KEYNOTE ADDRESS BY SARS COMMISSIONER, EDWARD KIESWETTER

ANNUAL TAX INDABA AUGUST 2019

Deputy Minister of Finance, Dr David Masondo, Leaders of the Professional Bodies & Business, all professionals present, my own colleagues at SARS, Ladies and Gentlemen, good morning, and welcome to the 2019 Tax Indaba, and indeed, my first attendance at a Tax Indaba.

Thank you for inviting me to deliver the keynote address. As I reflected on what to share with you today, I reminded myself that you represent an important constituency in the fulfilment of the mandate of the South African Revenue Service. It is therefore a privilege to share my thoughts with you this morning.

We are clear, that whilst our legal mandate authorizes us to collect taxes, we serve a much higher purpose, to which tax revenue is simply a means. I want to dwell on this higher purpose for a moment.

The success of SARS is integrally linked to the wellbeing of our democracy. If SARS fails, our democracy fails.

Most of us in this room, by our very presence, represent a minority of South Africans who, regardless of where we may find ourselves, should consider ourselves extremely privileged. Privilege can be as much a blessing as a curse. Privilege is a blessing when shared, but privilege more often than not, can make us insensitive to the plight of millions who are significantly less fortunate than us.

I refer to the old couple in the township for whom, despite 25 years of democracy, not much has changed. For them, another extra R50 in the social old age pension makes a massive difference.

I refer to a significant portion of the 12 million school going children, who still lack the basic amenities that enables decent learning to take place; think of thousands of young innocent children, who are threatened daily because of exposure to pit latrine toilets; it is worrying to think of the growing number of unemployed young people, the future generation.
It is to these ends that we collect revenue and this revenue is a necessary means to achieve that higher purpose. We work hard to capacitate a functioning democracy. To make the lives of millions of South Africans less fortunate than ourselves better; and to ensure that our Government is able to build a capable state and capable democracy. We are clear about the indispensable role that SARS plays in this regard.

SARS exists to enable Government to build a capable democratic state that fosters sustainable economic growth and social development in the interest and wellbeing of all South Africans.

This is the HIGHER PURPOSE we serve!

A strong capable state is needed to combat the stubborn prevalence of poverty, address inequality, and unemployment. The task of meeting these development goals and providing a better life for all, require that we work as partners. We cannot do this alone - Government, Business and Civil Society must work together.

Fundamental to building a capable and developmental state is fiscal integrity. This needs a well-functioning revenue authority, so that it can provide the financial resources required to provide public goods and services without incurring indebtedness that is growing out of control.

All of us can be proud of the fiscal capability and sovereignty that our government has been able to attain in the past. Our flag and national anthem will mean nothing if we have to hand away our sovereignty to the multilateral funding agencies who effectively will own us once we lose our financial independence. It is therefore incumbent on all of us to ensure that the tax system, which is in fact a national asset, remains one that is characterised by integrity, effectiveness, efficiency and that is known for professional engagement with taxpayers and engagement that is beyond reproach.

The current economic environment of low economic growth, the lagging job creation in the face of around 29% unemployment, of slow investment in enabling infrastructure, a number of struggling state owned enterprises, does not augur well for tax and customs revenue collection.

At the same time, the demands for funds continues to expand as critical SOE’s require bail outs, and the necessary social programs of
education, health and land reform require monies that, quite frankly, we do not have. Last week my colleagues in National Treasury issued an unambiguous message to all government departments to cut costs, to be prudent and to implement austerity measures.

In this current environment, the role of SARS to run efficiently and effectively is even more critical.

You are important stakeholders without whose contributions; we cannot build a tax eco-system with integrity. I address you as partners in our strategic intent to build a tax system based on the principle of VOLUNTARY COMPLIANCE.

Why Voluntary Compliance?

Because we believe, that in line with international best practice, a Voluntary Compliance Approach will render the highest revenue yield with the least overall cost to society. Collecting taxes is not a choice for any government; it is a necessary aspect of a functioning Government. Our role is to ensure that that cost to society remains as low as possible hence our approach to voluntary compliance. Over the next year we will talk more about how we should engage you as practitioners and as professionals in helping to build a system characterised by that. But we have a long way to go!

We look into the mirror and we want to be frank about our own inefficiencies, about the tragedy of the current situation we find ourselves in at SARS and why it is such a tragedy. It pains me when there are still those who perpetuate a denialist narrative about the fact that SARS had suffered a significant blow since 2014. It is even more distressing, that there are still those who continue to undermine the efforts to rebuild SARS. They do this to our collective detriment.

The SARS I left about a decade ago is a very different SARS to the one I returned to exactly 118 days ago today. We still had a long way to go around 2010, but even then we were respected and admired locally and abroad. We became a benchmark for many of the revenue authorities around the world. SARS was committed then to a clear transformation journey.

A review of SARS in 2014 by the International Monetary Fund, benchmarked against its Tax Administration Diagnostic Tool (TADAT), showed that in most categories, SARS was world class, conforming to
good international practice in 15 of the 27 indicators, and only one rung below good international practice in all but one of the remaining 12 indicators. We were truly respected then. Since then SARS has experienced a turbulent time.

This developmental journey was wilfully and abruptly disrupted. It is important that we are frank in our assessment both of the reasons underlying the decline of SARS as well as the exact nature thereof. To be in denial makes us part of the problem or complicit and renders us incapable or unsuitable to be part of the solution of rebuilding SARS and of rebuilding a tax system with integrity.

SARS has been caught up in the project of State Capture. There can be little doubt of this. I have had a ringside seat the past three months, of the exact extent of the damage suffered. It is incalculable and its effects will sadly be with us for years to come.

The Report of the Nugent Commission tells the story of a tragic series of events. Events, I may add that were deliberate and with a corrupt intent. It reports that between 2014 and 2018, SARS was the target of deliberate capture for a narrow, self-serving and corrupt intent. This has led to a number of observations:

- a breakdown in governance and integrity,
- a hollowing out of core capability,
- a drain of skills,
- a slowdown in modernization,
- a decline in international standing,
- a significant decline in taxpayer compliance,
- an understandable loss of public trust and confidence
- and a consequent decline in revenue collection.

I can confirm all of this. The situation is indeed as Nugent describes it.

I have spent quite a bit of my time in the first three months visiting most of our large offices, engaging with about 90% of our employees. What I have experienced is heart rending. Looking into the eyes of the people when I visit them, they speak about their experiences and their hurt. It is painful to witness the extent of the trauma in the organization. Not only did we see an exit of skills in the organization, but a sad decline in staff morale and a breakdown of trust in leadership. This has had a measurable impact on our performance.
Whilst there are many thousands of hardworking women and men who have continued to go the extra mile to serve the public, we have experienced a loss of skills in many areas of leadership and technical aspects of our work.

By way of example, we have lost over 300 professional in Compliance Audit; over 100 in Investigative Audit, over 250 in Debt Management; more than 60 employees in Trade Administration. In the Large Business centre alone, we have lost about 113 employees including highly specialized skills in the areas of technical analysis, specialized auditing, risk profiling, and transfer pricing. Of just over 2200 resignations since 2014, SARS lost 1063 just in 2014-2015. During that time 550 employees also retired, without a process in place that would adequately transfer some valuable skills to others in SARS.

We have addressed a number of senior employees who have simply been marginalized and still have several hundred cases to review where employees may have been unfairly disciplined or placed on suspension.

On the softer aspects, a culture of fear and intimidation has vested. The decline in employee morale and performance is also visible and has resulted in unacceptable service to taxpayers. I have personally seen, and heard from many taxpayers and intermediaries of their experience of either poor service at SARS, or even here and there bullying approach from auditors. There can be no excuse for poor taxpayer treatment.

I am unequivocal that this behaviour by our own staff is unacceptable, unprofessional and even unethical. I cannot stand here and defend it in any way. Where the behaviour of any of our employees is unbecoming, you are within your rights to point this out to us. We will also not tolerate any collusive behaviour between taxpayers and SARS employees, and have already had several convictions of our own staff this year. These efforts will continue.

The rebuilding of SARS has begun. It’s going to be hard work though, and take a few years of persistent effort. Effort by ourselves, but also effort by yourselves as part of the broader tax system. Whilst we have re-opened the Large Business Centre, and established the capacity to respond to the Illicit Economy, the Compliance Unit, the Integrity Unit, there are many areas where we will be capacity and capability deficient for some time to come. The current environment of resource constraints generally does not help either. We are currently engaging National
Treasury to ensure that SARS can be accommodated with the financial resources it will require over the next 5 years.

In the area of Leadership, I am currently in a process to review the performance of senior executives, as recommended by the Nugent Report, but also because leadership defines the health of an organization. Leadership is the most defining aspect that either makes or destroys organisations. If the organization is to heal, then leadership first must heal. Leadership is accountable for providing strategic direction and drive operational excellence, but leadership also sets the tone, culture and exemplifies the desired values expected from others. We will shortly announce a leadership renewal and engagement programme. This is also key to the work of rebuilding public confidence.

Which brings me to the important work of building public trust and confidence in SARS, the central theme of this conference. Central to our success and the effective administration of our mandate, is the confidence that the public has in SARS. We accept this. When public trust has waned, such as is currently the case, then taxpayers feel morally justified to withhold or manipulate their taxes. I caution against any talk of a tax revolt as had been suggested by some. This places us on a slippery slope that further undermines the building of a capable state and a well-functioning democracy. We will simply contribute to a state of lawlessness and decay that will serve none of our interest. We accept that it is incumbent on us to lead this work. Healing starts from within, and we will systematically work to heal SARS from the trauma it has suffered, as well as rebuilding the necessary capability and professionalism worthy of a world class revenue administration.

But we cannot do it alone. I want to address three factors that characterises our current context.

First, I want to address my colleagues in our three spheres of government, who have the inordinate privilege to lead and who spends the tax monies collected at national and local levels. The hard earned money that all of us as taxpayers place into the trust of government to provide the much needed enabling infrastructure to grow our economy; the social goods and services every South African has the right to expect; and the investment in our children through the provision of quality education to prepare them for the future. This requires a much higher level of stewardship, from those among us entrusted to deliver these social goods and services. We have seen billions of rands lost through unprecedented levels of corruption, financial mismanagement
and waste within government and state owned enterprises, for which bailouts require hard earned tax revenues and heavily encumbers the public balance sheet. I make this appeal directly to my colleagues, unashamedly and without apology, because this detracts from the hard work of building the public confidence SARS needs to ensure the desired level of voluntary compliance. So whilst SARS is only responsible for collecting revenue, how revenue is spent integrally impacts on the work that we do. If the public has no trust in how this money is spent, and they do not experience the goods and services, they begin to question the morality of paying taxes. So this first message is to them to help build a tax system with integrity because when our revenue collection is undermined, this traps us in a vicious cycle of revenue decline such as we have experienced, and consequently the need to go with begging bowls to borrow money which effectively mortgages the future of our children.

Secondly, I want to highlight the obvious, the commonly stated factor. We live in an increasingly complex world. The future has no precedent and we live in troubled times.

We have to acknowledge that we find ourselves in a tough global environment where the forces shaping our domestic and global political economy are unpredictable and unstable. Liberal democracy, often in the name of the poor and disenfranchised, is under threat. The current trade wars between the US and China and the impact of a UK potentially outside of the European Union will definitely continue to undermine efforts towards much needed and sustainable growth. The impact on our domestic economy is immediate and direct, and hence the impact on revenue collection.

Meanwhile, technology driven innovation and change present many opportunities, but also significant threats to create discontinuities and disrupt the world as we know it. Jeremy Rifkin says that as a human species, we run the real risk of triggering our own extinction during this century. Technology has placed unprecedented capability in our hands, but we are simply not wise enough to know whether something is good for us. Just because we can do something, does not mean we ought to. Whilst technology has grown exponentially, our moral and ethical capability often lags behind, and therefore if we do not close that gap and use technology to serve us better, we will contribute to our own demise.
SARS is not immune to this evolving trend. In a world where big data, predictive analytics, artificial intelligence and block chain technology continue to redefine everything we do, we have to adjust with indecent haste.

For revenue authorities this means new business models, decentralized production capabilities and, dematerialized value chains. Our staffing models have to evolve if we are to remain relevant. We need to rethink tax and customs policies, but also how we future proof tax and customs administrations to administer their mandate. I cannot see how SARS remains effective unless it fundamentally transforms itself to better harness data, technology and evolve our workforce away from low value administrative work towards high value knowledge and service work. So the future of SARS needs to be that of a very different organisation, and our ambition is therefore not to rebuild SARS to what it was in 2014, it is our ambition to build a SARS that is best capable to serve the interest of our nation in the future.

Thirdly, I want to address the audit, consulting and tax profession. You cannot be innocent bystanders to what’s happening in society and what is currently happening in South Africa. Within SARS, we have seen how firms like Bain and KPMG have been complicit in the undermining of SARS. Every SOE that has been effectively been ransacked and riddled with questionable procurement practices has the unmistakable fingerprints and traces of the audit profession, consulting firms and tax practitioners. So-called advice had been given, financial statements assured and signed off, and tax declarations prepared and submitted. Just last year, we were able to prevent over R9 billion fraudulent refund claims where taxpayers, oftentimes with the help of an intermediary, misrepresented their income tax declarations wilfully with the expressed intent to create a refund. We see similar trends in VAT refund fraud. We have entire businesses and industries that have been created purely to create a system of fictitious VAT refunds and other fraud. There are concerning examples of trade mispricing, under declaration of goods imported, over–stating goods exported to create fraudulent taxes and create illicit financial flows and enable money laundering.

Areas such as Base Erosion and Profit Shifting and Transfer Pricing remain a concern. These harmful and often illegal practices often happen with the help of registered practitioners and professionals remain a concern. With the reopening of the LBC we will redouble our efforts and focus on High Net worth Individuals. We are reconvening the Davis Tax Committee, under the leadership of Judge Dennis Davis, to
continue the work on identifying the tax gap and have launched a revenue recovery program within SARS.

On Friday we issued a clarification note on Donations to ensure that taxpayers correctly disclose both the giving of and receiving of donations. This has been very topical in the last while, and we have had several requests for clarification. Those that have been giving or receiving donations should square up their accounts, disclose it adequately and fairly and that it is administered correctly for tax purposes, hence the clarification note.

To date we are dealing with about 17 cases in the so-called illicit economy where we believe the tax compromise is around R30 billion and about 16 cases relating to transfer pricing and international taxes as well as where we believe we have a revenue risk of over R3 billion.

SARS is about to conclude a MOU with the NPA, and are working closely with Advocate Bathoi of the NPA and her team. We have a backlog of some 1177 cases awaiting prosecution. The list continues to grow. The arm of the law may be slow, but I remind taxpayers that its reach is very long and very sure!

We have stepped up our working relationship with the State Security Agency as well as the SIU and with which we have MOU’s in place.

What we therefore face is a society that has wittingly or unwittingly participated in the current demise of integrity we experience in public and private organizations, central to the well-being of our economy. The audience are active players in this troubled economy which has been badly battered for many years.

In reflecting on the project of rebuilding SARS, we have set for ourselves VISION 2024. This is the aspiration to build a smart modern SARS with unquestionable integrity that is trusted and admired.

This aspiration implies:

**Internally**, we
- Engage ethically and beyond reproach with Stakeholders
- Use technology and data to build an intelligent organization
- Evolve our staffing model towards high value knowledge & service work; and
• Become an Employer of Choice with a high performing, engaged workforce enabled to attract many bright and committed people to come and work for us.

Externally, we
• Achieve substantially our strategic intent of Voluntary Compliance;
• Benchmark against the best among our peers internationally;
• Regain public trust and confidence; and
• Provide the financial resources for Government to deliver goods and services and build a capable State.

Our Strategic Intent is to follow an approach of **Voluntary Compliance**.

**In support of our Strategic Intent we have 9 Strategic Objectives which I will share with you:**

1. Provide Clarity and Certainty of tax obligations;
2. Make it Easy for Taxpayers to Comply and fulfil their obligations;
3. Make it hard and costly for Taxpayers who choose not to Comply;
4. Develop a high performing, diverse, agile and engaged workforce;
5. Increase the use of data to improve integrity, derive insight and improve outcomes;
6. Modernize our systems to provide digital and streamlined services;
7. Drive efficient use of resources to deliver quality outcomes and performance excellence;
8. Work with and through Stakeholders to improve the tax system; and
9. Build public trust and confidence in the tax administration system

Given the attendees to this week’s Tax Indaba, I want to pay particular attention to Strategic Objective 8 to “**Work with and through Stakeholders to improve the tax system**”. We really mean this in the most sincere way. SARS cannot achieve its strategic intent of voluntary compliance alone. When we say we will work WITH and THROUGH stakeholders to improve the tax system, we mean just that. And we are happy to learn with you what that means and how we work together to achieve that.

I know that there’s a natural competition for members amongst the various professional bodies. And competition means that we need to amplify our differences and exploit our competitive advantages to make us more attractive to our target market.
We should remind ourselves that when large elephant bulls enter a fight, it is only the grass that gets hurt. And whilst we do that, we sometimes fail the common purpose which we ought to serve. We have to ask the hard question. How did so much corruption take place right under our watch? We have experience the corporate scandals of VBS, Steinhoff, Tongaat Hulett, Eskom, and Transnet to name a few. There are surely many more to come. The universe of Registered Controlling Bodies all have their own internal challenges be it at leadership level, or simply how they engage and react to the aforementioned failures, and the sanctioning, or otherwise of their members.

I invite the professional bodies to join SARS in serving the higher purpose for the sake of our country. For the sake of our children. We need to reaffirm a commitment by the profession to the noble intent for which it was initially conceived, namely, to serve the public interest. Naturally, there are common industry issues and member interests that ought to be advanced, but it can never be that the narrow interest of a particular RCB comes at the expense of the greater social good. Then we eventually all lose. Our democracy is the worst for it.

No country can truly build prosperity if it does not have a well-functioning revenue authority; if it does not respect the rule of law and foster high levels of fiscal compliance. I travel to Singapore regularly and have seen first-hand how society benefits when these conditions prevail. Where public goods and services are often better than private goods and services.

We accept the burden to rebuild and transform SARS, and remain committed to this project. We are clear that we serve a higher purpose in the service of millions of South Africans. And yes, as a society we should hold our public office bearers to account to spend more wisely and more efficiently, the hard earned tax revenues.

And we can only do this boldly though, when we as the extended community of tax and audit professionals serve the tax eco system with utmost integrity ourselves. When we stand on a moral high ground, our collective voice matters so much more. We achieve so much for society when we hold ourselves to the highest standards of civil compliance.

Please visit our stand outside. We acknowledge that we still have a significant way to go, but we are committed to serving you well.
Let’s commit to be better stewards of the resources entrusted to us in whatever role we are privileged to play. Let’s do it so that we can bequeath a better country to the next generation, than the one we have inherited.

Thank you very much.

Edward Chr Kieswetter
26 August 2019