THOUGHT LEADERSHIP ARTICLE

SARS TO CLOSE THE R50.8-BILLION SHORTFALL

By SARS Commissioner, Tom Moyane

PRETORIA, WEDNESDAY 13 DECEMBER 2017 - One common theme that the media has persistently been pushing is to create an impression and a picture of SARS that it is badly managed and falling apart under the tenure of the current leadership.

What makes this media onslaught incredible is that it is contrary to the facts and figures which show that SARS is not only resilient under very difficult economic and political circumstances, but that it is also regarded as amongst the best tax and customs authorities in the world.

Let me hasten to say that, as SARS, we appreciate and support the role of the media as a watchdog, to protect public interest through exposure of wrongdoing and inefficiencies, and in particular, within state institutions such as ours.

Such critical responsibility by the media must however, always be tested against high levels of integrity, honesty and truthfulness on the part of the media, which does not seem to be the case when it comes to SARS.

It is for that reason that I want to avail information to ensure an accurate understanding of the R50.8 billion downward adjustment. As the facts will reveal, it is completely incorrect to blame SARS for this adjustment.

Firstly, the revenue target is not set by SARS alone, but by the Revenue Analysis Working Group (RAWC), which is made up of the National Treasury, the South African Reserve Bank and SARS. They jointly recommend a revenue estimate to the Minister of Finance based on macro-economic imperatives.

The basic principle is that if the economy is doing well, the target will be increased as seen during the economic booms. But when the economy is under strain, the target is adjusted downwards.

The revenue shortfall of R50.8bn is largely based on the state of the economy.

The global and local economies are still struggling as a result of the 2008/09 economic recession. Despite economies of the rest of the world having recovered with GDP growing at an average of 3.6%, South Africa is lagging behind.

The technical recession that South Africa experienced in the first half of 2017 and the relative dim outlook for the remainder of the year necessitated a downward revision in the economic outlook for this financial year.

There is a relationship between growth in revenue collection and growth in GDP, and thus the downward revision of the revenue target by R50.8bn, to R1.214 trillion must be viewed against the downward revision of the GDP growth forecast from 1.3% to 0.7% this year.

In addition, ongoing poor business and consumer confidence continues to weigh against a sustained economic recovery in South Africa. Business confidence remains poor, which means companies hold back on expanding employment and investment. Lower company profits, as a result of strained economic growth, lead to lower corporate income and in turn to lower corporate income tax (CIT) collection.

The amount of R600bn which corporates are not investing back into the economy, continues to put a strain on our economy and SARS' ability to collect more revenue. High unemployment levels of 27%, which is the highest in recent years, coupled with low wage increases and low bonuses continue to put a strain on personal income tax collection (PIT). There has been a retraction in the growth in PIT from above 12% in prior years to about 8% this year.

While low business confidence constrains growth in PIT, it also negatively affects Value-added tax (VAT) and future CIT. SARS is also starting to see much lower dividend taxes than in the past which suggests that companies are holding on to their cash reserves in the face of higher dividend tax rates.

Low consumer confidence means that taxpayers cut back on consumption spending, preferring to settle household debt when there is a risk of losing their jobs. The lower consumption spending constrains domestic and import taxes as households focus on the basics.

Year to date imports are contracting in real terms. They are estimated to grow at only 5.3% in 2017/18, according to the Medium Term Budget Policy Statement (MTBPS). These factual issues, amongst others, are what inform the trilateral RAWC discussions and decisions.

As a consequence, the MTBPS target of R1.214 trillion, when achieved, would still require growth in revenue collection of 6%, in a flat GDP growth environment. Thus, tax revenue must still grow despite the poor economy.

We need to remind ourselves that for the R1.214 trillion to be achieved SARS must extract about 26% tax to GDP. That is a ratio that SARS has consistently extracted over the past few years thanks to the commitment and dedication of the 14000 employees who work at SARS.

The 26% tax to GDP extraction rate is among the best globally and places SARS amongst the top revenue authorities in the world.

But SARS is not perfect and can always do better. As a result, there are a number of programmes and initiatives which we are implementing to claw back as much as possible of the R50.8 billion.

The collection of all revenue due to the State and the protection of all ports of entry whilst facilitating trade is a mandate that SARS takes very seriously.

I want to assure South Africans that the 14000 SARS employees understand and appreciate our critical mandate and are committed to working tirelessly to make sure we collect all revenue due as we take this country forward.

Tom Moyane is the Commissioner at South African Revenue Service.