

2021/22 REVENUE RESULTS ANNOUNCEMENT 1 APRIL 2022

Good afternoon ladies and gentlemen,

Welcome to the Minister of Finance, the Deputy Minister of Finance, DG of NT, and Governor of the SA Reserve Bank,

Welcome to my SARS colleagues,

To those who have joined us online with their virtual presence welcome.

SARS TURNING 25 YEARS OLD

25 years ago, when SARS was established, who would have thought that the journey into adulthood for the organisation would be characterised by a series of defining events. In 1997, the same year SARS was born, a little company, Zip2, being founded by South African born 27-year-old, Elon Musk was 2 years old. Today the richest man on the globe. Amazon introduced 1-click, a feature that allowed the safe storage of credit card information that catalysed an unprecedented growth in on-line shopping. Two years later, a little computer virus named Melissa dampened the 1-click honeymoon when the general public confronted for the first-time cyber hacking on a global scale. When SARS, entities such as Google, Facebook, Twitter, Air BnB, Uber, and others, have become global companies, household names, and even verbs.

You would not have owned an iPhone until 10 years later, and only send a WhatsApp message the following year, and would only have had your first Instagram follower even one year later. These are just some of the disruptive and exponential changes a Revenue Authority has had to adapt to in order to remain relevant. Along the way, it also has had to cope with the impact of the dotcom bubble, the 9/11 terrorist attack on the World Trade Centre terrorist attack, the NY financial crisis in 2008/9, more recently the devastating era of state capture, and we are still grappling with the corrosive effects of state capture that eroded significantly aspects of institutional governance, integrity and capability. No sooner had the rebuilding of SARS begun, we were confronted by the devastating impact of the COVID-19 pandemic on economic activities and the sharp contraction of tax revenue collections in 2019/20. Thankfully we have entered an economic recovery phase and regaining the momentum to rebuild SARS.

So, in our Silver Jubilee Year, SARS can certainly not claim an uneventful journey. We will reflect more on this journey later this year, but you may recall some of our notable milestones over this period:

- The New Income Tax System (NITS) in 1999 was a humble, yet profound step towards automation.
- The Siyakha programme launched in 2000 recognised the need for fundamental transformation of SARS as an inwardly focused administrative orientation towards a taxpayer-centric service orientation
- The establishment of the Large Business Centre in 2004 - was a big step towards taxpayer segmentation - by the way, the reason I was hired 18 years ago
- Interestingly I was appointed as the first SARS COO in 2006 when we had to cope with the reality that in fact SARS is not merely an administrator of laws, but a huge complex operation
- The SARS Modernisation journey began in earnest in 2007, starting a fundamental shift towards online taxpayer engagement
- SARS Vision 2024 journey: This is the phase we commenced in 2020 - based on the clear strategic intent of Voluntary Compliance and progressing towards building a SMART, MODERN SARS with unquestionable integrity that is trusted & admired.

Since its formation, SARS has collected more than R17.82 trillion, enabling a significant safety net for the most vulnerable in society, the provision of social goods and services, and laying the foundation for sustainable economic growth. Over the past 25 years tax net revenue collections have grown considerably with more than a 10-fold increase from R147.3 billion in 1996/97 to over R1.56 trillion in 2020/21 growing at compound annual growth rate (CAGR) of 9.9%.

A capable state is about the quality of public servants, as well as the efficiency of its institutions. Today, I want recognise the leadership of all my predecessors, and will more formally acknowledge their contribution when we celebrate our silver jubilee later this year.

Over the past three years, notwithstanding huge challenges, SARS has made significant progress in restoring its integrity, its credibility and its performance. We would be the first to admit though, that we still have a very long way to go.

It is against this encouraging backdrop that we announce the tax revenue performance today.

THE TAX REVENUE MANAGEMENT SYSTEM

In the past three years we have worked to clarify the components of the revenue system and made a hard distinction between the revenue we receive versus the revenue we collect. Specifically, we have shifted our focus to the latter, which reflect the actual work we do that results in revenue collected whilst strengthening the revenue collection system.

This work is what we refer to as the SARS Compliance Programme.

This approach recognises that the revenue system is comprised of three interrelated factors that influences revenue performance:

1. The set of tax policy instruments within a given set of economic conditions implies a theoretical revenue outcome;
2. The level of tax morality and tax compliance within society attenuates the potential revenue outcome - also a reflection of people's confidence in government;
3. The Capability and Capacity of SARS to administer the tax laws and implement its Compliance Programme results in the actual revenue collected.

In a perfect world, when these three factors work well, we would achieve an optimal tax revenue outcome. We know that this is unfortunately not the case yet.

Given that we are experiencing significant shocks that strain economic activities and are still struggling with low levels of tax compliance, the administrative capability of

SARS, and its consequent compliance actions SARS is critical to achieve the best possible revenue outcome by collecting all the tax revenue due to the fiscus.

I WOULD NOW LIKE TO TURN TO THE TAX REVENUE PERFORMANCE OF THE PERIOD THAT ENDED AT 12 MIDNIGHT LAST NIGHT.

Given National Treasury's assumptions of the state of the economy, and the current tax policies, at the February 2021 Budget, the Minister of Finance set a **revenue estimate** for SARS of R1.365 trillion for the financial year that ended yesterday. This estimate was adjusted upwards by R120.3 billion in the 2021 MTBPS to R1.485 trillion. Then, about 6 weeks ago, when we knew more about the actual economic conditions for the fiscal year, as well as the improvement in revenue collections, the Finance Minister, in his February 2022 Budget, announced an upward revision of a further R61.7 billion, thus increasing the full year tax revenue estimate by R182 billion, to R1.547 trillion.

The steep **economic** contraction in 2020 due to the COVID-19 pandemic was later worsened by the July 2021 social unrest which resulted in the economy in 2021 in real terms being 1.8% smaller than in 2019 (nominal terms increasing 10.7%). In expenditure terms, private consumption in 2021 remained in real terms 1% below pre-pandemic levels while government consumption remained almost unchanged and government investment contracted. Growth in real household consumption is expected to rebound to 5.7% in 2021 from -6.5% in 2020; and a moderation to 2.0% is expected in 2022. RFHC will be driven by necessities, non-durable goods, as consumers across all income groups are reluctant to purchase durable goods.

The **recovery** of the various sectors of the economy were not only uneven but also varied from quarter to quarter. Mining and manufacturing recorded strong real recoveries in 2021 of 11.8% and 6.6% respectively but the construction sector contracted by 1.9%. Only agriculture, mining and personal services exceeded their pre-pandemic levels by the fourth quarter of 2021.

In the current financial year **trade** was dominated by commodity exports, mainly of platinum, iron ores, gold, and coal. South Africa's imports of mineral products continue to be driven mostly by crude oil imports. The rising exports have led to the trade account remaining in surplus over the past 24 months. As a result, the increases in exports has boosted the profitability of those entities trading in precious metals & stones, ores, coal, and vehicles. There has been a growth of 27.2% in imports that has contributed to an increase in the import taxes to above pre-COVID-19 levels.

Public Confidence Tax Compliance is measured as a combination of registration compliance, filing compliance, and payment compliance. We noted a year on year improvement in the on time filing compliance of PIT Individuals (+10.4%), PIT Trusts (+3.3%), CIT (+1.5%) and PAYE (+0.6%). Payment compliance levels show a year on year improvement for CIT (+4.2%), VAT (+1.4%) and PAYE (+1.8%).

With respect to the **administrative efforts by SARS** – I remain convinced that the most effective and sustainable way to improve the fiscal integrity of our country is to ensure adequate investment in SARS in order to improve its administrative capability and capacity. Our increased focus on revenue collection efforts are yielding pleasing results. This year I can report that just our compliance revenue efforts for the 2021/22 financial year yielded a revenue contribution of R209.7 billion. This represents the work of the 12 500 employees at SARS. I will take you through key aspects of this work that we have executed in this regard later in my address.

The resilience of **tax revenue performance** is evident in the rebound in tax collections in 2021/22. The tax-to-GDP ratio recovered to a high of 24.7% as viewed against the long-term average of 22% driven by a buoyant outcome for tax revenue with a ratio of 1.93, well above the long-term average ratio of 1.18. A tax revenue sector analysis indicates the annual growth across all sectors but led by mining, manufacturing and the wholesale and retail sectors.

You may recall, last year, on this day, I had announced the tax revenue result of R1.250 trillion for the prior year 2020/21.

Given this context, I turn to the only reason most of you are in attendance, or have joined online today. To announce the revenue results for 2021/22.

I am very pleased to announce a tax revenue result of R1.563 trillion. This represents an increase of 25% or R314 billion compared to the prior year. Interestingly, this is a 15.3% growth from the pre-COVID year 2019/20.

Gross tax revenue totalled R1.885 trillion, whilst we have refunded R321.1 billion to taxpayers, resulting in the net revenue outcome of R1.563 trillion.

Tax Type Performance

The significant contributors to this positive revenue performance reported against the prior year 2020/21 namely are:

- *PIT: Net PIT up by R67.3 billion (13.8%) to **R555.8 billion***
- *CIT: Net CIT up by R119.2 billion (58.3%) to **R323.6 billion***
- *VAT: Net VAT up by R59.5 billion (18.0%) to **R390.7 billion***
- *Import Duties up by R10.7 billion (22.6%) to **R58.0 billion***
- *Domestic Specific Excise Duties up by R17.3 billion (53.5%) to **R49.6 billion***

Turning to our cash outflow management, the refunds of R321.1 as processed reflect a growth year on year of 10% mostly dominated by VAT (R262.4bn), PIT (R33.7bn) and CIT (R17.7bn). In the processing of tax refunds, we strive to balance the trade-off between taxpayer service and risk management as we are acutely aware of the risks to the fiscus – more about this in a bit. The sectors that benefited the most from the VAT refunds payout compared to prior year are mining, finance, agriculture and

manufacturing. The tax refunds amount paid in the year under review are the highest ever paid in the 25 years of SARS and represents an estimated 5.1% of GDP, reflecting the importance of efficiently processing refunds into the hands of individuals and businesses to stimulate the economy.

Segment performance

We have established the large business and international segment (LB&I) as reported before and I pause to reflect on what we have seen since its relaunch. We have a year-on-year increase by R110.6bn in revenues from this segment, rebounding from the -3.0% contraction in the previous year collections and overall compliance has increased year-on-year by 3% to 91.78% for the current financial year. Whilst we are not yet where we ought to be, our decision to reconstitute the LB&I segment is proving to have encouraging results and we will continue to pursue enhanced taxpayer experience in order to ultimately get closer to the levels of voluntary compliance that we aim to achieve in the medium to long term.

Similarly, we have launched the High Wealth Individuals segment and in the year under review, we have appointed the Director in this segment to be fully in charge of the end to end taxpayer experience as well as compliance. We have a year-on-year increase in revenues from this segment of R265m and overall compliance has increased year-on-year by 4% to 91.78% for the current financial year. It is still early days, however, significant progress in creating a single view of those taxpayers in this segment in terms of their assets and their related entities. We have developed a model that provides an integrated single view of these taxpayers with the view to service them better as well as ensure that they compliant with their obligations. The assets of wealthy individuals, whether owned directly or indirectly, reflect more their true tax obligations, than simply income from regular employment.

Furthermore, we have deepened our segmentation focus, in respect of SMMEs, we have a year on year increase in revenues from this segment of R203.5bn (23.6%) with payment compliance increasing year on year by 2.0% for PAYE and 1.6% for VAT.

LET US TAKE A CLOSER LOOK AT THE ADMINISTRATIVE EFFORT BY SARS

Ladies and Gentlemen, turning to the work we do as SARS the Tax Administration, our mandate is clear. We are to collect all revenues that are due, ensure optimal compliance, and facilitate legitimate trade. The efficacy of SARS administrative efforts results in the additional tax revenues being collected and prevents Revenue leakages from impermissible transactions.

As I mentioned earlier, this year these efforts contributed R209,7bn to the fiscal year that has just closed. This includes R137.5bn of additional revenue, and preventing impermissible refunds and leakages worth R72.2bn from leaving the National Revenue Fund.

We are making steady progress in our administrative efforts as several pockets of efficiencies emerge. It is too early to declare victory. We have a long way to go, and still drop the ball far too often. But it is important to appreciate progress already achieved, and acknowledge the efforts of the committed employees at SARS.

The compliance dividend of R209,7 billion results from the following administrative actions that has contributed to the tax revenue collections announced here today.

I would like to share some of the progress and the impact it has had on the revenue outcome we report today:

1. **GENERAL COMPLIANCE:** (non-filing, late filing, underpayment & non-payment).

Early successes include:

- a. New registrations – tax base expansion:
 - i. 1.8 million newly registered taxpayers (in the main: PAYE, VAT, PIT)
 - ii. R 7.0bn in additional tax payments
 - iii. R 1.8bn in refunds were paid
 - iv. Resulting in a net tax revenue added to the base R 5.1bn

- b. A focus on overdue payments and outstanding returns:
 - i. Our efforts included :
 1. 3.6 million cases have been completed.
469,733 Final Demands issued
 2. 406,007 Third Party Appointments (TPAs)
 3. 223,543 COVID-19 deferred payment arrangements
 4. 88,910 Civil Judgments obtained
 5. 18,463 Compromises approved
 - ii. Outstanding debt collected amounted to R67.2bn (large businesses amounted to R15.4bn other taxpayers contributing R51.8bn).
 - iii. Outstanding returns collected totalling over 3 million returns that resulted in debt collected in relation to these returns amounting to R3bn.

- c. We have finalised 1,635 applications to our Voluntary Disclosure Programme yielding R3.0bn in cash collected and prevented refund leakage of another R865m.

- d. Invoked Paragraph 19(3), and finalised 21,540 cases - underestimated provisional tax payments resulting in R20bn (6,672 related to Large Business taxpayers and 14,868 taxpayers in the SMME segment).

e. Refund Risk Management:

- i. Attacks on the SARS refund system remain a huge concern and risk. Fortunately, 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 taxpayers who are negligent or deliberate in misrepresenting their affairs, as well as those who willfully and criminally seek to defraud the tax system.
- ii. As a result, we have detected and finalised 1,87 million instances where a refund was either impermissible or we used it to offset a debt due by the taxpayer. This has prevented an outflow of R70bn (impermissible refunds outflow of around R61.36bn refunds and almost R8.62bn of outstanding debt).

2. TAX & CUSTOMS AUDITS AND INVESTIGATIONS:

- a. Specialised Audit and Investigative work: leveraging our 270 specialised auditors we have raised a number of additional assessments totalling R25bn arising from the following phenomena:
 - i. 9 cases finalised, with a value of R64m where Entities make payments to investment policies but disguised as insurance premiums which were then deducted in terms of section 11(a). (Section 23L)
 - ii. 25 Lifestyle Audit cases were completed with a value of R474m - Lifestyle audits involve mainly individuals where their lifestyle does not match their tax declarations. Usually capital reconciliations and the use of 3rd party data are considered in determining the correct declaration amounts. Focus is on individuals that have access to luxury assets and extensive business relations
 - iii. 33 cases relating to luxury vehicle ownership yielded a value of R160m. This is where targeted compliance intervention focus was placed on owners (both Individuals and Companies) of luxury vehicles who are otherwise non-compliant with their tax obligations.

These cases often leads to identify other compliance risks and even criminal behaviour as well.

- iv. Religious institutions | 35 cases| R742m: The findings on these institutions covers a wide range of misrepresentation of the true nature of income and expenses of the entities and individuals involved.

 - v. Another area of abuse is the Employment Tax Incentive, where learning institutions collude with employers to claim impermissible deductions from their payroll, without the intention to provide employment. 30 cases, yielding R245m were concluded.

 - vi. In the Security industry we completed 32 cases yielding R682m: The findings on these entities ranges from unsubstantiated zero rated outputs, under declaration of income and non-declaration of fringe benefit – (use of motor vehicle), and disallowable expense claims are some of the abuses.
- b. Customs non-compliance:
- i. Our Customs response to illicit trade has resulted in more than 1927 seizures. Removing illegal imports from circulation the value of seized goods totalled R3.4bn. Seized goods include the following:
 - 1. 247 Counterfeits seizures to the value R2.5bn
 - 2. 868 seizures of narcotics to the value of R432mil
 - 3. 413 seizures of clothing and textile to the value of R286mil
 - 4. 399 seizures of cigarettes to the value of R160mil

 - ii. In addition to this Customs have collected a further R2.7bn for Customs contraventions that include misclassification of goods, duty evasion, under valuation of goods and Rules of Origin infringements.
- c. 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.

- i. 345 cases completed yielding audit results R11.9bn including 11 Transfer Pricing cases.
- ii. 45 cases reversed assessed losses of almost R1 billion.

3. INVESTIGATIONS INTO SYNDICATED TAX & CUSTOMS CRIME:

- a. SARS is co-operating with a number of Commissions of Inquiry and our sister Law Enforcement Agencies as they investigate claims of State Capture. Compliance efforts also includes illicit financial flows and illicit trade interventions.
 - i. Currently, there are 46 projects comprising of 557 active investigations focusing on the illicit economy.
 - ii. To date an estimated prejudice value of the active investigations amounts to R42,287 billion.
 - iii. 366 preliminary investigations have been finalized (2020/21 – 842), 499 profiles and 222 enquiries completed. 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, and Tax Evasion.
 - iv. 209 Illicit Economy focus area investigations & debt cases completed – Assessments (IT & VAT) raised for R11,908bn
 - a. 2020/21 – 159 investigations, assessments (IT & VAT) raised for R11,578bn and Letters of Demand (Customs) issued for R28,49bn (2019/20 – 35 investigations for R3,33bn)
 - b. Inventory relating to the Illicit Economy cases - 38 projects comprising of 557 active investigations, with an estimated prejudice value of R2,214bn related to 43 investigations.
 - v. State Capture related cases – 8 projects comprising of 13 civil and 45 criminal investigations; 29 civil and 23 criminal investigations have been finalized (YTD); currently 20 matters have been handed over to the NPA.
 - vi. Revenue recovery achieved for the year to date of R7.73 billion.

- b. We are fortunate to have the Investigative Directorate of the NPA located right next to us which allows for constructive collaboration on a number of high profile cases.

- c. I would like to highlight a significant piece of work where we managed to successfully collapse one of the largest tobacco schemes – enforcement outcomes:
 - i. Assessments totalling R18bn had been raised
 - ii. Final liquidation order granted against the clearing agent
 - iii. Customs licenses of 9 companies cancelled
 - iv. Holding the director jointly and severally liable for Excise Duty
 - v. Holding the company liable for the Excise Debt
 - vi. Placed liens on trucks, trailers and containers
 - vii. All companies and the director referred for criminal investigation (9 entities)
 - viii. Sequestration application to follow in due course

- d. Personal Protective Equipment (PPE) Tenders: Continuing with this work stream from the previous year on the subject of PPE we identified further non-compliant taxpayers supplying PPE to government. The results from the PPE non-compliance initiative to date are:
 - i. Collected undeclared revenue – R176 million
 - ii. A total of 77 cases are now registered with SAPS.
 - iii. 50 of 77 cases are now with NPA. 20 cases (40%) are on the court roll
 - iv. 15 cases were completed in court, resulting in 13 convictions. Six people were also arrested.

- e. Litigation Success:
 - i. There is an increasing trend of taxpayers taking administrative points and a general increase in litigation across all areas.

On tax appeals, involving the determination of tax liability, the success rate is 87% resulting in judgements in SARS favor amounting to R 465 million and decisions in favour of taxpayers of R 5 million.

- ii. On litigation involving the administration of tax, the success rate is 82%; and
 - iii. In Customs and Excise litigation, the success rate is 85%.
 - iv. I would like to reiterate that 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.
- f. Criminal Convictions – we have achieved a number notable prosecution successes resulting in lengthy jail sentences:
- i. 116 convictions attained.
 - ii. 13 cases resulting in custodial sentences totaling 73 years with respective to crimes against Income Tax, VAT, Customs and Excise fraud.
 - iii. Fines imposed of R3.8m plus orders for R22m to be paid to SARS.

IN CONCLUSION – LOOKING FORWARD

This year we have crossed a number of significant key milestones at SARS:

1. Gross revenue collections crossed R1.8 trillion
2. Nett revenue collections crossed the R1.5 trillion
3. Refunds crossed R300bn
4. The LB&I achieved its first 0.5 Trillion

We will also work hard to embed the new SARS Leadership Model,

Our current organizational arrangements

The use of data and technology for a more intelligent and enabling environment

Step up the momentum of our modernisation programme, subject to available resources.

We assure South Africans 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 Godongwana, 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, without whom we have no purpose.

- e. To the +12,500 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.
- g. And of course, to our partners and families, your support remains indispensable to our success. THANK YOU!

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

I wish you a wonderful day further.

**Stay well,
Hambani Kahle,**

**Edward Chr Kieswetter
SARS Commissioner**

REMEMBER – #YourTaxMatters!