrowing proven ideas.

SARS, as part of government's service delivery mechanism, is not immune to these drivers of change. Fortunately SARS has over the last two decades developed the ability to make sense of emerging challenges, more so in light of

the demands of the NDP 2030 vision, and timeously adapt to meet the expectations of the citizen-taxpayers it serves.

From a South African Revenue Service perspective we have always regarded the building of an institution, *to serve as a bridge between the government of the day and the citizens it serves*, as our guiding philosophy as we navigated fundamental and deep-rooted changes for the better of all South Africans.

Furthermore, the ever-changing international dimension of the global tax and trade governance architecture also requires of us to recognise, understand and adapt to the new-new normal of tomorrow.

Today I wish to share a glimpse of the new SARS strategic direction chosen to serve all South Africans, as well as to highlight the imperative of taking a far wider view of the institutions' role in the new emerging global tax and trade architecture. I hope to accomplish this by viewing the SARS experience through the prism of what we have accomplished over the last twenty years.

SARS AT YOUR SERVICE

South Africa has evolved in a remarkable way over the last century. The country has emerged as a constitutional democracy after an oppressive system marred us as a pariah state, shackled by sanctions, and fraught with internal conflict and prejudice.

Tax is woven into the fabric of civil society. At essence the implicit social compact - between the State and those who use a country's resources as a resident or as a trader - provides the moral and legal justification for paying

and enforcing payment of taxes. The elements that make up this social compact between the State and people of South Africa changed dramatically in 1994.

SARS, as a semi-autonomous Organ of State was created in the early years of the birth of democracy in the country and has matured over the last twenty plus years to become a tax and customs authority that is lauded for its professionalism and efficiency. In this manner, SARS reflects South Africa's progression, from a cumbersome, sometimes confused and unjust administration into an administration that embodies Constitutional values and practices responsible administration.

The collective experience and dedication of the thousands of SARS officials who make up SARS today have created a tax and customs institution which is ready, willing and capable to tackle the challenges of the future, including how we achieve Vision 2030.

Administration and will contribute positively to us contributing to Vision 2030.

At SARS our vision is to always make it easier and more convenient for the honest taxpayer to comply. Concurrently, it is vital that we turn up the heat and make it more difficult for the dishonest taxpayers to cheat the system. I am sure this does not apply to any of you present – our compliant taxpayers.

We are seized with constantly improving our service to all taxpayers. Our aim is to provide a standard of service that makes it easy and hassle-free as possible for taxpayers to meet their obligations.

SARS AS PART OF THE INTERNATIONAL COMMUNITY

From a tax perspective the commitment to addressing through the G20/OECD Project on Base Erosion and Profit Sharing (BEPS) tax planning strategies that exploit these gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity is an important step forward. It is estimated that the annual global CIT revenue losses from these gaps and mismatches is between USD 100 to 240 billion.

The BEPS package finalised at the end of last year gives countries the tools they need to ensure that profits are taxed where economic activities generating the profits are performed and where value is created, while at the same time give business greater certainty by reducing disputes over the application of international tax rules, and standardising compliance requirements.

South Africa is not spared nor protected from the positive or adverse impact that multi-national enterprises can have on the economy and on tax and customs compliance.

Another imperative element to addressing tax leakages is the exchange information for tax purposes, both on request and automatically. SARS has participated tirelessly in the work of the Global Forum on Transparency and Exchange of Information for Tax Purposes. The recent Panama Papers has once again highlighted the importance of getting transparency right. We cannot permit the nefarious use of shell entities to spirit much needed resources away from developing countries whilst the identities of the true beneficial owners, both individuals and corporations remain hidden.

In the last month alone, the Global Forum has received commitments from Bahrain, Lebanon, Nauru, Panama and Vanuatu to implement the Common Reporting Standard (CRS) with first exchanges in 2018. In addition, FATCA, country by country reporting and the adoption of the high level principles on beneficial ownership and there is a sense that jurisdictions around the world are consolidating their positions to make tax evasion and aggressive tax planning more difficult.

None of the above initiatives would be successful without commitment to build capacity and forge closer cooperation at a local, regional and international level. In this regard the work of African Tax Administration Forum (ATAF), our home-grown Forum which seeks to build capacity in African tax administration needs recognition.

Yet, despite progress, many challenges remain.

The focus on reform, the international response to the Base Erosion and Profit Shifting (BEPS), the imperative to exchange information for tax purposes, and developing international consensus around certain tax principles will be around for a long time to come.

The results of numerous recent studies and research suggest that global trade, electronic communications and transactions, coupled with increasingly sophisticated business practices, have resulted in enormous illicit financial outflows from South Africa as well as other developing countries. Tackling this, both from a tax and a customs perspective, is just one of the visible

challenges that exist in the immediate future. Illicit financial flows circulating around the world are huge and disproportionately affect the African continent.

Abusive transfer pricing occurs when multi-national corporations take advantage of their multiple entities to shift profit across different jurisdictions. Here is one such example SARS has come across in South Africa. We have found a multinational that has avoided paying its fair share of taxes by claiming that a large part of its business was conducted in other countries which at that time had lower tax rates for their businesses.

When we investigated we found that the multinational had a few low paid staff with junior responsibilities and that those offices did not handle any of the commodities the company dealt in. The companies customers were in most instances in South Africa but for each transaction a paper trail was created that would route the transaction through the foreign country to give the impression that business was done from the foreign country. We were able to reclaim the taxes.

Trade mispricing is another way we are losing on taxes. Companies are knowingly falsifying the price, quality and quantity values of traded goods. In this way they avoid customs duty and domestic levies.

What is SARS doing to stop illicit financial flows and ensure we have the revenue to attain Vision 2030?

Here are a few ways how we are tackling the challenge:

- We are continuously strengthening our regulations and laws and our capability to deal with sophisticated schemes to avoid paying taxes.
- There is a global effort to share information of existing and emerging practices of such schemes and how we can detect and manage them.
- We are currently in the preparation phase in country by country reporting of information which will start in 2018. This will provide us with the means of identifying risk.
- We are exchanging tax information among countries. This is by request or automatic exchange of information. Much more information is now available on shelf companies in which wealth is hidden.
- The cash economy is another area we are looking into. Their income is often **unrecorded, unreported** and **unfair**. Transactions are primarily cash and they go undetected and unrecorded therefore undeclared for tax purposes. This deliberate evasion deprives the fiscus of its due revenues and directly denies the citizens of the right to a functional economy. Where these transactions are captured in some form in the formal economy, trade mispricing becomes the order of the day in order to manipulate transactional values.

This then allows for rife movement and transference of these monies offshore hence capital flight and illicit capital outflows. But the challenge is that generally, the cash economy transactions are not captured or recorded in any form, and so begs the question so what do revenue authorities do to respond.

In conclusion, reflecting on the infrastructure Development theme of this summit I would posit that in some way or another all the key focus areas of

Financial Services, Enterprise Development, Rural Development, Healthcare, Education Infrastructure, Construction Infrastructure, ICT Infrastructure and Social Protection are inextricably linked to the services SARS offers, either as part of the greater-government approach to tackle the triple challenge of poverty, inequality and unemployment, or as partners ensuring that the National Development Plan is given the implementation legs it requires.

In 1994 was a profound time in the history of South Africa. The transition of South Africa to an open economy and democracy created numerous demands on government administration, not least of which was the need for increased resources to improve the lives of all South Africans and to provide for the government's developmental path.

A comprehensive tax system and an effective tax administration play a central role in transitional economies, while tax reform is a fundamental component in the progression of transitional countries, and cannot be achieved without both good tax policy and an effective tax administration.

The success of SARS as a government entity in initiating, reinventing, implementing and navigating a number of mutually-dependent phases of deep-rooted and fundamental change requires alignment between policy-makers and policy implementers, and depends on the effectiveness of the tax and customs administration, supported by enabled, motivated and blue-blooded public servants.

Tax and customs are part and parcel of an ever-changing local and international landscape. They can't be de-linked from societal, business or

even political environments. Businesses evolve, trade practices evolve and the demands of a country evolve over time.

The art of tax and customs administration has been given a taste of the value of information, *which is the future of institutions such as SARS*, and it is thus imperative to recognise that governance institutions such as SARS are '*part of the service delivery solution and not the problem*'. The objective is not to raise more tax but to improve how existing taxes are collected.

As we celebrated 22 Years of Freedom on the 27th of April, allow me to quote the founding father of our democracy, former President Nelson Mandela, when he said, ***"We dedicate this day to all the heroes and heroines in this country and the rest of the world who sacrificed in many ways and surrendered their lives so that we could be free."***

It is pivotal that we do not forget those who paid with their lives so that you and I can enjoy the fruits of a free country. With this in mind, it is essential that we recommit to the National Development Plan.

Today, I want to send out an unequivocal message, SARS is committed to dealing with illicit financial flows and all associated criminal activities.

I thank you.