Announcement by the Acting Commissioner, Mark Kingon, on the Preliminary Revenue Outcomes for 2018/2019

01 April 2019

Colleagues from the National Treasury
Members of the SARS Executive Committee
Members of SARS management
SARS colleagues across the country
Fellow citizens of South Africa
And Members of the Media

Today I will be presenting the preliminary revenue collection results for the 2018/2019 financial year, which are preliminary figures. The final audited figures will be available around mid-April.

Our journey began with the National Treasury and SARS setting a printed estimate of R1345 billion as at the 2018 Budget Speech, based on Real GDP growth of 1.5%, Nominal GDP growth of 6.9% and CPI inflation rate of 5.5%.

The slow improvement in production and employment following poor investment growth in 2018, as well as a moderation in global trade and investment, presented a weaker outlook for the economy.

In line with the muted economic performance, the tax revenue printed estimate for 2018/19 was revised downward. The Revised Estimate for the 2018/19 anticipated a growth of 7.0% in revenue over the prior year and the economic outlook for nominal GDP growth was 7.2% (0.7% for real growth). Consequently, the expected tax-to-GDP ratio was revised to 25.7% for 2018/19 from the 26.1% MTBPS estimate. Following the revenue and GDP revisions, tax buoyancy was at an estimated 0.98 for 2018/19, compared to the 1.21 MTBPS estimate.

The printed estimate was revised to R1318 billion at the Medium Term Budget Policy Statement (MTBS) in October 2018, and further revised to R 1302 billion in February this year.

For the financial year ending 31 March 2019, SARS collected a preliminary amount of R1 287.6 billion.

The gross amount collected is R1 575.4 billion which was offset by refunds of R287.8 billion, resulting in net collections of R1 287.6 billion. The net revenue outcome of R1 287.6 billion represents a growth of R71.2 billion (5.8%) compared to the 2017/18 financial year.

Against the 2018 Budget estimate of R1 345.0 billion, this results in a deficit of R 57.4 billion (-4.3%), and against the Revised Estimate of R1302 billion, this results in a deficit of R14.6 billion (-1.1%).

Once again, these preliminary figures will be subject to detailed financial reconciliation and a final audit.

Gross collections grew by 8.6% whilst refunds recorded strong growth of 22.7% following the announcement by the Minister of Finance during the Medium term Budget Policy Statement (MTBPS) that the VAT refund envelope would be increased to allow the release of VAT refunds from the fiscus back into the economy.

Refunds

As announced at the Medium Term Budget Policy Statement (MTBPS) in October, the requisite fiscal space was created for SARS to reduce the credit book on VAT refunds. SARS reduced the credit book on VAT refunds from R41.8 billion in September 2018 to R24.7 billion by the end of the financial year, resulting in a 16.4% increase in value and 6.3% in the volume of refunds going back into the economy.

In aggregate SARS paid out R287.8 billion in refunds in the 2018/19 financial year. A total of R30.5 billion was paid in PIT refunds, reflecting a 13.8% increase on the previous year.
CIT refunds totalled R22.2 billion, representing about R8.7 billion (63.7%) increase in pay-outs compared to prior year. This is predominantly driven by the overpayment of provisional payments.

VAT Refunds for the year totalled R229.2 billion, exceeding the estimate by R1.2 billion, reflecting an increase of R38.1 billion (19.9%) on the previous year. Growth was driven by the R9.3bn (13.2%) increase in payments to the small and medium vendors, while large vendors received R5.0bn (5.2%) more refunds than in the previous year.

There was also an increase in diesel refunds of R2.8 billion (93.3%) compared to the previous year, due to the increased reliance on diesel for electricity generation.

Tax type performance

The main sources of revenue that contributed to the R1287.6 billion collected were Personal Income Tax (PIT), which contributed R493.8 billion (38.3%), Value-Added Tax (VAT) contributing R324.6 billion (25.2%), Company Income Tax (CIT), which contributed R214.7 billion (16.7%) and Customs duties contributed R55.2 billion (4.3%).

- Pay-A-You-Earn (PAYE) collections for the year grew by 7.0% to R477.4bn, despite significant job losses, moderation in wage settlements and contraction in bonus pay-outs. However, this growth was dampened by lower share option pay-outs mainly from the finance sector, moderate public sector annual increases, job losses in the formal non-agricultural sector and lower bonus payouts in the finance sector.
- There was double digit growth in Domestic Value-Added Tax (VAT) since May 2019 due to the benefits of the 1 percentage point increase in the VAT rate. This resulted in strong growth rates in both the large business and SMME

segments of 9.8% and 14.8% respectively. For vendors who paid in both years for the relevant periods, Domestic VAT would have grown by 3.9% if there was no VAT rate increase, compared to 11.2% for that sample with the rate hike. That is why significant growth was achieved despite weak growth in retail trade sales, which continue to be under pressure. Full year collections yielded R378.8bn of which 83.0% was received via the eFiling system.

- Company Income Tax (CIT) collections contracted by 2.5%, the contraction is on the back of a significant number of CIT refunds which were paid to the large business segment and relate to multiple periods that were under audit review, as well as the continued efforts to clear the IT credit book. Furthermore, the continuing power cuts imposed by the utility company also contributed to the decline as business activities and company operations were severely affected thus affecting their profitability.
- Growth in Personal Income Tax (PIT) provisional tax payments slowed from 37.5% in August 2018 to 18.4% in February 2019, mainly due to the non-repeat and / or lower declaration of capital gains compared to the previous year
- There was strong growth in import taxes of 14.0% for the first three fiscal quarters, after which transactional data

and merchandise imports did not meet expectations during some months of the final fiscal quarter. Payments that are part of the 13th deferment statement exceeded all expectations which resulted in the overall outcome for Customs growing at 13.9% which is marginally above the required growth rate.

Revenue Initiatives and focus areas

- **Voluntary Disclosure Programme and Special Voluntary Disclosure Programme**

  Offshore disclosures:

  In relation to Special Voluntary Disclosure Programme applications, a total of 2030 applications were received in August 2017. To enhance revenue collection, we communicated with as many applicants as possible including those who had estimated revenue values on the application forms to provide the updated figures.

  Normal VDP:

  An influx of applications resulted in a pool of VDP applications. In total, R3.1 billion has been collected in the financial year.

- **Third party data matching**
    - A significant compliance intervention during the financial year was the matching of third-party data which amongst others, included information from the deeds office, information from interest certificates from Banks, and third party appointments (or AA88 appointments).

- **Invoking paragraph 19(3)** of the Fourth Schedule of the Income Tax Act, SARS may request additional payments from provisional taxpayers based on the latest estimates of financial performance. This year SARS collected R10.9 billion from Large Business, and R1.5 billion from small business relating to Paragraph 19(3) interventions. This is a R728 million increase on last year.

- **Customs**

  R4.4bn worth in customs interventions has been collected. This includes increased customs visibility at ports of entry amounting to R563 million, Enforcement Interventions to the tune of R571 million and Customs audits of R3.3 billion

- **Contact Centres** achieved a sum total of 7.4 million taxpayer engagement consisting of 5.6 million inbound calls and 1.7 million outbound calls.

- **Our taxpayer service points** attended to 6.7 million walk-in taxpayers and initiated 738 878 outbound calls.

- **Returns without payments** – 64 795 interventions – values R 1.6 billion. This means we have clawed back R1.6bn where returns were submitted but without a payment. This is before it is recorded in the debt book.

<u>Organisational interventions in the 2018/2019 financial year:</u>

The primary objective for management was to address internal efficiencies in the short term through the following interventions, some of which also emerged as recommendations in the Nugent Commission of Inquiry report:

Large Business Centre

Last year we begun the journey in re-establishing and solidifying the unit dedicated to service-provision of large business and high networth individuals – known as the Large

Business Centre. While this process is still underway, the model, which would have to be assessed by the incoming Commissioner, includes dedicated relationship managers aimed at speedier resolution of transfer pricing queries, calculations of interest and refunds, audits, amongst others. More importantly, is that the approach is to have a full compliance view of the taxpayer's entire tax portfolio which would allow a compliance verification of the mother company and all subsidiaries in the case of conglomerates.

Illicit economy unit

I am most pleased about the speed at which the enforcement unit has been able to tackle an inventory of outstanding tax non-compliance cases through the re-establishment of the illicit economy unit, as may have been seen in the media in recent months. The Illicit Economy Unit has seen the re-organisation of our audit and investigation capability and focuses on serious non-compliance emanating from industries such as the cash & carry and gold industries, tobacco and cigarette industry, VAT carousels, clothing and textiles, poultry, second-hand motor vehicles and the fuel industry.

Special efforts are also underway to further strengthen controls and improve compliance within the tobacco and cigarette industry. We have also made progress in addressing illicit fuel movements and mixing through improved coverage by the Road Fuel Testing Unit.

I would like to applaud the team for the inroads they have made and for working tirelessly in a space that encroaches on one's personal time and often on one's security.

It must be noted that the inroads that have been made in this financial year will only really yield a revenue return in the next three to five year, but the work has begun and this gives me much assurance.

Anti-Corruption Unit

In response to some of the Nugent commission's recommendations we have renamed our Internal Fraud Investigations capability to Anti-Corruption Unit to enhance the visibility of this unit's anti-corruption function within the organisation. The unit's primary function is to ensure that high ethical and professional standards are maintained within the organisation for public trust and credibility – traits that are important for a revenue authority to conduct its business. The unit also serves as a vehicle for internal whistle-blowing.

Compliance Unit and Compliance programme

One of the key drivers in revenue collection is the level of tax compliance and tax morality of taxpayers and traders. SARS is concerned about the fact that compliance levels have been declining over the past few years. To address these compliance challenges, which were also highlighted by the Nugent Commission, SARS has re-established the Compliance Unit. Also during the financial year, a compliance programme was developed that outlines where and how we will be tackling non-compliance in areas such as (1) trusts, (2) large business and transfer pricing, (3) VAT and (4) Customs & Excise . This programme will be developed further with the incoming Commissioner.

Tax Season and audit period

Tax Season for personal income tax is our biggest engagement with taxpayers. We have been working on how to make tax season an efficient period from an internal resource perspective. Last year, tax season was shortened to allow more time to finalise compliance and more in-depth audits. We also looked at making our communication with taxpayers such as requests for supporting documents more specific to speed up compliance verifications.

Service Charter

The Service Charter was launched during Tax Season last year. The Service Charter is the document that guides the service standards of SARS to the taxpayer and it is being rolled out throughout the organisation.

Stakeholder relations

One of my priorities during the financial year was a focus on stakeholder relations and accessibility to our stakeholders in industry, both the public and private sector. We have entered key partnerships with the Financial Intelligence Centre; an accord with the Banking Association of South Africa was signed in November outlining important areas of collaboration under our respective legislative frameworks which I am hopeful will contribute to tighter system controls and revenue efficiencies. We have also signed an agreement with key professional bodies in the tobacco industry and with Business Unity South

Africa. I am pleased that our partnerships in the Southern African Customs Union (SACU) are active. SARS and the Swaziland Revenue Authority are currently undertaking a quality assurance of real time exchange of Customs information/data. In January, SARS, the National Treasury and the Organisation for Economic Co-operation and Development (OECD) renewed its cooperative agreement on a number of key tax development areas.

While the above inroads have been made, the revenue borne from these efforts, in particular the enforcement, digital and business investments, will most likely be seen in the next three to five years.

In closing,

I owe immense gratitude to a number of people and stakeholders for their support.

The President and Minister of Finance were instrumental in commencing a journey for SARS to rebuild – through a commission of inquiry into the tax administration at SARS and the appointment of a permanent commissioner, announced last week. I want to thank both the President and the Minister of Finance for their unwavering support.

I want to extend a warm welcome to the incoming Commissioner-Designate, Mr Edward Kieswetter, who I am confident will add much value to the organisation and who in turn, will find value from the quality staff of SARS as I have. We pledge our support and commitment to taking SARS forward.

Thank you to our stakeholders and stakeholder bodies across sectors, the tax practitioner bodies, and even members of the media for their faith in SARS and wanting the best for the organisation.

I now turn to the staff of SARS. Many acting appointments were put in place to ensure leadership across the organisation. I want to thank the teams across the organisation, across all levels including in the regions for stepping up to the plate and demonstrating the resilience that SARS staff is known for. I value your expertise and innovation, and look forward to seeing more of it being expressed towards service excellence to the taxpaying public.

Thank you.