Preliminary Revenue Outcome 2022/23

Growth from a solid foundation

03 April 2023

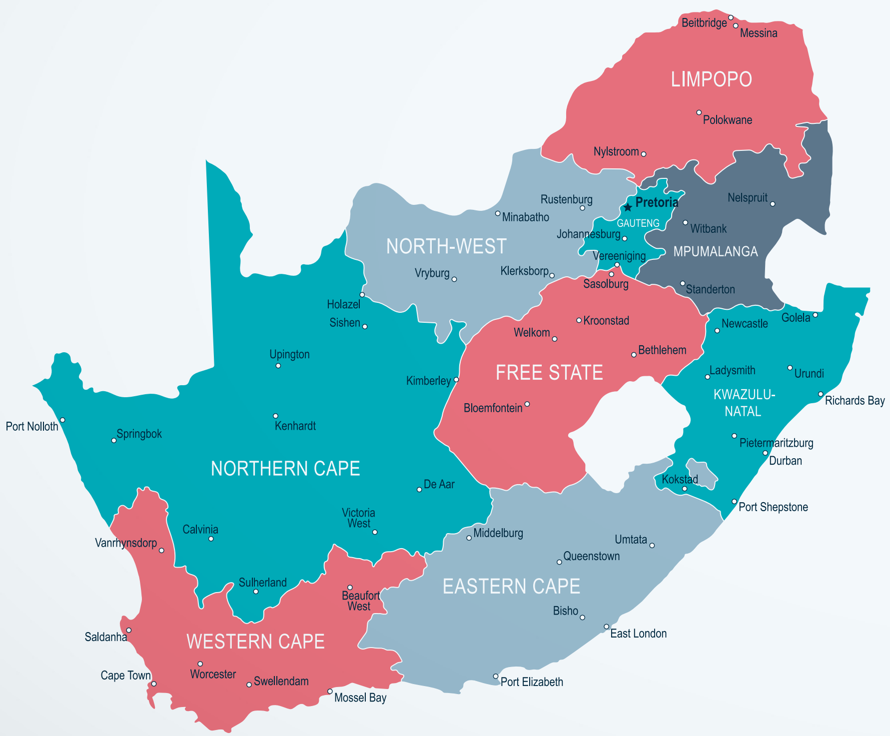
The information contained herein is preliminary and will be subjected to detailed financial reconciliation and a final audit.

SARS
At Your Service

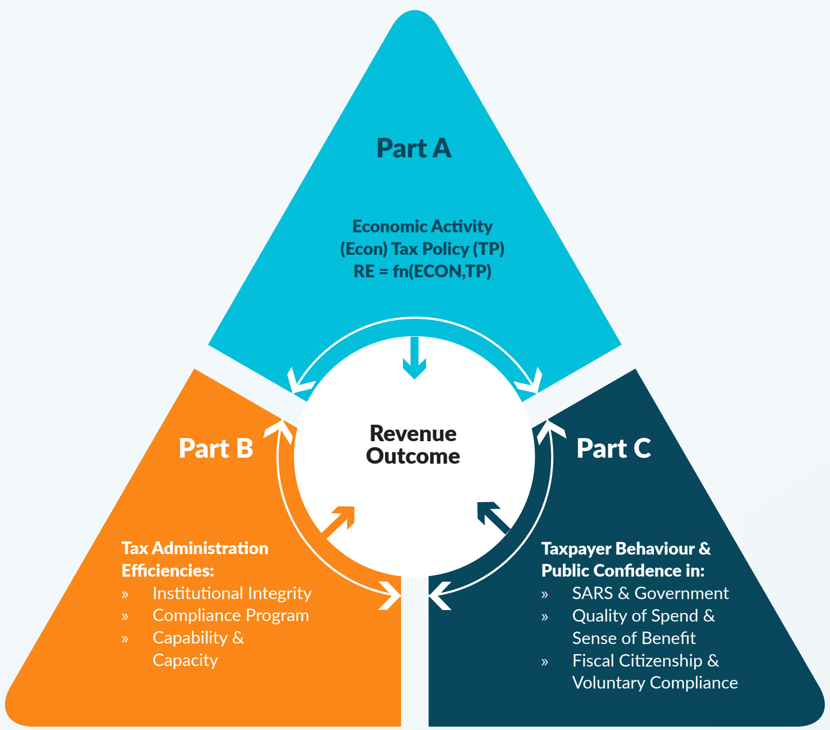
Contents Page

SARS Preliminary revenue outcome 2022/23

Underpinned by the SARS Revenue Management System



SARS Revenue Management System



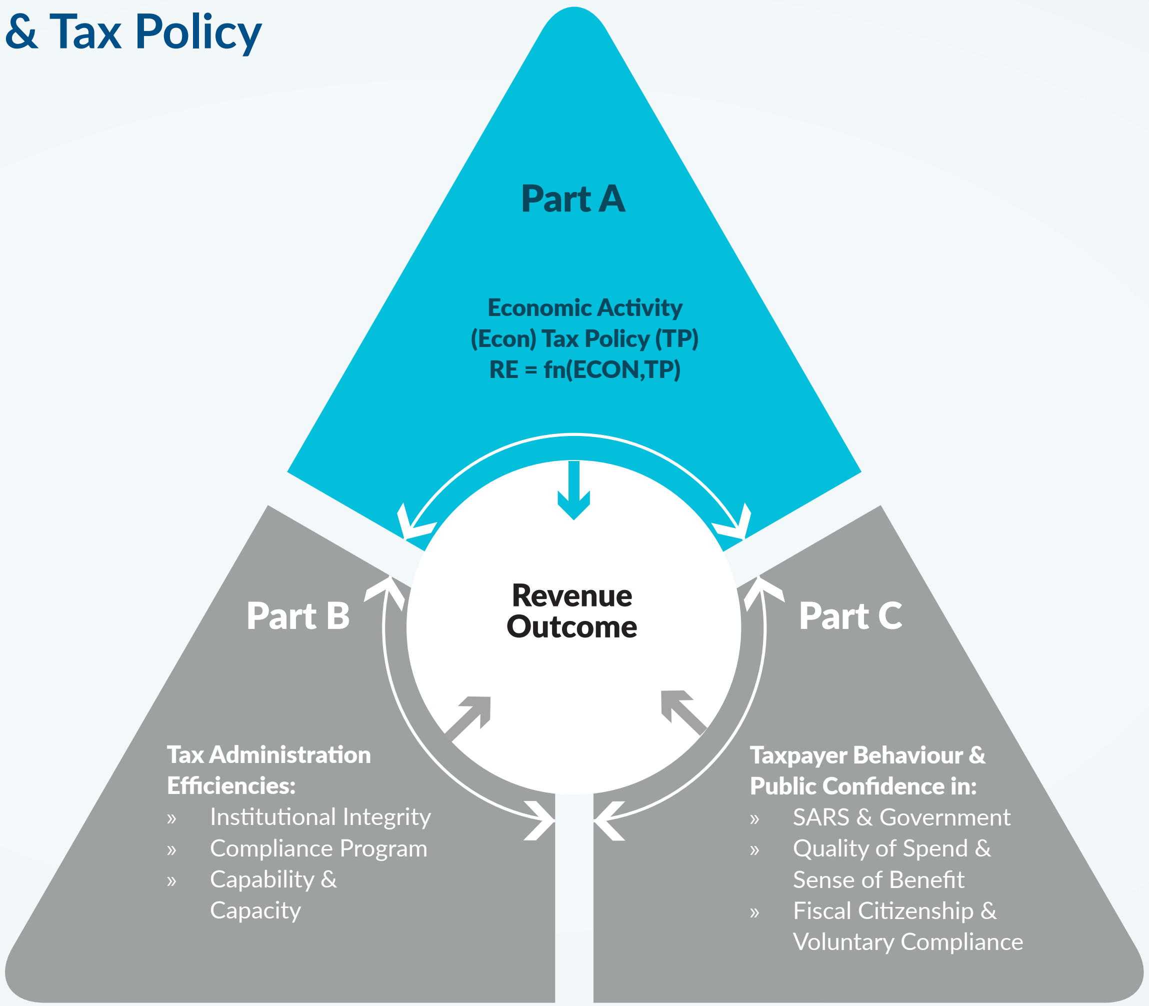
> "Our country is reaping the benefits of a more efficient and effective tax administration, that is building trust to increase voluntary compliance and boost revenue collections."
>
> - Minister of Finance, Mr Enoch Godongwana - 2023 Budget Speech

Section

A

Macro Economic Overview & Tax Policy (Part A)

Macro Economic Overview & Tax Policy



National Economic Overview

Macro Economic Indicators

Nominal GDP

5.8% BR23

5.9% MTBPS22

2023/24	5.3%	(6.2%)
2024/25	6.4%	(6.6%)

Wage Bill

5.2% BR23

6.7% MTBPS22

2023/24	5.5%	(5.9%)
2024/25	7.4%	(6.8%)

Exports

11.3% BR23

9.6% MTBPS22

2023/24	-0.5%	(0.9%)
2024/25	5.3%	(6.0%)

Consumption

8.8% BR23

8.7% MTBPS22

2023/24	6.8%	(6.6%)
2024/25	6.6%	(6.5%)

Real GDP

2.0%

1.4% PY

2023/24	1.0%	(1.6%)
2024/25	1.7%	(1.7%)

Net Operating Surplus

3.4%

0.9% PY

2023/24	3.6%	(5.2%)
2024/25	5.0%	(7.0%)

Imports

30.6%

24.9% PY

2023/24	0.1%	(-0.3%)
2024/25	6.1%	(5.2%)

Inflation

7.1%

6.8% PY

2023/24	4.9%	(4.7%)
2024/25	4.9%	(4.6%)

Tax-to-GDP Ratio

25.4%	2022/23
24.9%	2021/22

Employment

15.9 million	2022
14.5 million	2021

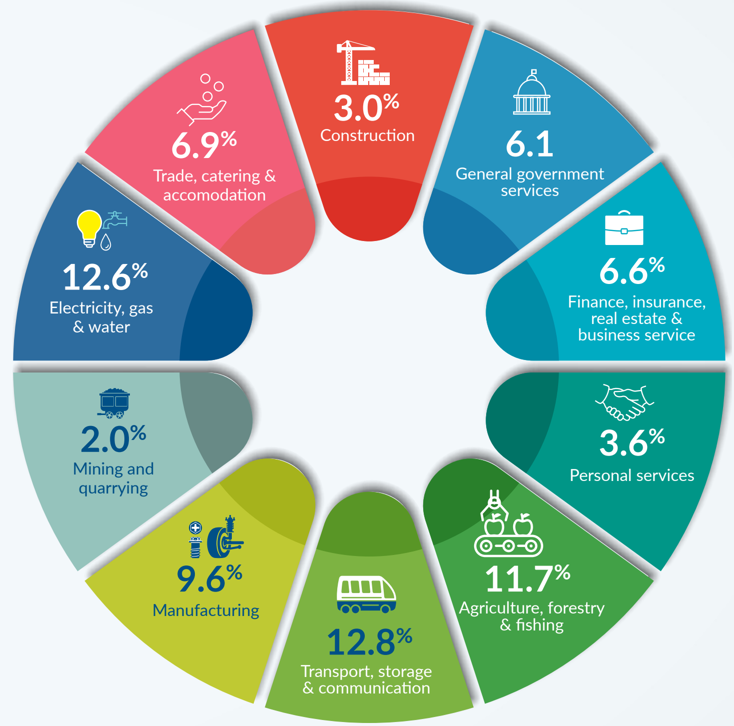
Trade Balance

R125.2 bn	2022/23
R347.5 bn	2021/22

Population

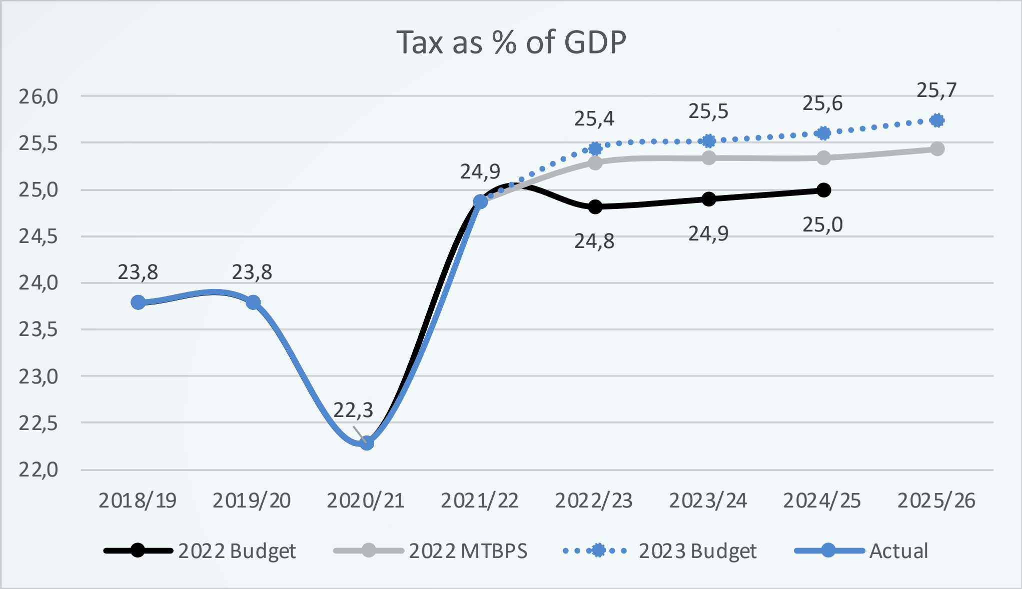
60.6 million	2022
59.4 million	2021

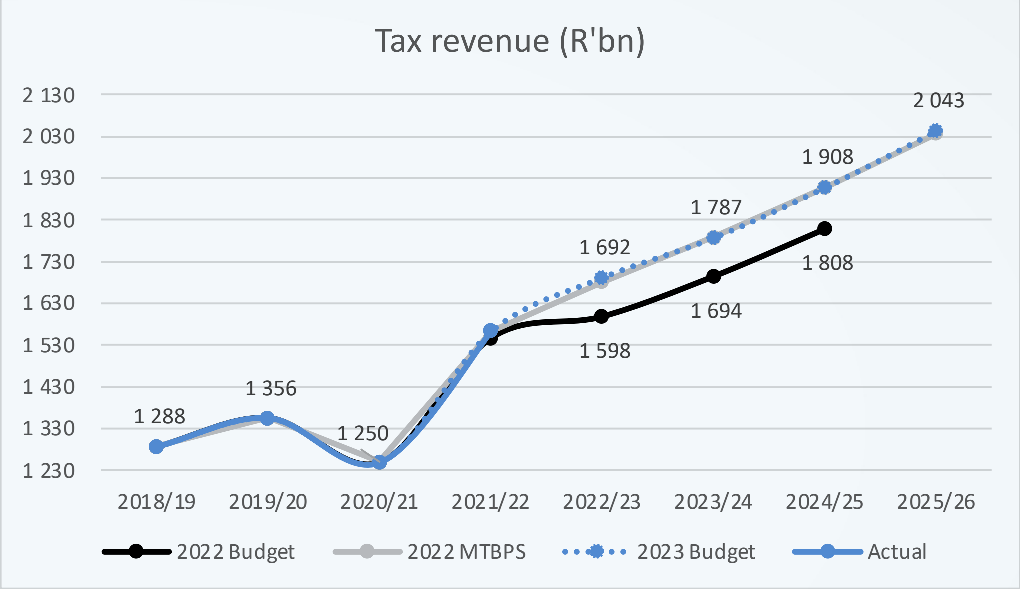
Nominal Sectoral GDP Growth Rates (Calendar year 2022)



The pace of economic recovery from the COVID-19 pandemic was disrupted in 2022 by the repercussions of the war in Ukraine, devasting floods in KwaZulu-Natal and the Eastern Cape, industrial action in some sectors, logistical bottlenecks and persistent electricity supply constraints. While the South African economy grew by 7.2% in nominal terms in 2022, this was 4.2% points lower than the 11.4% growth recorded in 2021.

Upward revision of revenue estimates





"…Notwithstanding a weaker medium-term growth outlook and further tax relief proposed in this budget, the tax-to-GDP ratio is expected to reach 25.7 per cent by 2025/26. Higher revenue collection requires sustained investment and economic growth. Gross tax revenue collections are expected to increase by 5.6 per cent, 6.7 per cent and 7.1 per cent over the next three years as economic growth gradually improves. This translates into gross tax revenue increasing from an anticipated R1.69 trillion in 2022/23 to R2.04 trillion in 2025/26.….'

Budget 2023

Overview of nominal GDP contribution per province

(R million)	2018	2019	2020	2021	2022	CAGR (2018-2022)
Gauteng	1 903 441	2 006 896	1 971 072	2 171 102	2 313 132	5,1%
KwaZulu-Natal	857 466	893 669	875 016	961 564	1 024 468	4,6%
Western Cape	746 442	784 736	771 777	849 824	905 418	5,0%
Eastern Cape	420 221	436 017	426 544	470 262	501 026	4,6%
Limpopo	372 797	390 158	396 547	466 748	497 282	7,4%
Mpumalanga	380 070	398 606	401 377	449 309	478 702	6,0%
North West	297 647	316 017	322 906	386 348	411 622	7,8%
Free State	264 992	277 761	280 978	308 553	328 738	5,3%
Northern Cape	105 533	109 806	110 698	128 788	137 213	6,3%
South Africa	5 348 609	5 613 665	5 556 916	6 192 497	6 597 600	5,4%

Source: Stats SA, Quantec, 2022 estimated based on 2021 contribution.

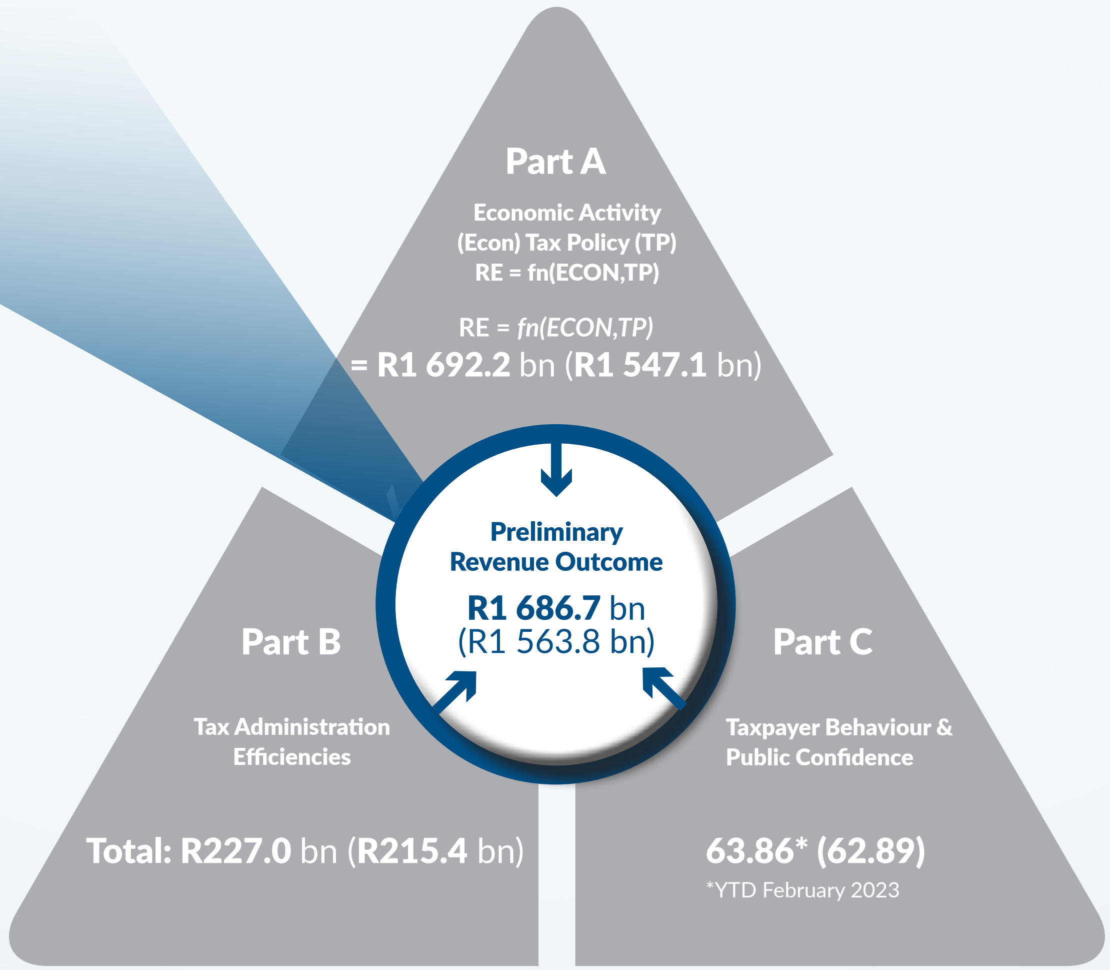
Broad-based improvements in agricultural and mining activities resulted in smaller resource-rich provinces (i.e. NW, LP, NC, NW) experiencing higher compound annual growth rate (CAGR) over the past five years

Section

B

Preliminary Revenue Outcome

Preliminary Revenue Outcome for the year ended 31 March 2023



Revenue Collection 2022/23

Gross Revenue Collected

R2 067.8 bn
2023

R1 884.9 bn
2022

9.7% growth

Refunds Paid

R381.1 bn
2023

R321.1 bn
2022

18.7% growth

Net Revenue Collected

R1 686.7 bn
2023

R1 563.8 bn
2022

7.9% growth

PIT (incl. Int)
R601.7 bn
8.3% growth

CIT (incl. Int)
R348.0 bn
7.6% growth

VAT
R422.2 bn
8.0% growth

Customs
R73.9 bn
27.4% growth

Trade Facilitation

R3 937 bn
2023

R3 325 bn
2022

18.4% growth

Compliance Index

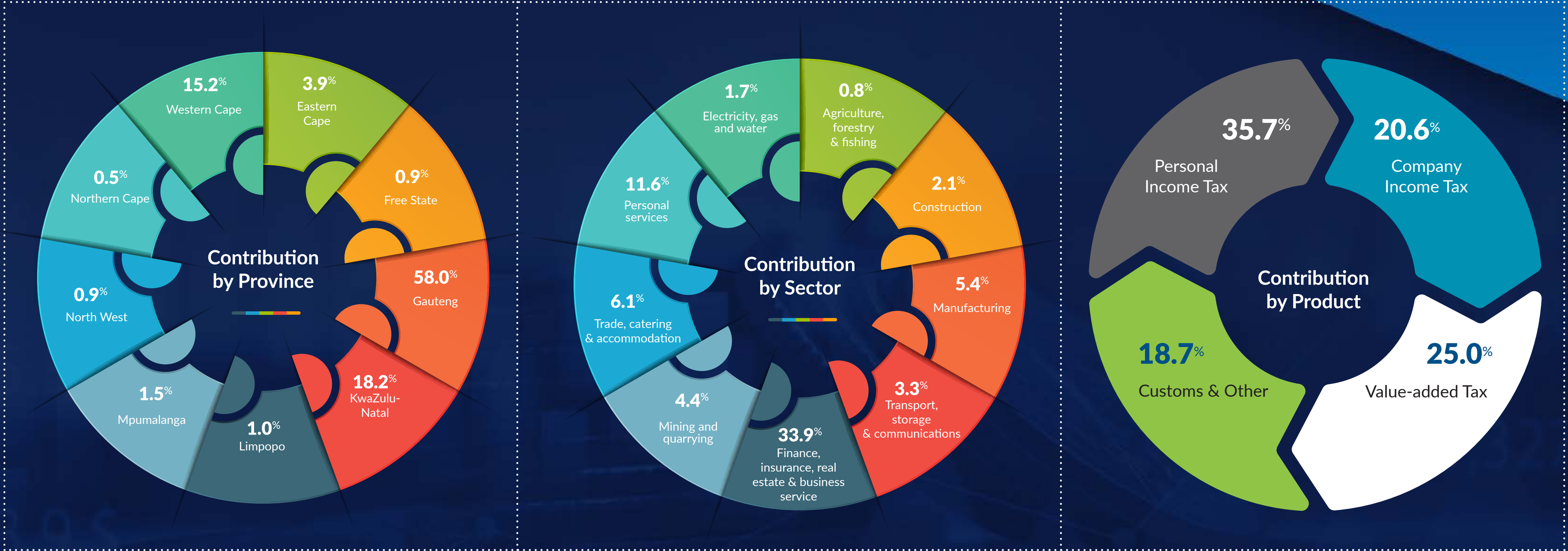
63.86%
YTD Feb 2023

62.89%
2022

0.97% growth

Revenue collection during the 2022/23 Financial Year **remained resilient and buoyant despite economic headwinds** such as **load shedding**. This achievement came as a result of **continued focus** on **compliance** related **activities**.

Revenue contribution by province, sector and product



Personal Income Tax (Provisional & PAYE)

Gross Revenue Collected

R638.4 bn
2023

R589.2 bn
2022

8.3% growth

−

Refunds Paid

R36.7 bn
2023

R33.7 bn
2022

8.9% growth

=

Net Revenue Collected

R601.7 bn
2023
(incl. Int)

R555.5 bn
2022

8.3% growth

Compliance Index

52.5%
2023

57.0%
2022

-4.5 ppt decline

Employment

7.2%
2023

-0.3%
2022

7.5 ppt growth

Wage Bill

5.2%
2023

9.6%
2022

Organic Growth of Tax Register

25 944 849
Active Taxpayers

1 170 368
New Taxpayers

6 127
New Contributing Taxpayers

4.53% growth

Net Personal Income Tax

Net PIT

R601.7 bn
2023

R555.5 bn
2022

8.3% Variance

=

PAYE

R592.8 bn
2023

R549.4 bn
2022

7.9% Variance

+

Provisional PIT

R33.0 bn
2023

R30.6 bn
2022

7.9% Variance

+

Other

- PIT Assessment payments
- Interest on overdue tax: Individuals
- ETI credit (offset & refund)
- PIT Refunds

Main drivers of revenue performance

» PAYE collections of R592.8bn were lower against the RE by R0.5bn (0.1) and higher than PY by R43.4bn (7.9). Collections were higher than the PE by R14.2bn (2.4). The full year RE for PAYE was R593.3bn and required PY growth rate to reach the PAYE RE was 8.0.

» PAYE collections are generally driven by tax policy and tax rates, employment levels, job losses, wages, bonus pay-outs, emigration levels, etc. PAYE collections from incentives and bonus payments predominantly from the Finance sector were higher compared to PY.

» The full year RE for PIT Provisional Tax was R33.9bn which was a full year growth rate of 10.9% against PY. Noteworthy PIT Provisional Tax payments for the 2022/2023 tax year were due at the end of August 2022 and February 2023. Collections of R33.3bn were recorded which are R0.9bn (2.7) lower than the RE yet higher than PY by R2.4bn (7.9).

» PIT refunds usually peak during the first months of each year's Filing Season as early return submissions are usually characterised by very high volumes of PIT refunds flowing from credit assessments. The full year RE for PIT refunds was R37.7bn, which was a Y/Y growth rate of 11.9% for the full year. PIT refunds of R36.7bn were higher than PY by R3.0bn (8.8%). Refunds were however lower than the RE by R1.0bn (2.7). The number of PIT refunds (all refunds not only current filing season) increased from 2.7 million in the PY to 3.0 million in the CY; the average value of these refunds increased from R12,061 in the PY to R12,171 in the CY.

Compliance indicators

» YTD February 2023 on-time filing compliance was at 56.2, lower compared to 55.9 in the PY.

» YTD February 2023 on-time payment compliance was at 87.0, higher compared to 87.3 in the PY.

Shifts in PIT base composition by tax directive data

	Taxable Amount R'm 2022/23	Taxable Amount R'm 2021/22	
Resignation	R10.8 bn	R10.0 bn	8.2% growth
Retirement	R5.8 bn	R5.8 bn	0.5% growth
Retrenchment	R2.0 bn	R3.3 bn	-38.2% decline
Share Option	R11.3 bn	R12.3 bn	-8.0% decline
Death	R7.1 bn	R8.2 bn	-15.5% decline
Ill-health	R0.4 bn	R0.4 bn	10.8% growth
Emigration	R0.1 bn	R0.5 bn	-80.5% decline
Cessation of SA tax residence	R0.2 bn	R0.1 bn	271.1% growth
TOTAL	R37.5 bn	R40.2 bn	-6.8% decline

PAYE payable recorded a net contraction worth R2.7bn, mainly due to Retrenchments (R1.3bn), Deaths (R1.1bn), Share incentives (R1.0bn) and Emigrations (R0.4bn). Performance was largely driven by the Finance and Mining sectors.

Company Income Tax

Gross Revenue Collected

R366.9 bn
2023

R341.1 bn
2022

7.6% growth

−

Refunds Paid

R18.9 bn
2023

R17.7 bn
2022

7.0% growth

=

Net Revenue Collected

R348.0 bn
2023

R323.5 bn
2022

7.6% growth

Compliance Index

59.0%
2023

48.2%
2023

22.3% growth

Liquidation CIT Revenue Impact

R20.1 m
LBI (2023)

43 taxpayers

R24.0 m
SMME (2023)

2 451 taxpayers

Business Rescue CIT Revenue Impact

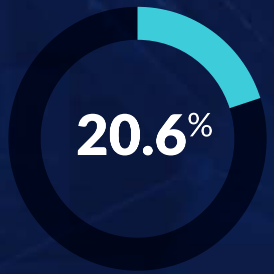
R3.0 m
LBI (2023)

14 taxpayers

R39.7 m
SMME (2023)

217 taxpayers

CIT Overall Contribution to Revenue

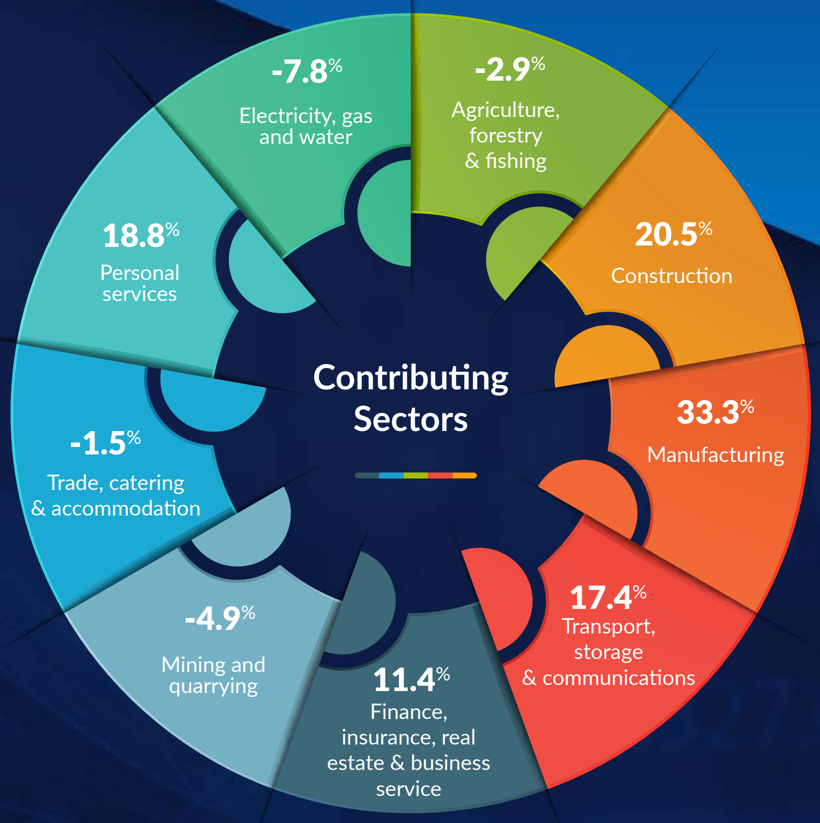


Organic Growth of Tax Register

3 926 252
Active Taxpayers

419 617
New Taxpayers

11.3% growth



Value Added Tax

Gross Revenue Collected

R741.1 bn
2023

13.4% growth

R653.3 bn
2022

−

Refunds Paid

R318.9 bn
2023

21.5% growth

R262.4 bn
2022

=

Net Revenue Collected

R422.2 bn
2023

8.0% growth

R390.9 bn
2022

Compliance Index

65.60
2023

-1.39 points decline

66.99
2022

VAT Overall Contribution to Revenue

25.0%

Organic Growth of Tax Register

952 937
Active Taxpayers

58 627
New Taxpayers

1.22% growth

VAT

Net VAT

R422.2 bn
2022/23

R390.9 bn
2021/22

8.0% Variance

=

Domestic VAT

R486.4 bn
2022/23

R448.8 bn
2021/22

8.4% Variance

+

Import VAT

R254.7 bn
2022/23

R204.6 bn
2021/22

24.5% Variance

-

VAT Refunds

R318.8 bn
2022/23

R262.4 bn
2021/22

21.5% Variance

Main drivers of revenue performance

» Domestic VAT amounted to R486.4bn and recorded Y/Y growth of R37.7bn (8.4%) against the PY. Growth against PY was mainly driven by higher collections from the Finance, Manufacturing and Wholesale sectors, which recorded growth of (R19.0bn, 10.3%); (R4.9bn, 6.9%) and (R4.1bn, 7.1%) respectively. This performance was mainly boosted by the final consumption expenditure growth which remained positive in 2022 recording a Y/Y growth of 2.6% from a 5.6% revised growth recorded in the prior year.

» VAT refunds paid out amounted to R318.9bn, posting a Y/Y growth against the PY of R56.5bn (21.5%). The increase in the value of credit returns has contributed to the increase in refunds paid, together with the processing of a sizeable portion of the credit book that related to prior periods.

» Domestic VAT was expected to have a subdued growth as a result of the continuous electricity load shedding which had a direct negative impact on business operations. VAT collection were adversely affected by high unemployment, and lower disposable income as well as rising interest rates together with high inflationary environment.

Compliance behaviour

» Overall VAT compliance level decreased to 66.1 (PY: 67.4) with the filing compliance of 47.0 (PY: 46.7) and payment compliance at 82.5 (PY: 87.4).

Customs Duties

Revenue Collected

R73.9 bn
2023

27.4% growth

R58.0 bn
2022

Trade Balance

R16.1 bn
2023

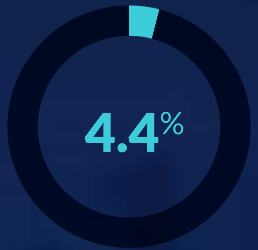
As @ Feb 2023

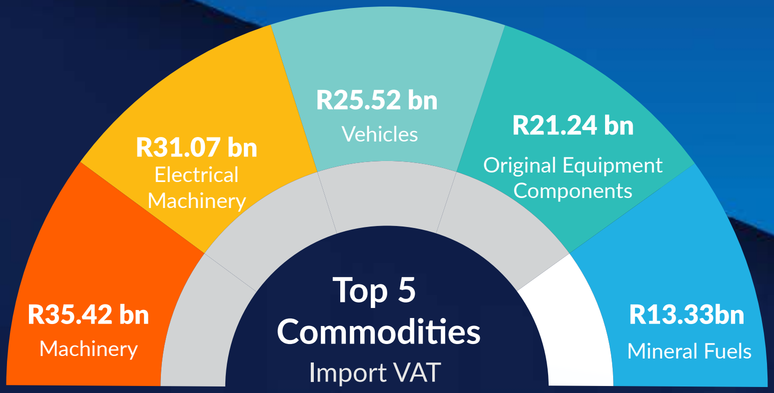
Merchandise Imports

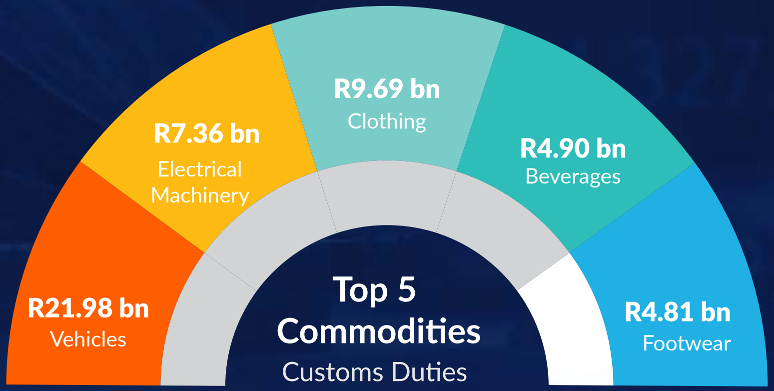
R1 721.8 bn

29.9%
growth

Customs Duties Overall Contribution to Revenue







Organic Growth of Tax Register

379 690
Active Taxpayers

10 944
New Taxpayers

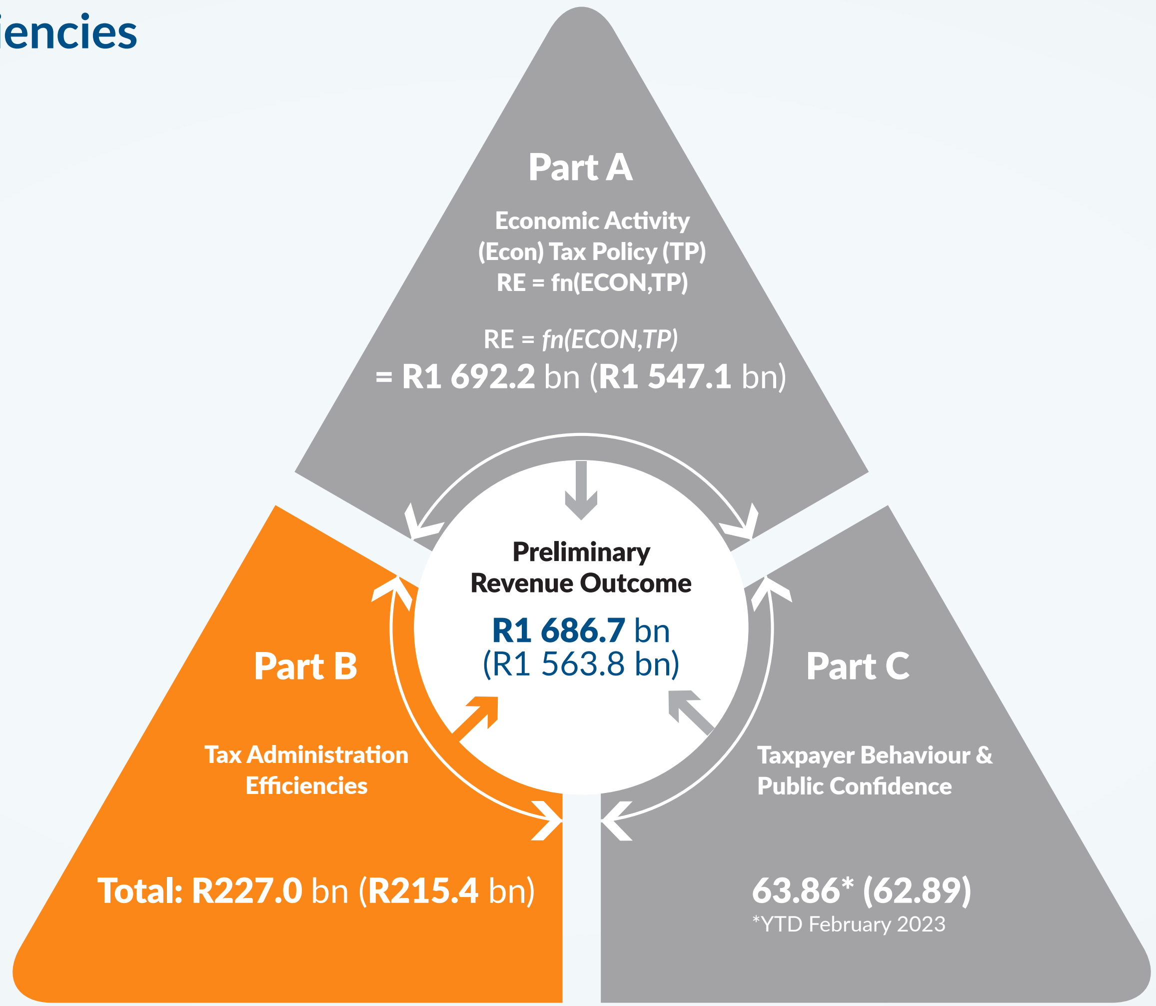
2.9% growth

Section

C

Revenue Administrative Efficiencies (Part B)

Tax Administration efficiencies as at 31 March 2023



Compliance initiatives

Compliance revenue is a result of focused compliance activities and efforts aimed at improving the levels of overall compliance culture and trust in the tax ecosystem. These efforts are underpinned by the SARS Compliance Programme and Strategic Intent to develop and administer a tax and customs system of voluntary compliance and enforce decisively and responsibly where appropriate. The key contributing compliance activities include:

- Enhancing Risk Management to mitigate impermissible refund outflows,
- Collecting old debt and outstanding returns,
- Detecting and responding to Syndicated Tax and Customs Crimes,
- Fair and accurate estimation and timely payment of Provisional Taxes,
- Regularising tax and customs obligations through the Voluntary Disclosure Programme.

Compliance revenue trends

2019/20

Initiatives	Revenue Collected
Risk Management	R46.9 bn
Debt Collection & OR	R46.8 bn
Declaration Compliance LB&I Entities	R1.9 bn
Targeted & Focused Compliance Initiatives	R0.5 bn
Syndicated Tax & Customs Crime	R11.8 bn
Customs & Excise Compliance	R6.3 bn
Voluntary Disclosures	R3.7 bn
Declaration Compliance of Provisional Taxpayers	R10.4 bn

R128.4 bn
-31.3%
growth

2020/21

Initiatives	Revenue Collected
Risk Management	R61.2 bn
Debt Collection & OR	R66.2 bn
Declaration Compliance LB&I Entities	R6.8 bn
Targeted & Focused Compliance Initiatives	R9.6 bn
Syndicated Tax & Customs Crime	R1.9 bn
Customs & Excise Compliance	R5.3 bn
Voluntary Disclosures	R4.6 bn
Declaration Compliance of Provisional Taxpayers	R16.2 bn

R172 bn
34%
growth

2021/22

Initiatives	Revenue Collected
Risk Management	R79.2 bn
Debt Collection & OR	R72.4 bn
Declaration Compliance LB&I Entities	R4.6 bn
Targeted & Focused Compliance Initiatives	R17.7 bn
Syndicated Tax & Customs Crime	R8.2 bn
Customs & Excise Compliance	R8.0 bn
Voluntary Disclosures	R5.9 bn
Declaration Compliance of Provisional Taxpayers	R19.6 bn

R215.4 bn
25.2%
growth

2022/23

Initiatives	Revenue Collected
Risk Management	R81.8 bn
Debt Collection & OR	R78 bn
Declaration Compliance LB&I Entities	R6.1 bn
Targeted & Focused Compliance Initiatives	R16.2 bn
Syndicated Tax & Customs Crime	R6.6 bn
Customs & Excise Compliance	R13.9 bn
Voluntary Disclosures	R3.7 bn
Declaration Compliance of Provisional Taxpayers	R20.6 bn

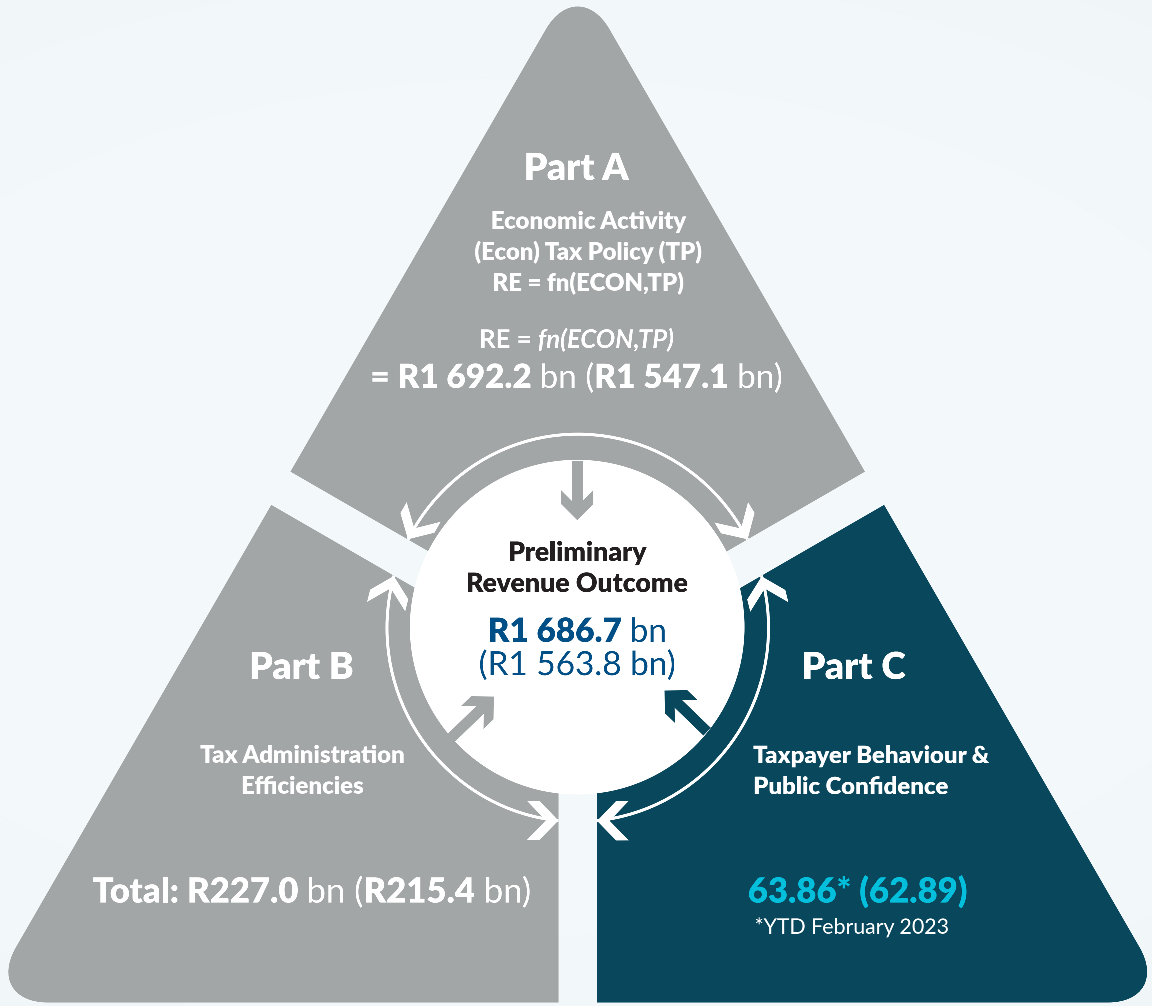
R227.0 bn
5.4%
growth

Section

C

Taxpayer Compliance Behaviour
(Part C)

Taxpayer Behaviour as at 28 February 2023

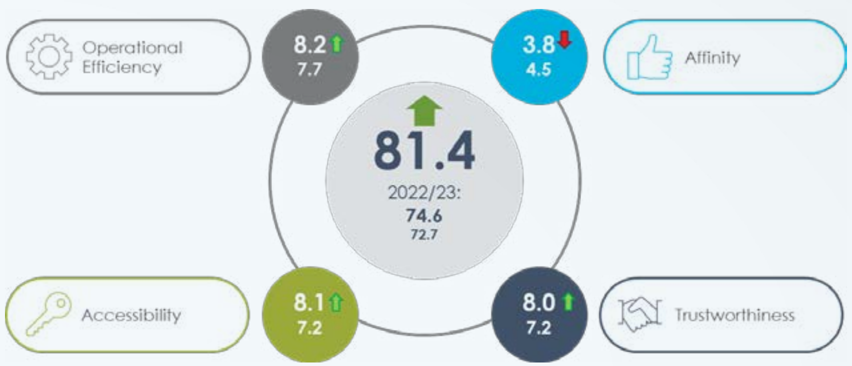


Public perception and its implications

The Public Opinion Score increased from 71.8% in 2021/22 to 76.5% in 2022/23. Only 2 out of the 11 dimensions driving tax compliance show a decrease. SARS remains the stakeholder in the tax ecosystem that has the highest leverage to drive tax compliance.

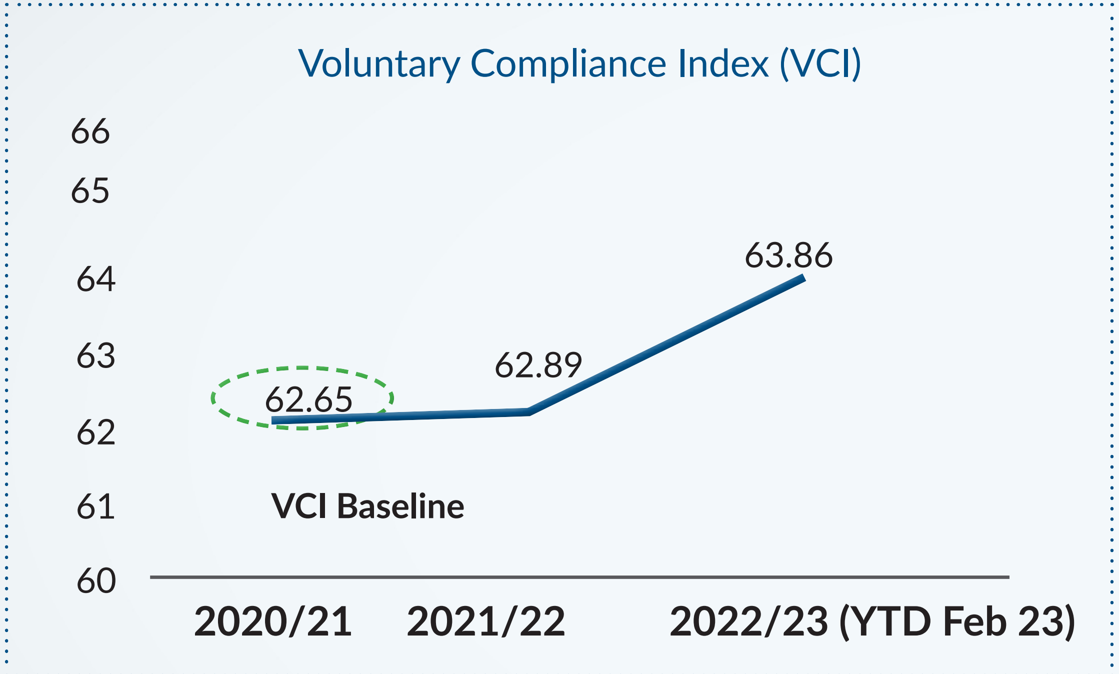
Overall Public Opinion Score

Controllable factors



Uncontrollable factors

Voluntary compliance Index as at 28 February 2023



The variability within the year is generally driven by amongst others taxpayer compliance behaviour that is not consistent, fraudulent or invalid registration, the changes in the compliance denominator.

In 2014, SARS developed a Voluntary Compliance Index (VCI) to track compliance levels of taxpayers in line with its strategic intent and has been measuring compliance level annually since then. The main elements underpinning the index is on time filing and payment compliance. In 2019/20, the methodology was revised and the review resulted in the adoption of a hybrid methodology, combining statistical modelling and professional judgement, to compute the index. The new VCI baseline was established at 62.89 in 2021/22.

The aggregate VCI has been developed to provide a composite, quantifiable measure of the level of tax compliance across the value chain for the four main tax products (Personal Income Tax, Corporate Income Tax, VAT and PAYE).

The methodology of the index is based on a hybrid model of statistical modelling and professional judgement. The VCI of the 2021/22 fiscal year is taken as the base year to which the current VCI will be measured. The VCI for the 2022/23 year to date nationally is 63.86 against the 62.89 measured the previous year.

Section D

Outlook for 2023/24 Revenue Estimates

Key Tax Proposals from Budget 2023

In terms of key fiscal ratios, the tax-to-GDP ratio is at 25.4% in 2022/23 (24.9% in Prior year) underpinned by a tax buoyancy of 1.42 (2.07 in prior year), mainly from the key taxes PIT, CIT, VAT and trade-related taxes. In the Medium Term Expenditure Framework, the tax-to-GDP ratio is expected to be 25.5%, 25.6% and 25.7% in 2023/24, 2024/25 and 2025/26 respectively. This assumed tax revenue growth of 5.6%, 6.7% and 7.1% respectively, with tax collections rising to R1.8 trillion, R1.9trillion and R2.0 trillion in the medium term.

The estimate for 2023/24 of R1.787 trillion, excludes tax relief amounting to -R13.0 billion for Personal income tax inflation-related adjustments to brackets (R0 billion); Personal income tax incentives to households for solar energy (-R4.0 billion); Corporate income tax expansion of s12B to support renewable energy (-R5.0 billion), relief on general fuel levy (-R4.0 billion) and zero increases in excise duties for alcohol and tobacco.

Inflation-related adjustments to the personal income tax tables, the retirement tax tables, transfer duties and excise duties for alcohol and tobacco will also be implemented.

R million	Effect of tax proposals	
Gross tax revenue (before tax proposals)		1 800 456
Budget 2023/24 proposals		-13 000
Direct taxes		-9 000
Personal income tax		
Increasing brackets by inflation		
Revenue if no adjustment is made	- 15 700	
Increasing brackets and rebates by inflation	- 15 700	
Rooftop solar tax incentive for individuals	- 4 000	
Corporate income tax		
Expansion of section 12B - renewable energy incentive	-5 000	
Indirect taxes		-4 000
Fuel levy		
Not adjusting the general fuel levy	- 4 000	
Specific excise duties		
Increasing excise duties on alcohol by inflation	-	
Increasing excise duties on alcohol by inflation	-	
Gross tax revenue (after tax proposals)		1 787 456

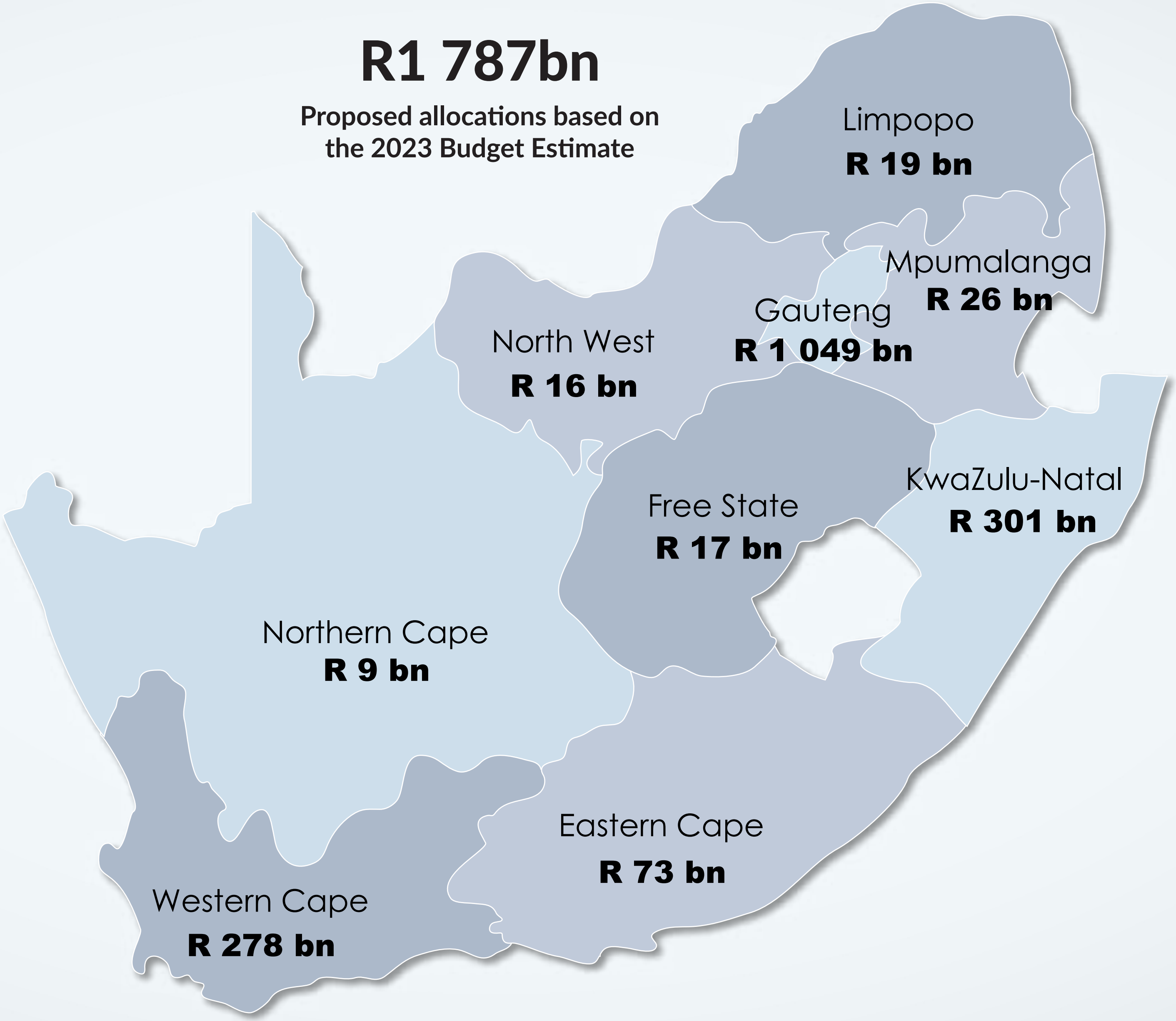
1. Revenue changes are in relation to threshold that have been fully adjusted for inflation
Source: National Treasury

Outlook 2023/24

At Budget 2023, the estimate for 2023/24 was set at R1.787 trillion signposting a growth of R100 billion or 5.9% from preliminary 2022/23 outcome. The PE is net of tax policy proposals amounting to R13.0 billion for PIT inflation-related adjustments to brackets (R0 billion); PIT incentives to households for solar energy (-R4.0 billion); CIT expansion of s12B to support renewable energy (-R5.0 billion), relief on general fuel levy (-R4.0 billion) and zero increases in excise duties for alcohol and tobacco. During the Medium Term Expenditure Framework, the tax-to-GDP ratio is expected to be 25.5%, 25.6% and 25.7% in 2023/24, 2024/25 and 2025/26 respectively. This is based on tax revenue growth of 5.6%, 6.7% and 7.1% with tax collections rising to R1.8 trillion, R1.9 trillion and R2.0 trillion respectively over the medium term.

R1 787bn

Proposed allocations based on the 2023 Budget Estimate



Section E

Conclusion

Conclusion

SARS plays a prominent role in the fiscal framework of South Africa and will continue to support National Treasury's fiscal consolidation efforts premised on a fiscal discipline through maximising revenue collections that provide the much-needed relief to the fiscal pressure. To this end SARS, in its rebuilding journey, has pursued the approach of building tax and customs systems based on voluntary compliance. SARS has resolved to make it easy and seamless for taxpayers to comply with their tax obligations whilst being ready, where necessary, to enforce decisively and responsibly to make it hard and costly for those that wilfully do not want to comply. SARS compliance approach believes that most taxpayers are willing to comply and thus must be assisted to become fully compliant and thereafter remain compliant.

After "V-shaped" recovery from the effects of COVID-19, quarterly growth in tax revenue reverted to the average Y/Y rate of around 7.8%, supported by growth in nominal GDP (average rate of 7.0%). Revenue Administration efforts from focused compliance activities contributed 13.4% of net revenue outcomes.

The tax-to-GDP extraction ratio of 25.4% surpassed the historical average of 22.1%.

Loadshedding continue to pose a serious risk to economic growth, gross operating surplus causing socio-economic behavioural changes all which consequently contribute to potential tax revenue loss estimated at a minimum of R60 billion per annum. Investment in renewable energy provides an opportunity for new economic sector activity and providing additional renewable energy supply necessary to relieve pressure on the current grid and potentially minimise the number of instances and extent of loadshedding.

The World Trade Organisation (WTO) expects trade growth to slow sharply in 2023 as global economy faces strong headwinds. For 2023 WTO foresees a 1.0% increase in global merchandise trade - down sharply from the previous estimate of 3.4%. Industrial production in South Africa continues to perform lower than peak levels, with mining, manufacturing, and electricity sectors declining by 3.2%, 0.9% and 1.9%, respectively in the three months ending December 2022. For the year ahead, industrial production in South Africa is expected to be lacklustre, as the supply side factors affecting production will remain unresolved in 2023.

Elevated commodity prices are not sustainable and subject to global demand fluctuations. Declining commodity prices weigh on exports. Import growth will also likely moderate on muted domestic demand and weaker investment. While a rebound in Chinese demand should support trade, domestic inefficiencies and the slowdown in most advanced countries will offset the benefit. The above risks to revenue outlook will be balanced with opportunities that exist within the revenue opportunity landscape to, amongst others, reduce the tax gap that exists across segments, investigate organised and syndicated tax and customs crimes, broaden the tax base and improve voluntary compliance levels.

Continually Increasing the use of data, artificial intelligence and augmenting human effort with insights from data, will enhance our ability to profile more accurately for compliance risks and inform our case selection methodology.

SARS focused compliance efforts (averaging 13% of net revenue collections) have definitely played a significant role in enhancing South Africa's tax-to-GDP ratio. This will be further enhanced as more funding is made available to, amongst others, bolster tax administration compliance risk identification and enforcement capability.

SARS

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