

COMMISSIONER'S STATEMENT ON REVENUE COLLECTIONS 2020/21

OPENING AND INTRODUCTION

Good afternoon ladies and gentlemen.

Welcome to my SARS colleagues.

Welcome to those who have joined us with their virtual presence.

Welcome to the Minister of Finance and the Deputy Minister of Finance who join us virtually today.

A year ago, we met to announce the revenue results of 2019/20, just as we came to terms with COVID-19 and the consequent initial lockdown of 21 days. Today, a year later, we know more about the exact nature and extent of the pandemic. We have experienced severe economic contraction, but more importantly, we have +1.5 million positive cases, and sadly taken leave of +52,800 members of family and loved ones. We have not even begun to count the impact on the nation's emotional and psychological wellbeing. We find ourselves in a very different world than a year ago. Thankfully, ordinary South Africans have adjusted their way of life to wear masks, maintain physical distance, and have significantly stepped up daily hygiene routines.

It is against this extraordinary backdrop, and significant challenges on all fronts, that we make the tax revenue results announcement today.

REFLECTING ON THE ECONOMY

COVID-19 has resulted in a severe contraction in both economic growth as well as tax revenue. It has also resulted in unprecedented uncertainty in predicting economic growth or tax revenue around the world. This is confirmed in our engagements with the OECD and ATAF member countries.

Our own experience in South African reflects the same trend. In February 2020 the Minister of Finance set a revenue estimate for SARS of R 1.425 trillion for the financial year that ended yesterday. Due to the economic impact of COVID-19, the Minister of Finance

adjusted this number downwards, initially by R 304.1bn in June 2020 and again to R 312.8bn in the October MTBPS. These adjustments set a revenue estimate of R 1,113 trillion. In the third quarter of the financial year, due to a better than expected economic recovery, as well as an improved revenue collection effort, the Minister, in February 2021, announced an upward revision of R 99.6bn, thus setting a full year tax revenue estimate of R 1,212 trillion.

Against this I am extremely happy to announce a tax revenue result of R1,250 trillion which exceeds the February estimate by R 38.0bn.

Stated otherwise, we have reduced the October revenue estimate of an under recovery from R 312.8bn to R 175.2bn. This means that SARS reports an additional R 138.0bn as a result of a slightly improved economy and focused compliance efforts for the year.

Within the context of the economic contraction, the revenue reported year on year is down 7.8% but represents an improvement of 3.1% against the revised estimate of February 2021 and 12.3% against the MTBPS Estimate of October 2020.

The significant contributors to this positive revenue performance reported against February 2021 Estimate are namely:

- Personal Income Tax Net UP by R4.2bn – R488.6bn (RE 484.4bn) 0.9%
- Corporate Income Tax Net – UP by R 11.7bn – R204.7bn (RE 192.3bn) 6.5%
- VAT Net – UP by R 6.1 bn – R 330.7bn (RE 324.6bn) 1.9%
- Import Duties UP by R 2.2bn – R 47.4bn (RE 45.2bn) 4.9%
- Domestic Specific Excise UP R 7.4 bn – R32.3bn (RE 24.7bn) 30.7%

The above positive performance is as a result of some economic improvement as well as focused collection efforts by SARS.

From an economic perspective companies in the Mining and the Financial Services sectors performed better than expected as well as pent up trade demand from the first half of the year which caught up in the second half of the year.

This was offset by higher than expected refunds across all taxes, the net loss of employment, lower wage increases as well as bonus payments.

Industries that contribute to excisable products had a net year on year decline in revenue across all taxes of R 21.1bn (-33%), which includes R 14bn from Tobacco (R 7.3bn) and Alcohol products (R 6.5bn).

A detailed overview has been included in media briefing pack and will be available on our website.

Now let me turn to the performance that underlies this achievement.

TAX REVENUE MANAGEMENT SYSTEM AT SARS

We had previously reported that we distinguish between revenue **received** and revenue **collected**. This allows us greater focus on the administrative actions that yield additional revenue. We refer to this as our compliance programme.

This approach recognises that revenue performance is dependent on three interrelated factors:

1. **Economic Conditions & Tax Policy** (revenue received),
2. **Administrative effort by SARS (Compliance Programme)** (revenue collected),
3. **The Compliance Culture and Tax Morality of society.**

In a perfect world, when these three factors work well, we would achieve an optimal tax revenue outcome.

Given that we have experienced a significant shock to the economy and are still struggling with low levels of tax compliance, the administrative actions by SARS is critical to achieve the best possible revenue outcome.

I would like to touch briefly on the key administrative actions that underlie revenue result announced today.

1. ADMINISTRATIVE EFFORT BY SARS

It is too early to declare victory, and we are the first to admit that we still drop the ball far too often. We are encouraged though with the progress we experience as several pockets of efficiencies emerge. In addition to our new organisational arrangements, there is a renewed focus on our compliance programme which focuses on specific aspects of non-compliance and criminal activities.

The dividend of this effort is reflected in the results from the following administrative actions. I would like to share some of the progress and the impact it has had on the revenue outcome we report today:

1. IMPROVING GENERAL COMPLIANCE: (non-filing, late filing, underpayment & non-payment). Early successes include:

a. New registrations – tax base expansion:

- i. 1.6 million newly registered taxpayers (in the main: PAYE, VAT, PIT)
- ii. R 5.80bn in tax payments
- iii. R 1.47bn in refunds were paid
- iv. Or a net tax revenue added to the base R 4.39bn
- v. Tax product breakdown:

Tax Products	Number of New Registrations	Revenue (Net)	Refunds	Payments
PAYE	46,077	R 1,900,583,477.82	R -178,227.95	R 1,900,761,705.77
VAT	55,672	R 1,623,702,765.37	R -1,408,561,535.72	R 3,032,264,301.09
PIT	897,369	R 336,966,642.90	R -8,584,216.52	R 345,550,859.42
CIT	538,532	R 293,620,662.51	R -397,590.87	R 294,018,253.38
UIF	40,569	R 131,726,937.92	R -	R 131,726,937.92
SDL	14,390	R 65,970,385.39	R -	R 65,970,385.39
TRUST	4,098	R 35,172,294.00	R -	R 35,172,294.00
DIESEL	2,492	R 2,478,921.60	R -	R 2,478,921.60
MPPR	106	R -	R -	R -
Grand Total	1,599,305	R 4,390,222,087.51	R -1,417,721,571.06	R 5,807,943,658.57

b. A focus on overdue payments and outstanding returns:

- i. 1,626 million cases have been processed.
- ii. 370K telephone calls were made as well as 327K text messages were sent to non-compliant taxpayers.
- iii. Outstanding debt collected amounted to R 63bn. (large businesses amounted to R 12.0bn other taxpayers contributing R 51.0bn).

- c. Finalised 1,222 applications to our Voluntary Disclosure Programme yielding R 3.0bn in cash collected and prevented refund leakage of another R 1.0bn.
- d. Invoked and finalised 16 800 underestimated provisional tax payments (Paragraph 19(3)) resulting in R16.01bn (11,536 related to Large Business taxpayers and 5,257 taxpayers in the SMME segment).
- e. From our specific audit and investigative work, we have raised a number of additional assessments arising from the following phenomena:
 - i. We have seen numerous instances of incorrect and un-substantiated claims, which may involve fraudulent claims and fictitious invoices that include under-declarations, overstated expenses, and under-statement of taxable income.
 - ii. Increasingly we are also reconciling invoices on turnover and deposits in bank statements to VAT declarations and are detecting significant instances of mismatch, suggesting fictitious invoices, invoicing carousels and consequently fraudulent refund claims.
 - iii. Similarly, we saw companies declaring a certain level of turnover in their income tax return and a different income on their VAT returns for the same tax year.
 - iv. We have detected and intervened in several instances of IRP 5 Certificates that are inappropriately or fraudulently issued by non-compliant employers, to individuals in respect of personal income tax deductions.
 - v. Many companies continue to declare losses for extended periods. We established a specific project focusing on assessed losses, resulting in numerous income tax loss reversals.

2. WE HAVE A RENEWED FOCUS ON TAX AVOIDANCE PRACTICES:

a. Refund leakage protection:

- i. As we continue to leverage the extended use of data, machine learning, artificial intelligence and technology enablement, we will not only improve our engagement with honest taxpayers, but we are expanding Our capability to present a credible threat of detection to make it hard and costly for negligent, and aggressive taxpayers as well as those who fraudulently and criminally seek to defraud the tax system.
- ii. As a result, we have detected and finalised 1,63 million instances of refund leakages and debt equalisation and prevented an outflow of R 57bn (the unlawful outflow of over R 44bn refunds and almost R 13bn of outstanding debt).

b. Customs non-compliance:

- i. Our Customs response to illicit trade has resulted in more than 4500 seizures of illicit goods that includes counterfeit goods, illicit cigarettes and alcohol, rhino horn and restricted COVID-19 medicines such as Ivermectin.
- ii. Taking into consideration the impact of COVID-19 in reduction of trade over the first half of the year and the ongoing restrictions on traveller movement.
- iii. The revenue protected through these efforts amount to R 2,5bn and in addition to this Customs have collected a further R2,6bn for Customs contraventions that include misclassification of goods, duty evasion, under valuation of goods and Rules of Origin infringements.

c. Imported Services:

Taxpayers are subject to paying VAT when goods and services are acquired from VAT vendors.

- i. We commenced a project focusing on Government imports to evaluate compliance to the VAT Act, in particular with regard to the acquisition of electronic services from non-residents. To date, we

have collected R111 million and will continue to engage with all affected stakeholders.

- ii. We have registered 19 non-resident entities thus far and are continuing to engage with those who have been identified, particularly where a VAT registration liability exists to assist them in regularising their VAT affairs.
 - iii. In addition, we have improved our identification of non-resident e-services suppliers who have received payment from South African customers.
- d. Our ongoing efforts on transfer pricing and international taxes continue to raise a concern of companies utilising base erosion and profit shifting practices. These are focus areas in the re-established Large Business & International Segment and will be extended across the other segments.

3. CRIMINAL AND ILLICIT ACTIVITIES:

- a. Ghost Employers & Employees - Over the years we have seen a steady increase in the number of submissions from ghost employers who file without payments in the hope of getting PAYE refunds
 - i. In tax year 2020 we saw 3 435 employers submit more than 77 000 employee certificates (IRP5s) amounting to R 2.5bn which were detected and investigated.
 - ii. In such cases where these individual taxpayers submit their returns they are detected and routed for investigation.

- b. Criminal & Illicit enforcement actions:

SARS is co-operating with a number of Commissions of Inquiry and also Law Enforcement Agencies as they investigate claims of State Capture. Compliance efforts also includes illicit financial flows and illicit trade interventions

- i. 780 preliminary investigations have been finalized. The focus areas include Fuel, Tobacco, Alcohol, Clothing & Textiles, Leather and Footwear, VAT Carousels – specifically relating to the Gold Sector,

Phoenixism, Abusive Liquidation and Business Rescue Practices, Illicit Financial Flows, Tax Evasion and Money Laundering.

- ii. State Capture Inventory cases – 7 projects comprising of 85 civil and 58 criminal investigations; 7 civil and 32 criminal investigations have been finalized; 27 matters have been handed over to the NPA.
- iii. Nine (9) preservation orders obtained with an estimated asset value of R5.4bn seized
- iv. Five (5) search and seizure operations concluded
- v. Two tax inquiries completed into Illicit Financial Flows and related focus areas
- vi. 1,445 Illicit Trade Interventions (CY); 16 Detentions (Value - R157 million); 45 Seizures (Value - R150 million)
- vii. Inter-Agency Working Group on Illicit Trade: Gold sector – 17 criminal investigations with SARS (prejudice - R926.7 million) and 42 cases with SAPS & NPA (prejudice - R8.6bn)

c. Personal Protective Equipment (PPE) Tenders:

In April 2020, we commenced with a project identifying non-compliant taxpayers supplying PPE to government. The results from the PPE non-compliance initiative to date are:

- i. Collected undeclared revenue – R135.4 million
- ii. Reduced refunds – R47 million
- iii. Paragraph 19(3) – R23.5 million
- iv. Preservation Orders obtained – R 88 million
- v. 278 taxpayers have been registered for VAT as they were non-registrants with some as far back as 2017
- vi. 156 taxpayers being investigated for ITAC VAT Exemptions being unduly claimed
- vii. 30 Politically Exposed Persons (PEP) have been identified and are being investigated

d. Criminal Convictions – we have achieved a number notable prosecution successes resulting in lengthy jail sentences:

- i. We have seen most criminal cases relate to syndicated VAT Fraud and in the past year we had a few significant convictions with jail time in excess of 10 years each.
- ii. There is an increasing tendency of intermediaries (i.e. tax practitioners, business rescue practitioners and liquidators) that have been found guilty of colluding with taxpayers.
- iii. Criminal investigations have profiled a number of High Wealth Individuals who enjoy a luxurious lifestyle. SARS has the ability to access a number of databases that can supply details of high-ticket items bought such as luxury cars and expensive property. Where these individuals show large discrepancies between assets and income declared they are referred for audit. In certain cases, where the facts merit it, a criminal investigation is initiated.
- iv. We have observed during a criminal investigation other criminal behaviour sometimes emerges from the evidence. This can be an indication that a syndicate is involved in human trafficking or international money laundering. When this happens, the matter is referred both internally and externally to other agencies – to ensure a holistic response.

e. Litigation Success:

- i. There is an increasing trend of taxpayers taking administrative points and a general increase in litigation across all areas.
- ii. On tax appeals, involving the determination of tax liability, the success rate is 92%
- iii. On litigation involving the administration of tax, the success rate is 87%; and
- iv. In Customs and Excise litigation, the success rate is a little lower at 67%.

- v. We have had success in the Constitutional Court with one substantive judgment and two other applications for leave to appeal to the Constitutional Court were dismissed.
- vi. Taxpayer confidentiality is central to the relationship of trust between SARS and society, and we are often faced with requests for access to taxpayer information.

In line with our previous announced focus on revenue recovery, compliance revenue efforts during the full 2020/21 financial year yielded revenue worth R158.5bn. This amount includes a year on year improvement of 26.8% on compliance **cash** revenue worth R 94.1bn (PY: R74.2bn) and reduced revenue leakage protection by a year on year improvement of 18.8% as **non-cash** cash compliance revenue worth R64.3bn (PY: R54.1bn).

4. OUR COMPLIANCE WORK IN THE NEW FINANCIAL YEAR WILL FOCUS ON A NUMBER OF AREAS:

a. DAVIS TAX COMMITTEE WORK UPDATE:

The Davis Tax Committee, working with a SARS team, submitted their updated work to the Minister of Finance in December 2020. A number of recommendations are in the process of being implemented including a renewed focus on high wealth individuals. I am pleased to announce that Judge Dennis Davis, who has retired at the end of 2020, will be joining SARS on a more full time basis, with effect from 1 April 2021 in order to ensure that the recommendations contained in the tax gap report are implemented. We will make further announcements in this regard soon.

b. CRIMINAL AND ILLICIT ECONOMIC ACTIVITIES:

The illicit economy and related activities continue to be an area of concern and opportunity for SARS, We have initiated work that will gain further traction in the new financial year. SARS alone cannot win the war on illicit trade and related activities. It requires a whole of government approach. For this reason, we continue to collaborate with other organs of state to ensure greater success in combatting illicit trade and related activities.

2. TAX MORALITY – COMPLIANCE CULTURE

Taxpayer compliance in many aspects is a reflection of the state of compliance across the nation. Whilst there are many South Africans that are law abiding, there is worryingly a culture of non-compliance that permeates our society.

3. IN CONCLUSION

It is an important moment and check point in the rebuilding of SARS and improving the compliance relationship with companies and individuals.

We want to acknowledge taxpayers who have contributed to this revenue outcome under very difficult circumstances. Our combined efforts in achieving the result of R1.250 trillion, are important for our country, more than ever before in defining and transforming the lives of millions of South Africans.

The Gogo as well as the young mother, who often have to feed many mouths, would be destitute were it not for the fact that your tax money is the difference between them starving or having a decent meal. The many frontline workers who courageously fought to protect us during this pandemic, to whom we owe an unqualified debt of gratitude, are employed because of your tax money.

Little boys and girls can go to school in decent facilities because of you.

The ambitious infrastructure-led growth programme of government, as well as the thousands of jobs it will create, are made possible because of the contribution of compliant taxpayers.

You can therefore be assured that **YOUR TAX MATTERS.**

THANK YOU!

I would like to specifically thank:

- a. His Excellency, President Ramaphosa for entrusting us with this privileged work,
- b. Minister of Finance, Mr Mboweni, and Deputy Minister of Finance, Dr Masondo along with our colleagues in National Treasury under the leadership of my colleague DG Dondo Mogajane,
- c. The community of Intermediaries with whom and through whom we work,
- d. The millions of taxpayers,
- e. To the +12,000 hardworking men and women at SARS I would like to pause and give an unreservedly appreciation who continue to step up and join in this important work,
- f. And a huge thank you to every single taxpayer and trader whose efforts to comply, tax contributions, and their patience with us as we occasionally drop the ball.

THANK YOU to the Media Community for helping us tell our story!

I wish you a wonderful day further.

Retain your distance,

Lock down,

Stay well,

Hambani Kahle,

Edward Chr Kieswetter

SARS Commissioner

REMEMBER – #YourTaxMatters!