

The background of the cover features a blue grid pattern. Overlaid on this grid are several large, stylized arrows pointing to the right. The arrows are rendered in various shades of blue, some as solid outlines and others as filled shapes. The overall aesthetic is professional and forward-looking.

SOUTH AFRICAN REVENUE SERVICE
STRATEGIC PLAN

2011/12 - 2013/14



South African Revenue Service

STRATEGIC PLAN 2011/12 - 2013/14



From the Commissioner

As a youthful nation, we have had our fair share of mountains to climb. Our successful hosting of the 2010 FIFA World Cup last year is surely proof that no mountain is too steep. As we move out of the depth of the greatest recession since the 1930s, we find yet another mountain facing us – the highest, perhaps, we have yet had to climb. This is the creation of jobs.

Our government has responded to this challenge by releasing details of a new growth path that sets out a vision and outlines key areas where jobs can be created. This is an agenda for collective action by the state, business, organised labour and civil society – in fact, all South Africans have an interest in energising and activating the growth path.

Our role as SARS is not only to provide the funds to other areas of Government to do their work, but simultaneously to do what we can to support the overall ambitions of our nation in other ways.

This means cutting red tape and other barriers to entrepreneurship and economic growth through initiatives such as single registration and more efficient administration, especially for small businesses. It means providing the platforms for smoother and faster movement of goods through our ports to boost trade opportunities. It means clamping down on crime and corruption, including the illicit economy and counterfeit and smuggled goods which undermine local competitiveness and opportunities.

SARS has to continue to come up with innovative ways to improve its operations and services, in a sustainable way to meet current and future revenue needs. SARS's trajectory of 10% year-on-year growth of revenue collected over the past 14 years – a record spoiled only by the economic downturn during 2009/10 – proves that its strategies are resilient, responsive and reliable even in the context of an extraordinary environment that is currently facing SARS.

SARS has developed this Strategic Plan and in it we have distilled our objectives into four core outcomes that we believe stand the test of time. Supporting these pillars are seven strategic priorities we have identified that will focus the organisation's resources and people over this planning period. This strategic plan therefore contains tangible, measurable and very specific outcomes which we have set ourselves as targets for delivery. These will be reported on in future annual reports for the period ahead.

I am confident that this Strategic Plan provides us with the blueprint for continuous compliance growth, sustained revenue realisation and the development of a tax and customs environment which promotes economic growth in support of our country's path to prosperity and growth.

Oupa Magashula
SARS Commissioner

MANDATE	VISION	VALUES
<p>In terms of the South African Revenue Service Act (No. 34 of 1997), SARS is mandated to:</p> <ul style="list-style-type: none"> ◆ Collect all revenues due ◆ Ensure maximum compliance with tax and customs legislation ◆ Provide a customs service that will maximise revenue collection, protect our borders and facilitate trade 	<p>SARS is an innovative revenue and customs agency that enhances economic growth and social development, and that supports the country's integration into the global economy in a way that benefits all South Africans.</p>	<ul style="list-style-type: none"> ◆ Mutual respect and trust ◆ Equity and fairness ◆ Integrity and honesty ◆ Transparency and openness ◆ Courtesy and commitment

Core Outcomes	A	B	C	D
	Increased Customs Compliance	Increased Tax Compliance	Increased ease and fairness of doing business with SARS	Increased cost effectiveness, internal efficiency and institutional respectability
3-Year Strategic Priorities	1 Drive revenue realisation to deliver now and ensure sustainability	2 Drive productivity, service quality and cost efficiency		4 Improve the SARS operating model, streamline governance and strengthen leadership
	3 Fully deliver on SARS's Customs mandate			
How SARS will measure progress against its core outcomes	5 Implement segmentation			
	6 Enable people to perform at their peak			
	7 Deepen key relationships to manage the whole value stream			
	<ul style="list-style-type: none"> ◆ Customs revenue collected (Rbn) ◆ % Trade volume coverage by Preferred Traders ◆ % Of cargo declarations targeted ◆ % Uptake in electronic manifest submissions ◆ % Increase in Customs compliance index (to be phased in) ◆ % decrease in size of illicit economy (to be phased in) 	<ul style="list-style-type: none"> ◆ Total revenue (excluding Customs revenue) collected (Rbn) ◆ % PIT filing compliance ◆ Cash recovered from debt book (Rbn) ◆ % audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) above the threshold ◆ % Increase in the Small Business register (to be phased in) ◆ Debt book as a % of tax revenue (to be phased in) ◆ % CIT and VAT filing compliance (to be phased in) ◆ Tax compliance index for each tax product (to be phased in) 	<ul style="list-style-type: none"> ◆ % Uptake in electronic filing, declaration and payment submissions for all tax products ◆ % Uptake in electronic customs bills/declarations (EDI) ◆ Average processing turnaround time for PIT and CIT returns (working days) ◆ Average processing turnaround time for VAT refunds (working days) ◆ % First contact resolution in contact centre and branches (to be phased in) ◆ Average processing time for VAT registrations (to be phased in) ◆ % Reduction in escalated service queries (to be phased in) ◆ Taxpayer and trader compliance burden (to be phased in) 	<ul style="list-style-type: none"> ◆ Treasury allocation to revenue percentage ◆ Unqualified report by Auditor-General ◆ % Of files digitised within SARS (to be phased in) ◆ Unit cost per process (to be phased in) ◆ Productivity per employee (to be phased in)

Our Approach

SARS Outcome	Strategies that encourage willing participation	Modernisation shifts that encourage willing participation
<p>SARS will create value through the law it administers, by ensuring that compliance is achieved in a manner that does not unduly impede trade, economic growth and development by imposing excessive and unfair administrative burden on taxpayers, traders and businesses and to achieve compliance in the most efficient and cost effective manner.</p>	<p>Attitude to compliance</p> <ul style="list-style-type: none"> Have decided not to comply Don't want to comply Try but don't always succeed Willing to do the right thing <p>Compliance Strategy</p> <ul style="list-style-type: none"> Use full force of the law Deter by detection Help to comply Make it easy <p>Nurturing willing participation and building fiscal citizenship</p> <p>High Level of compliance costs ↓ Low</p>	<ul style="list-style-type: none"> ◆ Building fiscal citizenship ◆ Risk management approach ◆ Integrated economic view ◆ Differentiated service offering ◆ Automated/ digital/ self service ◆ Whole of Government view ◆ Reduced administrative burden ◆ People perform at their best

Contents



ABBREVIATIONS	2
1 FOREWORD BY THE MINISTER OF FINANCE	3
2 MESSAGE FROM THE COMMISSIONER	6
3 THIS PLAN AT A GLANCE.....	9
3.1 SARS's MANDATE.....	10
3.2 SARS's VISION.....	10
3.3 SARS's VALUES.....	11
3.4 SARS's CORE OUTCOMES.....	11
3.5 SARS's STRATEGIC PRIORITIES.....	11
3.6 MEASURING SARS's PROGRESS.....	12
4 SARS's IMMEDIATE ENVIRONMENT AND MAJOR TRENDS/RISKS	13
4.1 GLOBAL EXTERNAL FACTORS.....	14
4.2 DOMESTIC EXTERNAL FACTORS.....	15
4.3 GOVERNMENT PRIORITIES AND POLICY.....	17
4.4 ONGOING SARS TRANSFORMATION EFFORTS.....	18
4.5 ASSESSMENT OF INTERNAL CAPABILITIES.....	19
5 SARS's CORE OUTCOMES AND ITS PHILOSOPHY AND APPROACH TO ACHIEVING THESE OUTCOMES.....	20
5.1 CORE OUTCOMES: HOW SARS AS AN ORGANISATION WILL CREATE VALUE.....	21
5.2 SARS's PHILOSOPHY ON TAXPAYER/TRADER COMPLIANCE.....	22
5.3 SARS's APPROACH TO ACHIEVING ITS CORE OUTCOMES.....	24
6 SARS's STRATEGIC PRIORITIES FOR THE MEDIUM-TERM EXPENDITURE FRAMEWORK (2011/12 – 2013/14).....	27
6.1 DRIVE REVENUE REALISATION TO DELIVER NOW AND ENSURE SUSTAINABILITY.....	29
6.2 DRIVE PRODUCTIVITY, SERVICE QUALITY AND COST EFFICIENCY.....	30
6.3 FULLY DELIVER ON SARS's CUSTOMS MANDATE.....	32
6.4 IMPROVE SARS's OPERATING MODEL, STREAMLINE GOVERNANCE AND STRENGTHEN LEADERSHIP.....	33
6.5 IMPLEMENT SEGMENTATION.....	35
6.6 ENABLE SARS's PEOPLE TO PERFORM AT THEIR PEAK.....	36
6.7 DEEPEN KEY EXTERNAL RELATIONSHIPS TO MANAGE THE WHOLE VALUE STREAM.....	37
7 MEASURING SARS's DELIVERY.....	39
7.1 ALIGNMENT WITH GOVERNMENT'S PLANNING AND PERFORMANCE MANAGEMENT APPROACH AND INTERNATIONAL BEST PRACTICE.....	40
7.2 DEVELOPING AND IMPLEMENTING OUTCOME MEASURES TO TRACK SARS's DELIVERY AGAINST ITS STATED TARGETS.....	42
8 SARS's RESOURCE PLAN.....	46
8.1 EXPENDITURE ESTIMATES OVER THE MEDIUM TERM.....	47
8.2 SARS's PROJECTED HUMAN RESOURCE CAPACITY.....	47
9 CONCLUSION.....	49
ANNEXURE: MATERIALITY FRAMEWORK.....	51

Abbreviations



AEO	Accredited Economic Operator
BCOCC	Border Control Operational Co-ordinating Committee
CBCU	Customs Border Control Unit
CIT	Corporate Income Tax
DDU	Dog Detection Unit
e-Filing	Electronic Filing of Returns via the Internet
GDP	Gross Domestic Product
IVR	Interactive Voice Response service
LBC	Large Business Centre
MTEF	Medium-Term Expenditure Framework
MTSF	Medium-Term Strategic Framework
NHI	National Health Insurance
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay As You Earn
PIT	Personal Income Tax
SACU	Southern African Customs Union
SARS	South African Revenue Service
SDL	Skills Development Levy
SETA	Sector Education and Training Authority
TAT	Turnaround Time
VAT	Value Added Tax



01

Foreword by
the Minister of Finance



The Strategic Plan of the South African Revenue Service (SARS) is tabled to Parliament and sets down the institution's strategic priorities for the medium term towards 2014.

Importantly, this fiscal period will also mark the conclusion of the first term of President Jacob Zuma's administration. SARS's capability in ensuring sustainable revenue yield over this period will remain a crucial determinant of how effective our Government will be in stimulating growth in our economy and in successfully realising real progress on its five key priorities: improving education, improving health care, fighting crime, improving rural development and creating jobs.

The urgency for Government to deliver on these priorities has been affirmed in both President Zuma's State of the Nation Address and in the 2011 Budget.

Public institutions like SARS will be required, with the guidance and oversight from this Parliament, to closely align their strategic priorities and planning cycles towards this collective end.

Tax revenue remains a key enabler for growth in our economy and to finance the development aspirations of our country. As President Zuma reminded us: "Nothing is free, absolutely nothing... It is paid for from revenue collected from those who pay taxes..."

The global recession in 2009 illustrated the cyclical nature of revenue trends in relation to GDP. Like the rest of the world, economic contagion in South Africa reduced the income available for public expenditure, with nominal tax revenues declining in 2009/10 by R26.6 billion. Tax revenue as a percentage of GDP declined from 26.3% in 2008/09 to 23.7% in 2009/10.

Revenue collection is expected to recover this year to 25.2% of GDP as a result of modest economic growth. Over the medium term GDP growth is projected to reach 3.4% in 2011, 4.1% in 2012 and 4.4% in 2013, signalling a moderate recovery in tax revenue.

While many countries have had to tighten their fiscal belts in the midst of the global recession, South Africa's macroeconomic approach afforded Government the space to continue to grow expenditure at a moderate pace to support its social and economic priorities. Prudent fiscal management and dependable revenue yield enabled this counter-cyclical fiscal stance.

Even as the global outlook for recovery remains tentative and uncertain the 2011 Budget commits Government to continue to increase public expenditure. Anticipated revenue growth over the MTEF period becomes crucial to ensure that public expenditure is not crowded out by an ever-rising interest burden while government debt needs to be managed sustainably. Long-term fiscal planning, predictable actions and credible policies instil confidence in the future of our economy.

The role of SARS over the next three years is implicit to these aspirations that must take our socio-economic progress forward in a decisive way.

In terms of our expenditure framework, the demand for revenue will increase substantially. The estimated revenue collection targets for SARS will rise between 10.3% and 12.2% per year until 2014 when SARS will be required to deliver just under R1 trillion (R927 billion) in revenue.

This is a phenomenal challenge!

Even when economies grow, growth in itself is not a guarantee for higher revenue. Since our tax base was restructured in the early 1990s, tax revenue has become more sensitive to changes in the economic cycle. Experience from around the world has shown that even during times of economic growth, revenue administrations must still improve their ability to find and collect revenue.

This would require that administrations like SARS better develop their understanding of their tax base, better anticipate how taxpayers and traders will react during varying economic cycles and become sufficiently responsive during times of change.

Our expectations are that the world economy will continue to undergo fundamental structural change as patterns of manufacturing, trade and investment shift towards fast-growing emerging markets. South Africa faces new challenges and opportunities in this dynamic environment. Changing patterns in investment, trade and manufacturing will certainly have a direct bearing on customs and revenue collection over the next three years.

Fortunately, what this country has in SARS is a capable and efficient revenue and customs administration that has a formidable record of delivery against set targets.

I remain confident that SARS will continue in its efforts to broaden the tax base, improve the levels of tax compliance in the country and deliver the required revenue to finance our development.

A handwritten signature in black ink that reads "Pravin Gordhan". The signature is written in a cursive style and is positioned above a horizontal line.

Pravin Gordhan
Minister of Finance

02

Message from the Commissioner



Message from the Commissioner



As a youthful nation, we have had our fair share of mountains to climb. Our successful hosting of the 2010 FIFA World Cup last year is surely proof that no mountain is too steep. As we move out of the depth of the greatest recession since the 1930s, we find yet another mountain facing us – the highest, perhaps, we have yet had to climb. This is the creation of jobs.

Our government has responded to this challenge by releasing details of a new growth path that sets out a vision and outlines key areas where jobs can be created. This is an agenda for collective action by the state, business, organised labour and civil society – in fact, all South Africans have an interest in energising and activating the growth path.

Since its inception in 1997, SARS has understood its mandate as much more than merely revenue collecting. This mandate is a calling to a higher purpose: namely to contribute to the economic and social development of our country, for the wellbeing of its people, both through collecting the resources needed

by Government to meet its policy and delivery priorities, as well as by facilitating the social contract between the state and its citizens.

This means not only understanding and responding to the changing global and local economic environment from a compliance and revenue perspective, but also doing our part as a government agency to realise Government's key priorities. Tax administration and trade facilitation cannot occur in isolation or be a means unto themselves. Our role is not only to provide the funds to other areas of Government to do their work, but simultaneously to do what we can to support the overall ambitions of our nation in other ways.

This means cutting red tape and other barriers to entrepreneurship and economic growth through initiatives such as single registration and more efficient administration, especially for small businesses. It means providing the platforms for smoother and faster movement of goods through our ports to boost trade opportunities. It means clamping down on crime and corruption, including the illicit economy and counterfeit and smuggled goods which undermine local competitiveness and opportunities.

The continuing development challenges that our country faces and the effects of the recession have combined to put even greater pressure on SARS to maximise our performance. This means that SARS has to come up with innovative ways to improve its operations and services, in a sustainable way to meet current and future revenue needs. SARS's trajectory of 10% year-on-year growth of revenue collected over the past 14 years – a record spoiled only by the economic downturn during 2009/10 – proves that its strategies are resilient, responsive and reliable even in the context of an extraordinary environment that is currently facing SARS.

In line with Government's commitment to improved monitoring and evaluation towards tangible results, SARS has developed this Strategic Plan for the medium term ahead. In it we have distilled our objectives into four core outcomes that we believe stand the test of time – namely increased customs compliance; increased tax compliance; increased ease and fairness of doing business with SARS and increased cost effectiveness, internal efficiency and institutional respectability. Supporting these pillars are seven strategic priorities we have identified that will focus the organisation's resources and people over this planning period and the indicators to be used to monitor and measure performance. This strategic plan therefore contains tangible, measurable and very specific outcomes which we have set ourselves as targets for delivery. These will be reported on in future annual reports for the period ahead.

Such an approach is not new to SARS and we are fortunate to have had a head-start in beginning to implement and refine performance management tied to outcomes within our organisation. Yet this public undertaking on which our success will be scrutinised now demands an even greater organisational focus and alignment of divisional, business unit and individual targets and measures with our overall outcomes.

The strategic priorities that will guide us and support the delivery against our outcomes over the next three years are:

- ◆ Drive revenue realisation to deliver now and ensure sustainability
- ◆ Drive productivity, service quality and cost efficiency
- ◆ Fully deliver on the SARS Customs mandate
- ◆ Improve the SARS operating model, streamline governance and strengthen leadership
- ◆ Implement segmentation
- ◆ Enable SARS people to perform at their peak
- ◆ Deepen key external relationships to manage the whole value stream

These priorities have not been developed in a vacuum. They build on the foundation of our compliance model and a deep understanding of what we need to do as a responsive revenue administration to drive human behaviour in the pursuit of compliance within a changing environment.

I am confident that this Strategic Plan provides SARS with the blueprint for continuous compliance growth, sustained revenue realisation and the development of a tax and customs environment which promotes economic growth in support of our country's path to prosperity and growth.



Oupa Magashula
SARS Commissioner

03

This plan at a glance

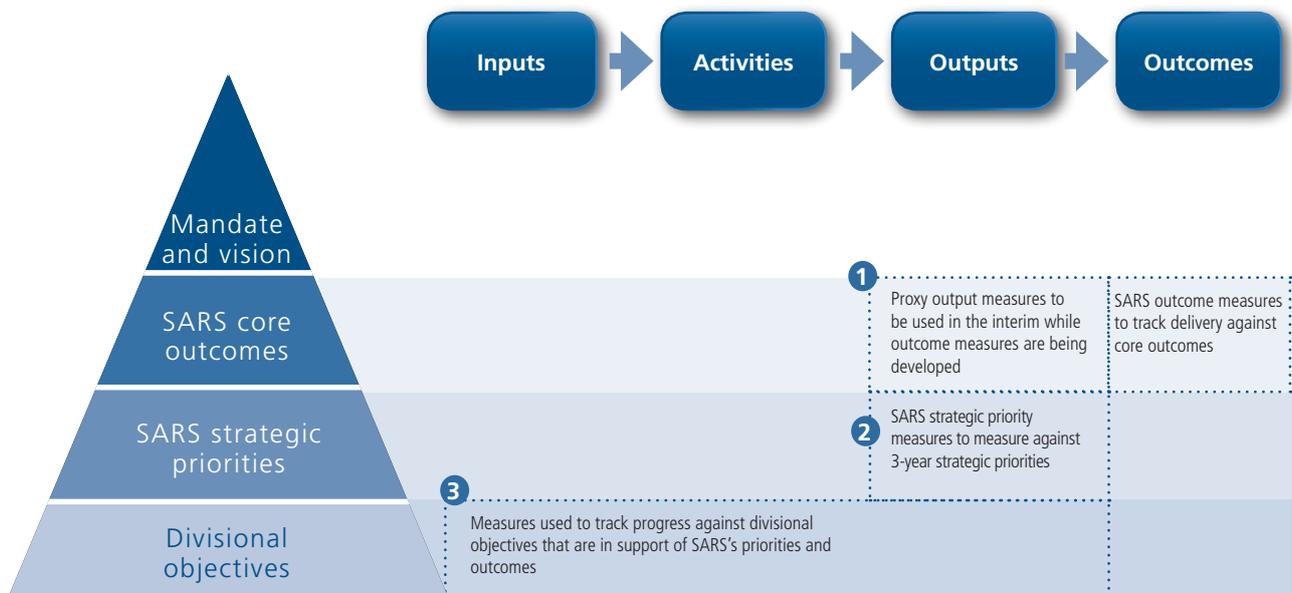
03 This plan at a glance

This plan at a glance

SARS's overall vision is informed by its legislative mandate. As an organ of state, its mandate outlines its obligations towards the state and its people: to ensure maximum compliance with tax and customs legislation, to collect all revenue due and to facilitate legitimate trade. This mandate is in support of a higher purpose, namely to contribute directly to the economic and social development of the country through collecting the revenue needed by Government to meet its policy and delivery priorities, building a generally compliant society through achieving tax and customs compliance and building institutional respectability across the value chain.

SARS's values underscore the manner in which it would like to deliver against its mandate and serve as its "moral compass" in achieving its vision of excellence.

The core outcomes answer the fundamental question: "How will SARS as an organisation create value?" while the strategic priorities answer the question: "What is the current response to its environment and the trends facing it?"



3.1 SARS's mandate

In terms of the South African Revenue Service Act (No. 34 of 1997), SARS is mandated to:

- ◆ Collect all revenues due
- ◆ Ensure maximum compliance with tax and customs legislation
- ◆ Provide a customs service that will maximise revenue collection, protect our borders and facilitate trade

3.2 SARS's vision

SARS is an innovative revenue and customs agency that enhances economic growth and social development, and that supports the country's integration into the global economy in a way that benefits all South Africans.

3.3 SARS's values

- ◆ Mutual respect and trust
- ◆ Equity and fairness
- ◆ Integrity and honesty
- ◆ Transparency and openness
- ◆ Courtesy and commitment

3.4 SARS's core outcomes

The four core outcomes that will underscore current and all future strategies are:

1. Increased customs compliance
2. Increased tax compliance
3. Increased ease and fairness of doing business with SARS
4. Increased cost effectiveness, internal efficiencies and institutional respectability

The core outcomes are further explained and illustrated in Part 5 of this plan.

3.5 SARS's strategic priorities

SARS's three-year strategic priorities that were developed in 2010/11 are:

1. Drive revenue realisation to deliver now and ensure sustainability
2. Drive productivity, service quality and cost efficiency
3. Fully deliver on SARS's Customs mandate
4. Improve the SARS operating model, streamline governance and strengthen leadership
5. Implement segmentation
6. Enable SARS's people to perform at their peak
7. Deepen key external relationships to manage the whole value stream

In 2011/12, SARS effectively enters the second year of its three-year planning cycle (ending in 2012/13). This plan reviews SARS's medium-term strategic priorities developed in 2010/11 to ensure that it remains relevant in the context of the internal and external environment within which it exists, to ensure that they continue to support organisation's overall mandate and core outcomes.

When SARS reaches the end of this three-year planning horizon in 2012/13, a new set of strategic priorities will be developed to propel the organisation forward into the next stage of its transformation journey.

SARS is confident that its strategic priorities will continue to remain resilient strategies, even in the context of the extraordinary environment that the organisation is presently faced with. SARS will, however, respond to specific environmental factors that require immediate action through introducing new interventions or activities, and bring forward interventions that are planned for future years in support of Government's key priorities.

The description of the strategic priorities, as well as the corresponding aspirations, deliverables and activities are detailed in Part 6 of this plan.

3.6. Measuring SARS's progress

SARS has aligned itself to Government's new planning and performance management approach and to this end has developed measures to hold itself accountable and to monitor and evaluate its delivery. The outcome measures developed by SARS will enable it to track and evaluate progress against its core outcomes. While these ideal outcome measures are being developed, proxy output measures will be used in the interim.

These measures, along with the proposed targets against these measures have been detailed in Part 7 of this document and serve as SARS's public commitment to Government and the people.

Furthermore, measures have been developed against the strategic priorities and relevant output, input and activity measures have been developed for the various divisions at SARS in support of the overall outcomes. The measures for the strategic priorities as well as the divisional measures will be used internally to hold SARS's people accountable for delivery.

04

SARS's immediate environment and major trends/risks



SARS's immediate environment and major trends/risks

This section contains an analysis of SARS's environment and the major trends and risks that are impacting the organisation currently and are likely to continue to influence it in 2011/12 and beyond.

4.1 Global external factors

◆ Shifting trade patterns – the influence of the East and inter-Africa trade

South Africa's reliance on the East is increasing. Furthermore, major trading partners in the far East (e.g. China) are increasingly moving production to the near East (e.g. Vietnam). Export trade between 2009 and 2010 to China grew by 12%, to ASEAN countries by 15% and to North East Asia by 45%. Import trade to these countries grew by 18%, 11% and 23% respectively in the same period.

Currently only approximately 10% of regional trade is inter-Africa. SARS has a key role to play to ensure a faster movement of goods and operational blockages at the Customs interfaces need to be removed. SARS will also need to strengthen bilateral and double taxation agreements with its major trading partners, while also cementing its leadership role in the ATAF (African Tax Administration Forum).

◆ Shift in the nature of production

Traditional manufacturing and production models are rapidly becoming obsolete. The impact of globalisation is being witnessed – in which products are conceived and designed in one country, produced and (potentially) assembled in another country and consumed or sold to the end user in a third country. In this context, SARS will need to continue its efforts in combating illicit trade. However, verification of the origin of goods will become an ever more challenging task, and SARS will need to cement its relationships further with international stakeholders to address these challenges. At the same time the complexity of multinational corporations increases opportunities for transfer pricing and other aggressive tax avoidance schemes and it will require additional skilled resources to detect and deter such activities.

◆ Globalisation of business operations and activities

Over 50 major multinational entities have directly invested and set up operations in South Africa over the past 15 years. By the end of the first decade after the first democratic elections in South Africa, over 100 South African companies had major operations outside South Africa and top companies continue to earn a significant portion of their revenues and profits from their operations abroad. This increased globalisation of business activities and operations brought challenges and introduced complexities for tax administrations. It has the potential to significantly reduce the ability of SARS to verify/establish the accuracy and completeness of transactions. It also raises questions about the jurisdiction and legitimacy of certain business transactions, thus making tax evasion cases more complex to detect.

4.2 Domestic external factors

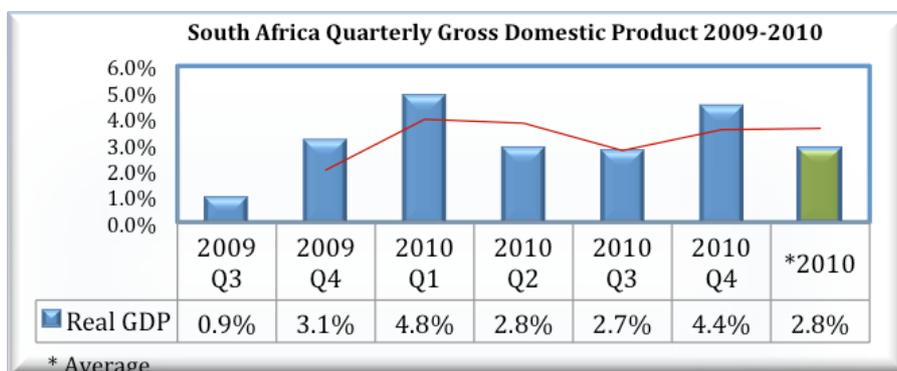
◆ The need for accelerated Government delivery

Government is committed to providing quality basic education, health services, adequate housing and rural development, decent employment opportunities and safety and security for all its citizens. The funding required for these priorities requires a strong growth in tax revenue, over the projected economic growth in this period. SARS will need to continue its emphasis on reducing the tax gap to assist Government in meeting its funding requirements.

◆ Moderate recovery in economic growth means a reduction in the growth (or level) of potential revenue yield

At the beginning of 2010 the South African economic climate improved and regained growth rates it had posted in periods prior to the onset of the recession in 2009 – a strong signal that the economy was on track to recovery. In the first quarter of 2010 the country's gross domestic product (real GDP) – the most comprehensive measure of economic performance – rose at the rate of 4.8%. However, by the third quarter of 2010 growth had begun to falter and real GDP only increased at the rate of 2.7% as concerns about the sustainability of global recovery began to emerge.

However, in the last quarter of 2010 the domestic economy started to emerge with real GDP registering 4.4 percent to average 2.8% for the year.



Seasonally adjusted annualised rates quarter on quarter (Data source: Statistics South Africa)

Aggregate domestic expenditure also improved significantly in the third quarter of 2010 to 5.8% compared to -1.6% in the same period in 2009. Household expenditure in particular rose sharply by 5.9% in the third quarter of 2010 from 2.6% during the same period in 2009. This increase in consumer spending was noticeable in the consumption of services and non-durables.

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

Components	2009					2010		
	1st qtr	2nd qtr	3rd qtr	4th qtr	Year	1st qtr	2nd qtr	3rd qtr
Final consumption expenditure:								
Households	-5.5	-4.9	2.6	6.5	-2.0	5.8	4.9	5.9
General government	7.0	1.0	8.4	1.3	4.8	6.9	7.0	-0.6
Gross fixed capital formation	-10.5	-10.4	-13.4	-5.1	-2.2	-2.4	1.3	0.9
Domestic final demand	-4.3	-5.0	0.3	3.1	-0.8	4.4	4.6	3.6
Change in inventories (Rbn)*	-4.2	-40.0	-51.3	-42.5	-34.5	-7.9	-7.7	-0.9
Gross domestic expenditure	5.1	-10.9	-1.6	5.0	-1.7	12.0	1.6	5.8

* At constant 2005 prices

Source: Reserve Bank Quarterly Bulletin 2010

External factors include the need for accelerated Government delivery, slower recovery in economic growth, financial pressure and resulting downward trend in compliance behaviour, shifting trade patterns and nature of production, perception of weaknesses and malpractice in some spheres of Government and globalisation of business operations and activities

The recovery of employment has been slow if not stagnant with an estimated 1.3 million jobs lost between 2009 and 2010, not yet recovered. The unemployment rate declined marginally to 24% in the fourth quarter of 2010 compared to 25.4% during the same period in 2009. Personal income grew despite high unemployment due to wage settlements.

From 2011 to 2013 South Africa is forecasted to continue on its current trend of moderate recovery, but growth will somewhat be tempered by new emerging risks that are building up within the economy. Some of these include the slow recovery in job creation and the domestic currency volatility relative to major currencies which could impact on export-oriented sectors such as mining and manufacturing. The implementation of austerity measures in Europe and the UK proposed in 2010 in the form of spending cuts and tax increases are beginning to be felt in 2011 and threaten to reduce global demand for this country's exports.

Macroeconomic outlook – summary

Real growth percentage	2010	2011	2012	2013
	Estimate	Forecast		
Household consumption	4.6	4.2	4.3	4.5
Capital formation	-3.6	3.9	5.5	6.8
Exports	5.3	6	6.4	7.3
Imports	10.4	8.5	7	7.4
Gross domestic product	2.7	3.4	4.1	4.4
Consumer price inflation (CPI)	4.3	4.9	5.2	5.5
Balance of payments current account (percentage of GDP)	-3.2	-4.2	-4.9	-5

Source: Budget Review 2011

Other global risks are in the form of inflationary pressures as commodity and energy prices continue to rebound which will constitute a risk to price stability, as costs are being passed through to domestic producers and ultimately to consumers. These trends pose a risk to the stability of growth in revenue.

◆ **Financial pressure created by the negative economic climate could result in a downward shift in compliance behaviour (e.g. through use of global tax havens)**

Research has shown that financial pressure has posed a significant risk to taxpayers' ability and willingness to meet their tax obligation. Under the current negative economic climate, sustaining taxpayer compliance levels may be difficult. This is true for both individual as well as corporate taxpayers and traders. SARS will need to strengthen its capacity to detect and pursue those who seek to avoid tax obligations through re-enforcing double taxation agreements and tax information exchange agreements between tax authorities and financial centres, as well as collaborating with other government departments and agencies in the revenue collection and trade value chains.

◆ **Perception of weaknesses, delays and malpractices in service delivery in some spheres of government**

Current perceived inefficiencies in selected spheres of government regarding service delivery have the potential to undermine SARS's effort in improving overall compliance in the medium term to long term. In addition, studies reveal a negative correlation between tax morale and the perceived size of corruption in the country. Instances of corruption not only reduce collection of tax revenue from the current economy, but also hinder economic growth, thereby affecting future tax revenue collection.

4.3 Government priorities and policy

◆ **The new growth path has a job creation target of five million jobs over the next ten years**

Government has a stated intention of stimulating job creation in South Africa. Sectors that have been identified as possible growth areas are infrastructure (through the expansion of transport, energy, water, communications and housing), agriculture and the agro-processing sector, mining and mineral beneficiation, the green economy (and associated manufacturing and services), manufacturing sectors identified in the industrial policy plan and tourism and selected services sectors.

From a tax revenue perspective, Value Added Tax and Corporate Income Tax are likely to show the greatest revenue impact. SARS will need to ensure that its resources are deployed adequately and appropriately and will need to cater for this potential addition to the taxpayer base. It is universally accepted that small businesses are key to creating employment and growing the economy. In this regard, SARS has a direct role to play in facilitating the conditions to boost job creation through reducing the administrative burden to taxpayers/traders in the small business segment and ensuring that its taxation programmes for small business support and promote the new growth path.

Government priorities and policy include the job creation target, move towards a counter cyclical fiscal policy, BMA implementation, NHI introduction and SARS's widening mandate

◆ **Explicit move towards a counter-cyclical fiscal policy in South Africa**

Counter-cyclical fiscal policy requires Government expenditure to increase during recessions and to decrease during booms. The South African Government adopted a counter-cyclical fiscal stimulus amounting to approximately R787 billion for public investment during 2010-12 to promote high growth as well as job creation through private investment. SARS will need to develop the capability to break down government revenue collected into a permanent and temporary flow to provide a more accurate reflection of funds available to fiscal authorities over the longer term to ensure that important items such as social and investment expenditures are not compromised by temporary savings in tax revenue.

◆ **Implementation of an integrated border management model to improve management of South Africa's borders**

SARS will be a key stakeholder in the government's implementation of an integrated border management model and will need to transition seamlessly to the new proposed model while still fulfilling its current duties of protecting the country's borders and facilitating legal trade.

◆ **Introduction of National Health Insurance**

A 14-year implementation period is envisaged to phase in a National Health Insurance (NHI) system. This will require funding over and above current revenues allocated to public health.

Preliminary analysis indicates that a range of options will need to be considered by Government to fund the NHI including a combination of a payroll tax increases (payable by employers), an increase in the VAT rate and an additional surcharge on the taxable income of individuals to generate the additional revenue required for a fully functioning national health insurance. An area for further research is the possibility, feasibility and practicality of co-payments/user charges within an NHI scheme. SARS will need to review and where necessary adjust its current tax administration approach to ensure that compliance levels continue to rise and that this scheme is successfully implemented.

◆ **Widening mandate of SARS – policy changes**

Introduction of new policy instruments, including the proposed youth wage subsidy, national health insurance, new environmental taxes and broadening of social security net and retirement industry reform will require SARS to play a lead or active role. In addition, some members of Cabinet have suggested that SARS be required to collect other forms of revenue (e.g. municipal rates and taxes).

◆ **Widening mandate of SARS – collaboration with other government agencies**

SARS has been requested to engage with other government entities such as the Department of Home Affairs and CIPRO to leverage SARS's experience and capabilities. These capabilities will require an expansion of resources and expertise within SARS.

4.4 Ongoing SARS transformation efforts

◆ **Continued emphasis on embedding the new operating model and enhancing the “way we work”**

A shift in national priorities and an assessment of our service delivery model necessitated a need to revisit the SARS operating and governance models. The organisational building blocks of the new operating model are already in place, however, SARS will need to continue to embed the principles of the new operating model to truly transform the “way we work”.

◆ **Level of modernisation activities likely to decelerate over the next two to three years**

Modernisation of SARS is well advanced and while there are still some large-scale automation projects planned, the transformation journey is likely to come to an end over the next two to three years. SARS will need to construct its future path in the new planning cycle.

Ongoing SARS transformation efforts include operating model implementation, potential deceleration of modernisation activities, shift towards segmentation and ongoing need to build culture of fiscal citizenship

- ◆ **Continued shift towards segmented education, service and enforcement delivery**

Research globally provides evidence that a segmented approach to educating, servicing and enforcing taxpayers based on their needs and behaviours increases taxpayer satisfaction and their compliance levels, while also reducing overall costs. SARS will need to continue its plan to implement its planned business model for the five priority segments (Large Business, Standard individuals, Formal/Medium business, Tax Practitioners and Traders) and bring forward the implementation of a Small business segment, to support Government's job creation objectives.

- ◆ **Ongoing need to educate South Africans on tax and build a culture of fiscal citizenship**

Increasing revenue targets and the SARS mandate to enforce compliance among all taxpayers necessitate a need to widen its interaction with the South African public. In particular, SARS's intention is to educate all South Africans on their obligations, irrespective of their current tax eligibility. Thus, the relationship between SARS and a potential future taxpayer is built early on and aims to build a culture of fiscal citizenship.

4.5 Assessment of internal capabilities

- ◆ **SARS faces a risk of ongoing capacity constraints in critical skills areas, specifically in areas of processing outstanding returns, managing new debt inflows and conducting audits.**

SARS will need to strengthen its capability in these areas, either through external recruiting of talent, building the skills pipeline and developing current capacity and redeployment where feasible.

- ◆ **Increased requirement to deliver on an attractive employee value proposition with emphasis on improving skill levels and training to ensure adequate supply and retention of scarce skills for SARS.**

The skills base required by SARS is changing due to the reduction in routine processes. In addition, employee engagement and retention is central to enable improved service delivery. SARS will renew its emphasis on employee development, aligning remuneration practices and drive employee health and wellbeing to ensure that it has the necessary high-level technical and analytical skills it requires.

Assessment of internal capabilities focused on skill/capacity constraints in SARS and the need to ensure supply and retention of scarce skills

05

SARS's core outcomes and its philosophy and approach to achieving these outcomes



SARS's core outcomes and its philosophy and approach to achieving these outcomes

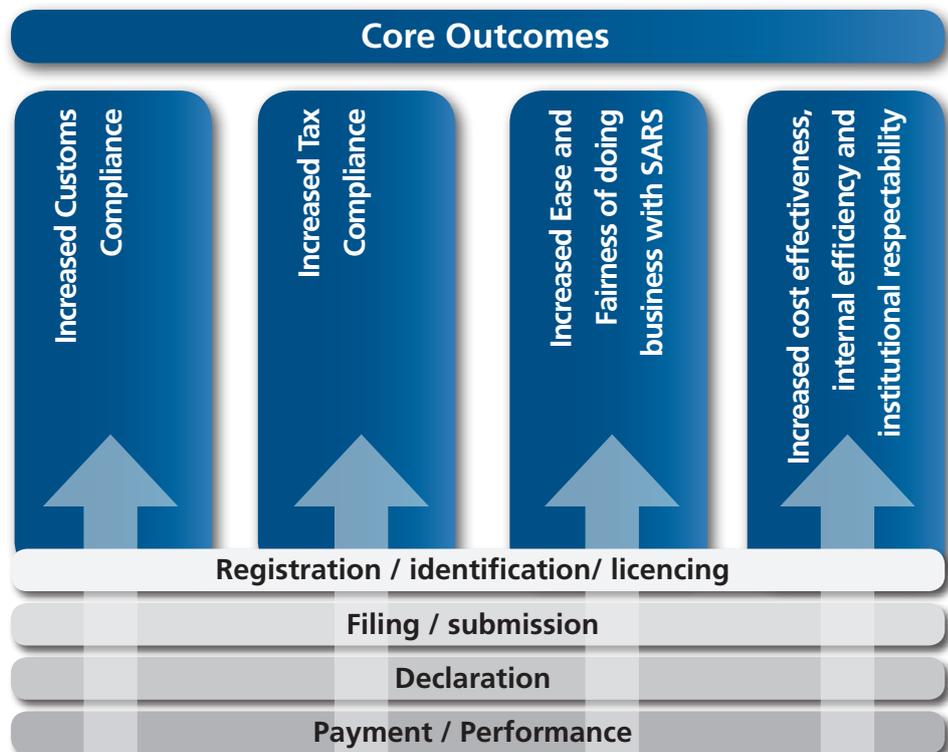
In this section, SARS's four core outcomes are outlined, as well as the philosophy and approach to achieving these outcomes.

5.1 Core Outcomes: How SARS as an organisation will create value

SARS's mandate is to ensure maximum compliance to all the laws that SARS administers in order to ensure a sustainable revenue stream for Government and a controlled and safe flow of goods across the country's borders. At the same time, such compliance must be achieved in a manner which does not unduly impede trade and economic growth and development by imposing excessive and unfair administrative compliance burden on taxpayers, traders and businesses. Also, SARS must achieve compliance in the most efficient and cost effective manner possible and in a context of building institutional respectability for SARS and its related government entities.

Given this objective, SARS has established four core outcomes for the organisation that will serve as the foundation for all current and future strategies. The four core outcomes of SARS are to increase customs compliance, to increase tax compliance, to increase ease and fairness doing business with SARS and to increase the cost effectiveness, internal efficiency and institutional respectability of its operations.

Core outcomes for SARS are: Increased customs compliance, Increased tax compliance, Increased ease and fairness of doing business with SARS and Increased cost-effectiveness and internal efficiency



All four outcomes are interdependent, as the pursuit of achieving one outcome frequently enables the achieving of another outcome. For example, increasing the ease and fairness of doing business with SARS encourages greater compliance. Similarly, maximising the cost effectiveness of SARS builds confidence amongst taxpayers that Government is utilising taxes effectively and thus, greater compliance is encouraged.

All outcomes apply equally to all the steps in the SARS value chain

All four of these outcomes apply equally to all the main steps in the SARS value chain from registration through filing and full declaration to payment. For example, compliance with registration must be achieved in a way that makes compliance easy (not only to achieve greater levels of compliance, but also to make it easier to start a business in South Africa) and needs to be carried out efficiently and cost effectively.

The overall goal of SARS is to maximise these four outcomes and the organisation will hold itself accountable by measuring its performance against targets for each of these outcomes.

5.2 SARS's philosophy on taxpayer/trader compliance

Compliance refers to the degree to which taxpayers and traders meet their obligations in terms of the legislation administered by SARS. This is not merely an issue of technical compliance, but the building of a behavioural level of compliance in which compliance to the spirit of legislation is popularly perceived as a positive social value. In most instances, this compliance manifests along the entire value chain, which for most of the legislation that SARS administers, includes on time registration, on time filing, full and honest disclosure, and on time payment.

Compliance to legislation needs to be perceived as positive social value

Compliance is brought about by ensuring that all are aware of their legal obligations (education), that it is reasonably easy to meet these obligations (service) and by having a credible deterrent and consequence for those who seek to avoid their obligations (enforcement). SARS's function is to obtain compliance to a range of legislation, much of which serves to finance the fiscus, but which also includes important legislation regarding economic protection (e.g. customs duties and restrictions), social protection (e.g. taxes on cigarettes, prohibitions on import and export of goods such as drugs, firearms and endangered species) and national security (e.g. customs controls at ports of entry).

Compliance is brought about by education, service and enforcement

In this regard it is recognised that compliance is a continuum that ranges from conscious and determined non-compliance through "grudging" compliance to unwitting non-compliance (due to a lack of knowledge of legal requirements) and finally to willing and purposeful compliance. Thus, it is recognised that a certain number of people will always do the right thing, a certain number will always do the wrong thing and most people fit between these two extremes, i.e. they will do the right thing if the circumstances are right for them. The aim of the compliance actions of SARS is to move as much of the population as possible up the continuum into the willing and purposeful compliance range. This movement is done primarily through education of taxpayers and traders, providing a streamlined and friendly service as well as by full enforcement of the law for non-compliant taxpayers/traders.

SARS aims to develop willingly and purposely compliant taxpayers and traders



The factors affecting compliance behaviour are an intersection of individual values and norms, societal values and norms, the belief in the justice and fairness of the system, the ease of compliance, the speed and accuracy of detection of non-compliance (i.e. the likelihood of getting caught), the speed and accuracy of corrective measures and the severity or impact of the deterrent measures.

Historical factors, particularly the past political environment, fostered a legacy of widespread legislative non-compliance. SARS plays an important role in building respect for the law and in creating a culture of compliance in South Africa.

SARS believes that non-compliance is most meaningfully dealt with by addressing the root causes of non-compliance and strengthening the factors that promote compliance. SARS sees a necessary and essential role for taxpayer education, enhancements to taxpayer services and enforcement interventions in mitigating causes of non-compliance and encouraging taxpayer compliance.

Non-compliance may be due to ignorance, inability or intent. Each of these non-compliance elements may have legal, economic, regulatory, system or behavioural drivers. Because of this complexity it is necessary to determine the root causes of the non-compliance with precision in order to determine the most effective action to address the non-compliance. Inappropriate responses may exacerbate non-compliance rather than reduce it.

Non-compliance is addressed through a range of educational, service, deterrence or fool-proofing measures. One key element of deterrence is effective detection of non-compliance.

In order to be cost effective in bringing about greater compliance, SARS focuses on high risk areas with minimal intervention in low risk areas. In order to bring about precision in this focus, the emphasis is on being data-rich and on being able to model compliance effectively.

By segmenting the population appropriately, SARS is able to apply the best combinations of measures to improve the compliance levels of any particular group. By profiling the compliance behaviour of any segment of the population (by industry, geographic area, income level, etc.) SARS is able to match its response to the risk profile of the segment. Thus, an understanding of the compliance landscape and the compliance profile of each segment of that landscape is essential to most effectively treat compliance risk and utilise SARS resources most effectively.

Root causes of non-compliance need to be understood to select the appropriate response

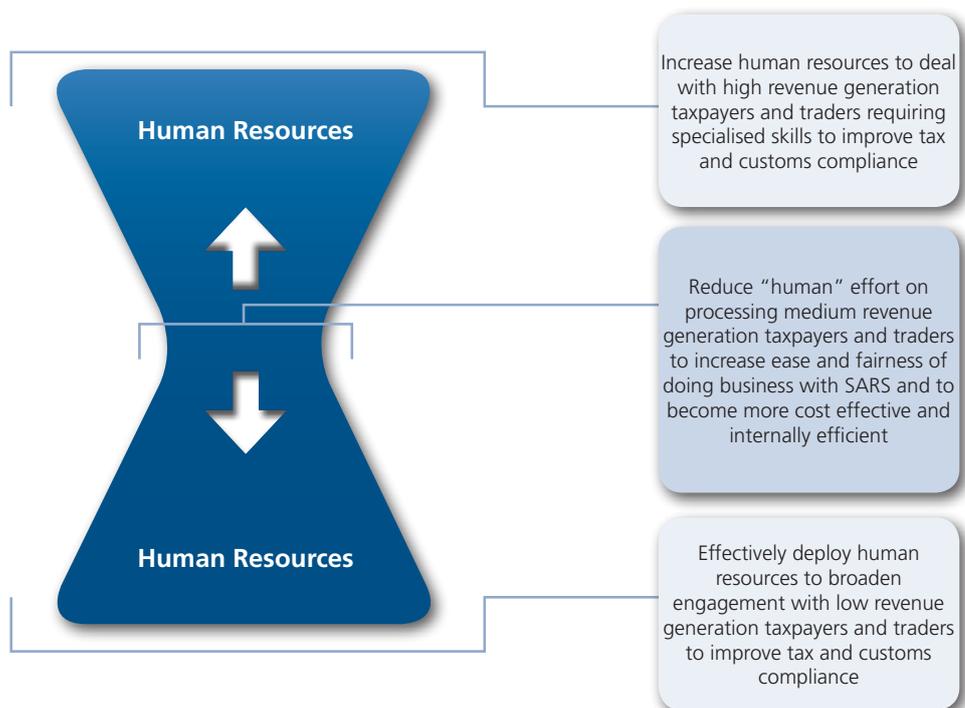
Segmentation allows SARS to match its response to the compliance profile of that segment

In carrying out enforcement or deterrence measures, a principal of proportionality is applied, which matches the severity of the enforcement or deterrent action to the nature of the non-compliance. In other words, enforcement moves along a continuum from soft enforcement (for unwitting non-compliance and for lesser degrees of non-compliance, first offences, etc.) to hard enforcement (for conscious, deliberate non-compliance, e.g. multiple offenders, recalcitrant non-compliers, etc.).

Deterrent and enforcement action needs a combination of coverage (the need to ensure sufficient likelihood of detection of non-compliance), depth (sufficient thoroughness where necessary to detect the full extent of non-compliance) and leverage (utilisation of the detection of non-compliance to encourage other non-compliers to become compliant).

5.3 SARS's approach to achieving its core outcomes

The primary approach to achieve these outcomes is to shift resources, particularly human capacity, away from routine low value-adding activity into service, education and enforcement areas with high value-adding activity.



Over the past three years, SARS has engaged in a concerted effort to modernise the organisation to achieve the four core outcomes:

In order to increase customs and tax compliance:

- ◆ SARS is building a **reality of fiscal citizenship** in which every South African and all businesses operating in South Africa are included in the scope of SARS's view, even if at any particular point in time they are not eligible to pay tax or submit returns. This also includes building a relationship with all South Africans to educate them on the importance of their tax contribution.
- ◆ SARS has **shifted from an ineffectual gate keeping approach to a focused risk management approach** to compliance. This involves focusing

enforcement activity on areas of highest risk while automating areas of lesser risk. This has been largely achieved by increasing access to third party data and by increasing third party validation of declarations. Through the pre-population of declarations from third party data, it is possible to reduce the opportunity for false or inaccurate declarations. This has been mainly achieved by SARS **becoming data and information rich** in order to identify trends and specifics of non-compliance.

- ◆ By increasing and integrating data from multiple sources, SARS will be increasingly able to gain a complete economic understanding of the taxpayer/trader across all tax types and all areas of economic activity. By **moving from a transactional to an economic view of the taxpayer/trader** SARS will be able to detect inaccuracies in declarations as well as identify those who have attempted to stay outside the tax net, but at the same time provide a more appropriate service.
- ◆ The shifts from gate keeper to risk management as well as from transactional to an economic view enables SARS **to focus enforcement activity more effectively on cases of highest risk** and to proportion the level of enforcement activity to the scale of the risk.

Additional to these compliance strategies and in order to ensure consistency in compliance behaviour – SARS is increasingly using administrative penalties to deter administrative non-compliance (e.g. failing to file on time).

The taxpayer/trader's ease and fairness of doing business with SARS are being addressed by:

- ◆ **Segmenting the requirements of specific categories of taxpayers and traders** in order to provide a service appropriate to taxpayer/trader needs
- ◆ The **application of risk based processing** which avoids the need to examine every taxpayer/trader or every transaction in favour of those where a high risk of non-compliance is detected. This speeds up service delivery to 90-plus percentage of taxpayers and traders for whom little risk is identified
- ◆ **Reducing manual paper based processes to electronic digital and self-service** channels resulting in quicker processing with fewer errors
- ◆ **Reducing long and complex forms into dynamic flexible forms** suitable to the specific requirements of the individual taxpayer/trader
- ◆ **Reducing multiple forms/applications into single forms/applications** (e.g. registration) and
- ◆ Reducing errors and the administrative burden on taxpayers and traders by **pre-population of forms** from third party data, resulting in quicker processing with fewer errors

The cost effectiveness, internal efficiency and institutional respectability of SARS and its related government entities will be increased by:

- ◆ **Driving values consistent with the objectives/outcomes** in order to achieve alignment, eliminate corruption and achieve a commitment to service
- ◆ Moving **from low skill, low value-adding activity to high skill, high value-adding activity** for the majority of SARS personnel

- ◆ Moving **from an isolated departmental view of SARS efficiency to a whole of government view** which sees SARS assisting in the enhancement of value chain activities both before and after it enters SARS domain in order to build a chain of institutional respectability in the pursuit of service delivery excellence for SARS and its other government partners
- ◆ **Reducing manual processes and receiving taxpayer/trader data in electronic form**, which both speeds up the processing of information and reduces the likelihood of errors and the need for rework
- ◆ Moving **to standardised internal processes**, as well as **automating routine activities** and moving staff to value adding activities closer to the taxpayer/trader – either in service functions or in enforcement functions
- ◆ **Automating queue management and reporting** in order to optimise taxpayer/trader contact and in order to process more taxpayers/traders without increasing the number of personnel and
- ◆ Introducing **blended inbound and outbound contact centre capability** in order to optimise the utilisation of contact centre personnel.

These modernising shifts in SARS are focused around eight key themes:

SHIFTING THEMES	
FROM	TO
Targeting eligible taxpayers	Building fiscal citizenship among all South Africans to contribute to nation building and institutional sustainability
Gate keeper	Risk management approach
Entity and product approach	Integrated economic view (multi-product and transactional value chain)
Uniform service offering	Differentiated service offering (based on compliance behaviour and segment)
Manual	Automated/digital/self-service
Isolated departmental view of SARS efficiency	Whole of government view with enhancement of value chain activities before and after they enter the SARS domain in order to build a chain of institutional respectability in the pursuit of service delivery excellence for SARS and its other government partners
High administrative burden due to multiple registrations, multiple channels and manual forms	Reduced administrative burden through, for example, single registration, integrated channels and dynamic forms
People performing below potential due to non-standardised internal processes, no value alignment and low skill/low value add	People performing at their peak through, for example, values alignment and high skill/high value add

06

SARS's strategic priorities for the Medium-Term Expenditure Framework (2011/12 – 2013/14)

06 SARS's strategic priorities for the Medium-Term Expenditure Framework (2011/12 – 2013/14)

SARS's strategic priorities for the Medium-Term Expenditure Framework (2011/12 – 2013/14)

The seven strategic priorities that SARS has set out in the 2010/11 strategic plan are still relevant for the years 2011/12 to 2013/14: These seven priorities are:

1. Drive revenue realisation to deliver now and ensure sustainability
2. Drive productivity, service quality and cost efficiency
3. Fully deliver on SARS's Customs mandate
4. Improve the SARS operating model, streamline governance and strengthen leadership
5. Implement segmentation
6. Enable SARS's people to perform at their peak
7. Deepen key external relationships to manage the whole value stream.

Current set of strategic priorities remain relevant, however some new interventions will need to be introduced and/or brought forward to respond to SARS's environment and Government's priorities

SARS is confident that these strategic priorities remain a highly relevant set of priorities, even in the current extraordinary environment. SARS will, however, respond to specific environmental factors that require immediate action through introducing new interventions or activities, and bring forward interventions that were planned for future years to begin implementation immediately. For example, to support Government's job creation objectives, SARS will bring forward the design and deployment of the small business segment, and seek to develop a service offering that cuts red tape and other barriers to entrepreneurship and economic growth through initiatives such as single registration and more efficient administration. Another example is that SARS's preferred trader programme and customs modernisation will both streamline the flow of legitimate goods through South Africa's borders and deter illicit trade in support of trade facilitation and economic growth.

In this section SARS's seven strategic priorities for the Medium Term Expenditure Framework are detailed. For each strategic priority, SARS articulates its three-year aspiration as well as the key deliverables and activities that will help it achieve its aspiration.

Each of SARS's seven strategic priorities support one or more of its core outcomes. This relationship is explained below.



6.1 Drive revenue realisation to deliver now and ensure sustainability

Aspiration:

- ◆ To consistently increase voluntary compliance across a broader taxpayer/trader base, through targeted and informed outreach, education, service and enforcement interventions, to collect all revenue due and
- ◆ Enhance focus on enforcement to respond to the increased risk of non-compliance given the current economic climate, to increase revenue flows and further strengthen voluntary compliance in the medium term.

By sustaining revenue collection, SARS enables the expansion and improvement of service delivery by Government as described in the government.

The ultimate outcome of compliance by taxpayers and traders with relevant legislation is the payment of revenues due to the fiscus. SARS believes that compliance is promoted and ensured through providing service of high quality to taxpayers and traders, engagement with the emerging tax base and through targeted enforcement actions. Enforcement is called for in the interests of ensuring the equitable treatment of all who pay tax, and to avoid overburdening those who do contribute tax willingly. Our goal is to enhance voluntary compliance, which reduces the burden on SARS in terms of the effort required to collect revenue due, as well as ensuring a consistent and sustainable revenue stream for the delivery of service by Government.

In the current economic climate, SARS recognises that extraordinary measures are required to sustain taxpayer and trader compliance levels. The possibility of tax flight and how this can be managed is becoming more important. Compliance management efforts thus need to be strengthened, systematised and become more effective, both in sustaining the behaviour of compliant taxpayers and traders, as well as eliminating pockets of non-compliance. Compliant taxpayers and traders should experience increasing ease in complying, while those who are non-compliant should find it increasingly difficult not to comply. SARS's compliance actions will be rooted in its understanding of the trends in the macroeconomic environment and demographic shifts, and the interplay between these.

At the same time SARS will identify opportunities to enhance existing revenue streams and to find new revenue streams in support of Government's fiscal framework.

Three-year deliverables include:

- ◆ Significant growth in the taxpayer register through inclusion of individuals/businesses that are eligible to pay tax as well as inclusion of individuals/businesses that are likely to become eligible in the future
- ◆ Streamlined audit and customs inspection processes and strengthened audit capability to deal with complex cases and serious taxpayer and trader non-compliance
- ◆ Re-engineered debt collection processes
- ◆ Expanded administration of penalties for non-compliance
- ◆ Expanded use of third party data, time-series taxpayer history and statistical scoring methodologies to enhance our compliance risk detection and rating capabilities for PIT, PAYE, CIT, VAT and Customs and
- ◆ A voluntary disclosure programme to encourage proactive disclosure of non-payment by non-compliant taxpayers.

Key activities to achieve the above include:

- ◆ Analyse and prioritise areas requiring targeted interventions to improve compliance and deliver immediate revenue

Extraordinary measures are required to sustain taxpayer and trader compliance

- ◆ Deployment of VAT and CIT risk engines. These are expected to support the job creation objectives of Government as VAT and CIT are expected to show the biggest revenue impact
- ◆ Enhancement of penalty administration capability to accommodate levying of additional penalty types for income tax and other tax types and
- ◆ Continued implementation of the voluntary disclosure programme.

How delivery against this strategic priority will be measured:

- ◆ Tax revenue collected (Rbn)
- ◆ % PIT filing compliance
- ◆ Cash recovered from debt book (Rbn)
- ◆ % Audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) above the threshold
- ◆ Debt book as a % of tax revenue (to be phased in)
- ◆ % CIT and VAT filing compliance (to be phased in) and
- ◆ Tax compliance index for each tax product (to be phased in).

6.2 Drive productivity, service quality and cost efficiency

Aspiration:

- ◆ Deliver cost-efficient, rapid and reliable service to all taxpayers and traders

Our aspiration to improve the quality of services we offer is aligned with the government's objective to improve the quality of public service delivery, and entrench a culture and practice of efficient, transparent, honest and compassionate public service.

SARS recognises the importance of optimising the use of resources allocated to deliver quality service. Its desire to be cost-effective derives from recognising that it is obliged to taxpayers to use resources allocated to it efficiently and effectively in support of the social contract between citizens and the state. This becomes especially important in times when taxpayers themselves are experiencing financial pressures due to economic conditions, and when slow growth in revenue yield requires the public sector as a whole to review the application of the resources available to optimise service delivery. Improved productivity requires better management of SARS's operations through working smarter and through streamlining processes.

The streamlining of processes contributes to shorter service turnaround times and better service. As described above, SARS believes that better service encourages voluntary compliance. SARS aims to reduce compliance barriers for taxpayers and traders, through ensuring greater accessibility to service points and channels, and providing a range of simpler ways of engaging with the organisation and complying with tax and customs requirements. In addition, SARS will, in partnership with the dti, National Treasury, Statistics South Africa and other government departments, develop a single business registration process to reduce compliance costs for new businesses.

Through continued modernisation of processes and systems, SARS is reducing the unit costs associated with the processing of large volumes. Modernisation will continue to free up resources for reallocation to additional or under-resourced functions, such as customised services to various taxpayer and trader segments, and more extensive outreach and education interventions. Weaknesses that currently impact negatively

Improvement of SARS productivity, service quality and cost effectiveness will enable increased compliance

on service provision will be addressed and service improvements will be based on the requirements of the various taxpayer and trader segments. SARS believes that empowering its staff to make informed, consistent and fair decisions will improve its response turnaround times and enhance the service experience.

Three-year deliverables include:

- ◆ Improved ease and speed of registration and other interactions for businesses supported by a single view of each taxpayer and trader
- ◆ Improved turnaround times and reduced paperwork for transactions and queries (via automation) for priority taxpayer and trader segments and
- ◆ Redefined and implemented service philosophy, service charter and channel strategy that meets taxpayer/trader needs.

Key activities to achieve the above include:

- ◆ Develop an integrated view of each taxpayer and trader, through a single registration system for tax and a consolidated view of all customs transactions
- ◆ Introduction of a mechanism to enable those employers that file electronically to make a single monthly submission to Government for all payroll taxes (PAYE, SDL and UIF)
- ◆ Develop an end-to-end system for resolving taxpayer and trader complaints and escalations where needed
- ◆ Improved SARS internal processes relating to the core functions of Human Resources, Finance, and Procurement
- ◆ Replacement of all legacy tax accounting systems with a new system for quicker resolution of account queries
- ◆ Improvement of SARS's payment processes to support taxpayer self-service with respect to payment allocation and account management self-help functions
- ◆ Improvement of the Interactive Voice Response (IVR) service at the call centre to add additional self-help queries, optimise resolution of the most frequently asked questions and enhanced security and authentication for a more customised offering and
- ◆ Development of an SMS-based communication channel to inform clients of transaction status to reduce the need for calls and visits to the Contact Centre and branches.

How delivery against this strategic priority will be measured:

- ◆ % Uptake in electronic filing, declaration and payment submissions for all tax products
- ◆ % Uptake in electronic customs bills/declarations (EDI)
- ◆ Average processing turnaround time for PIT returns (working days)
- ◆ Average processing turnaround time for CIT returns (working days)
- ◆ Average processing turnaround time for VAT refunds (working days)
- ◆ % Of files digitised within SARS
- ◆ Treasury allocation to revenue percentage
- ◆ % Reduction in escalated service queries (to be phased in)
- ◆ Average processing time for VAT registrations (to be phased in)
- ◆ % First contact resolution in contact centre and branches (to be phased in)
- ◆ Unit cost per process (to be phased in) and
- ◆ Productivity per employee (to be phased in).

6.3 Fully Deliver on SARS's Customs mandate

Aspiration:

- ◆ Develop partnerships with all supply chain stakeholders to facilitate legitimate trade whilst combating illicit trade in order to strengthen and secure SARS's economy, and collect all revenues due

SARS seeks to contribute to Government's aim of growing the economy and the creation of opportunities for decent employment through trade facilitation and combating illicit trade activities that threaten the viability of legitimate businesses.

It aims to provide a customs service that promotes legal trade, while restricting illegal trade. The intention is to re-engineer SARS's customs service to achieve the full benefit of tax and customs integration and to enhance border security through alignment with other relevant stakeholders.

SARS believes that trade is facilitated through reducing compliance barriers to facilitate the movement of goods in a far more efficient manner than before, while preventing the movement of illegal goods. Effective risk management and strategies that seek to offer qualifying traders faster and cheaper means to get their goods into the global markets while ensuring an appropriate enforcement response to illicit traders is the key to balancing trade facilitation with border security. SARS aims to improve information flow relating to trade, that will impact positively on turnaround times experienced by traders, as well as assist it to manage inspections better through more timely and accurate identification of compliance risks. SARS aims to use its tax information base more effectively, to validate information, as well as reduce the requirements on traders to resupply information already available to it.

SARS will, through its lead role in the Border Control Operational Co-ordinating Committee (BCOCC), continue to encourage greater operational coordination amongst government agencies at the border, providing a clear delineation of responsibility while ensuring accountability for all the required aspects of border management.

The different agencies are moving towards full integration of the technology platforms in use, allowing all the role-players at the country's ports of entry to have access to the same information. This will enhance SARS's ability to access other sources of data residing in other agencies or national structures that can bolster SARS's own risk management; secure the borders and also improve trade facilitation and compliance.

Three-year deliverables include:

- ◆ A seamless transition to an integrated border management model, developed with other government departments
- ◆ An enhanced service offering (reduced paperwork, quicker processing times) to preferred traders comprising 80% of all legal trade entering the country
- ◆ Improved ease and speed of declaration processing and inspections, through modernising processes and systems
- ◆ A system to prioritise and expedite Customs inspections through use of additional data sources and the continued rollout of non-intrusive inspection capability to vastly improve our ability to inspect the goods crossing our ports of entry
- ◆ Enhanced border control detection capability through the Customs Border Control Unit (CBCU) and the Dog Detection Unit (DDU), thereby improving security at ports of entry and
- ◆ Enhancement of the traveler experience when entering and leaving the country.

Risk intelligence will be needed to facilitate legal trade, while ensuring border security

Key activities to achieve the above include:

- ◆ Rapid accreditation of traders qualifying for its preferred trader programme and piloting the preferred trader programme
- ◆ Participate and collaborate in optimising the design of the border management model with SARS to combat illicit importation and counterfeit goods
- ◆ Standardisation of codes across the liquor industry, with regards to beer, spirits, wine and other fermented beverages including giving traders the ability to capture their details via an e-filing web front-end as well as lodging their related payments
- ◆ End-to-end business process modernisation to enhance traveler experience and ensuring of enhanced security and data exchange between different border agencies
- ◆ Provision of an electronic interface to cross-border customs administrations (especially SACU countries) to eliminate the need or reliance on hard copy RSA Customs documentation
- ◆ Enable other government agencies automated access to the related business functions affecting their mandates
- ◆ Deploy container scanner at Beit Bridge border post
- ◆ Conduct integrated and focused enforcement interventions
- ◆ Continue to roll out the One Stop Border Post programme that will serve as a blueprint for similar programmes and
- ◆ Participation in a cross functional working group to combat the impact of the illicit trade on the clothing and textiles industry.

How delivery against this strategic priority will be measured:

- ◆ Customs revenue collected (Rbn)
- ◆ % Trade volume coverage by Preferred Traders (number of Preferred Traders declarations processed vs total number of declarations processed)
- ◆ % Of cargo declarations targeted
- ◆ % Uptake in electronic manifest submissions
- ◆ % Uptake in electronic customs bills/declarations (EDI)
- ◆ % Increase in Customs compliance index (ideal outcome measure) and
- ◆ % Decrease in size of illicit economy (ideal outcome measure).

6.4 Improve SARS's operating model, streamline governance and strengthen leadership

Aspiration:

- ◆ An organisation that is clear on its accountabilities and collaborates effectively across internal units
- ◆ Streamlined governance, to shift from a "gate keeper" to "risk manager" approach, but with requisite levels of oversight and
- ◆ An aligned and capable leadership team that embody the SARS values and adhere to all governance requirements, to ensure organisational sustainability.

Clarifying accountabilities and reskilling and redeploying resources to areas of need will be necessary to improve efficiency of internal operations

SARS intends to improve the efficiency and transparency of its operations and service through clarifying accountabilities, authority and responsibilities within the organisation. At the same time SARS must ensure that those resources impacted and released through initiatives are treated fairly and re-skilled and mobilised to other areas of need.

By improving its internal workflows and with the commensurate and appropriate allocation of resources, SARS can improve its productivity by eliminating internal delays due to inefficiencies in its processes or mismatches in capacity. This will result in greater efficiency as seen by taxpayers and traders. SARS believes that eliminating non-value adding steps and ensuring consistency in its own processes will make it more effective in collecting tax and customs revenue, and in ensuring compliance. SARS will continue to embed its operating model, clarify accountabilities and group similar functions where appropriate for greater efficiency.

Controls are needed to ensure that standard processes are followed and to eliminate opportunities for circumventing the prescribed procedures and set standards. At the same time, the organisation believes that its system of controls should not introduce unnecessary delays in internal processes. Thus, it aims to streamline its governance procedures, adopting a risk management approach, rather than a "gate keeping" approach. A holistic enterprise-wide modelling of risk will inform SARS's risk management and governance approach.

SARS recognises the importance of strong leadership in ensuring sustainable operational capability. Accordingly, leadership development at various levels within the organisation will continue to feature in its activities. SARS aims to build leadership throughout the organisation that is able, willing and ready to execute its responsibilities.

Three-year deliverables include:

- ◆ A fully implemented new operating model, with integrated workforce plan that makes SARS's workforce more empowered, agile and responsive to meet the needs of our taxpayers/traders
- ◆ Streamlined governance framework to reduce unnecessary levels of bureaucracy while still maintaining appropriate levels of oversight and
- ◆ A fully articulated and embedded SARS values-based leadership model with appropriate resourcing and capabilities.

Key activities to achieve the above include:

- ◆ Enhance business support by aligning current practices with the new operating model design principles
- ◆ Continued implementation of SARS's leadership development programme
- ◆ Review, define and actualise SARS desired culture essential to our performance and
- ◆ Support the implementation of a Tax Ombudsman.

How delivery against this strategic priority will be measured:

- ◆ Delivery of these supporting priorities will be measured through developing and monitoring relevant output measures internally.

6.5 Implement segmentation

Aspiration:

- ◆ Deliver differentiated products and compliance approaches (i.e. outreach, education, service and enforcement), that meet the needs of taxpayer and trader groups and shape their compliance behaviour

In line with global best practice, SARS believes that differentiating its service offerings based on the needs and behaviours of various taxpayer and trader groups will enhance its efficiency and effectiveness in revenue collection and improve compliance. In this way the organisation can become more “taxpayer/trader centric” in its approach. This is predicated on deepening our understanding of the requirements of various taxpayer and trader groupings, in order to provide them with the appropriate service, education and enforcement.

The establishment of the Large Business Centre (LBC) to service major corporate taxpayers has yielded very positive results over the past few years, and SARS will build on this experience. It will engage in specific research into each taxpayer and trader segment, which together with learning from ongoing engagement with the sector and international experience, will inform its approach towards the segment. The redesigning of the tax registers and information systems will enable SARS to see the integrated perspective of the taxpayer and/or trader, rather than being limited by the fractured view (of a taxpayer/trader) that emerges from viewing transactions with taxpayers and traders through disparate tax type lenses.

SARS's compliance programme will be refined using a segmented approach. As discussed above, it intends to differentiate its approach to traders, based on the level of their trading activities, an assessment of their internal controls and on their past compliance behaviour.

Delivery of a tailored service offering to each segment will improve compliance and reduce costs

Three-year deliverables include:

- ◆ Delivery of a tailored service offering that meets the needs and addresses the behaviours of five priority segments (especially large businesses and “standard” individuals, medium-sized businesses, tax practitioners and traders)
- ◆ Accelerated design and delivery of the Small Business segment to support entrepreneurship, reduce the administrative burden for small businesses and support job creation in this sector and
- ◆ Improved turnover tax system to make it more practical and attractive for small business.

Key activities to achieve the above include:

- ◆ Implementation of the operating model of the Large Business Centre in line with the new SARS operating model
- ◆ Expansion of the Large Business Centre with a particular focus on attracting key skills, with a planned addition of 240 personnel to the LBC
- ◆ Continued refinement of the business model for the standard individual segment
- ◆ Phased implementation of other priority segments (i.e. tax practitioners and traders)
- ◆ Develop design for small business segment in line with Government's objectives of job creation through easing of tax regulatory burden for small businesses and reviewing and improving of turnover tax system
- ◆ Develop database of all small businesses with a physical presence (bricks and mortar) currently not on the tax register through door to door visits and
- ◆ Collaboration with other government agencies to establish a “one-stop” where small business can have all their regulatory needs serviced.

How delivery against this strategic priority will be measured:

- ◆ Delivery of these supporting priorities will be measured through developing and monitoring relevant output measures internally

6.6 Enable SARS's people to perform at their peak

Aspiration:

- ◆ Create a workplace environment that is conducive to high-performing individuals and teams and nurtures personal and professional career growth leadership, managerial and technical levels

SARS understands that changes in the operating model and the modernisation of its systems will impact the manner in which it currently performs certain business functions. For instance, it envisages that the elimination of the routine processing of large volumes of work through automation will free up capacity in some areas of the business while new skills sets will emerge for areas where a more "human" touch is required, such as engagement with potential or new taxpayers/traders. Where employees are affected by these changes, SARS will endeavour to support the impacted employees with change management and wellness intervention, re-skilling initiatives and redeployment opportunities.

A workforce planning methodology will therefore be developed and implemented to provide a solid basis for understanding the human capital profile and deploying them to areas in need, based on their unique capabilities. In order to offer the specialist training SARS's believes will be required, it will invest in the development of learning infrastructure to close current and future skills gaps and also contribute to strengthening the country's skills base.

The importance of strong leadership is recognised in ensuring sustainable operational capability and innovation to be effective in a continuously evolving environment. Thus leadership development at all levels within the organisation remains a key priority that will ensure a sustainable pool of capable successors for key leadership roles.

SARS believes that peak performance requires that staff be fully engaged and that performance be managed effectively across the organisation. The organisation will continuously enhance its employee value proposition to ensure that it enables itself to attract, engage and retain competent employees who deliver their best. Enhancement of the employee value proposition will also ensure employee wellbeing, rigorous performance management, aligned remuneration practices, as well as employee development and growth. Also critical to SARS's success is uprooting corruption and non-compliance to organisational policies.

Three-year deliverables include:

- ◆ Embedding of workforce planning methodology to inform employee development, redeployment and recruitment
- ◆ Enhanced employee value proposition, to attract and retain the skills SARS needs
- ◆ Improved performance management processes to empower managers to effectively manage employee performance
- ◆ Improved organisational culture and employee engagement and
- ◆ Building of an external skills pipeline to enable sustainability and employment creation.

SARS recognises the need to develop its people's technical and leadership capability

Key activities to achieve the above include:

- ◆ Implementation of a workforce plan to inform SARS Human Capital management
- ◆ Develop and implement a skills development framework to retrain and redeploy staff impacted by the modernisation of SARS's systems
- ◆ Optimise the SARS Leadership Academy to ensure development of technical and leadership skills as individual career and organisational needs and to build an external skills pipeline
- ◆ Revise and implement a capability and performance aligned employee value proposition, to enhance attraction, engagement and retention of required skills and competencies and
- ◆ Implementation of an Integrated Talent Management Programme.

How delivery against this strategic priority will be measured:

- ◆ Delivery of these supporting priorities will be measured through developing and monitoring relevant output measures internally

6.7 Deepen key external relationships to manage the whole value stream

Aspiration:

- ◆ Enhance outreach, education, service and enforcement by building collaborative partnerships with private, public and international sector partners and utilising their feedback to improve compliance
- ◆ Make a broader societal contribution through targeted, high-impact initiatives and
- ◆ Build institutional respectability and service delivery excellence for SARS and its government partners.

SARS can work more effectively with the assistance of partners. There are mutual benefits to be gained by working in a well-targeted manner with public and private sector partners, communities and organisations to facilitate compliance with tax and customs legislation, aligning processes and sharing best practice. For example, employers can assist in the registration of individual taxpayers. There is also synergy to be gained from working closely with other organs of state for example in the registration of businesses for various purposes. The building of governmental partnerships will improve service delivery and institutional respectability. With respect to the processing of the payments and collection of revenue, SARS benefits from close co-operation with financial institutions.

The commitment of SARS's employees to their communities and country is evidenced through voluntary community work. By aligning and focusing the contributions of its employees, SARS seeks to make an even greater societal impact beyond revenue collection, demonstrating how the organisation lives its values outside the work environment. SARS thus encourages South Africans who are touched by the efforts of SARS employees to themselves show greater commitment towards building their communities. This commitment will help to broaden the culture of tax compliance.

Given the level of interconnectivity of global trade it is important to build and maintain good relations with other customs administrations. While continuing to strengthen relations with key trading partners, a particular focus will be placed on

SARS can achieve synergies through collaborating with other stakeholders in its value chain

achieving a common customs working philosophy with countries in the African continent. Enhanced co-operation with customs administrations in Africa has a number of advantages, such as a more coherent and response against illicit cross border trading, improved trade facilitation benefits, support for a deeper regional integration process which eliminates non-tariff barriers and building of strong state institutions in the African continent to support economic development.

Three-year deliverables include:

- ◆ Implementation of targeted stakeholder assistance initiatives to optimise the revenue collection value chain and hence improve compliance
- ◆ Implement a set of targeted corporate social investment and stakeholder assistance initiatives to make a positive contribution to society at large
- ◆ Collaborate with neighboring customs administrations to reduce impediments to trade and enhance SARS's ability to effectively respond to cross border illicit activities such as smuggling and fraud and
- ◆ Implement joint projects with related state institutions to drive interconnectivity of systems, improved service delivery and institutional respectability.

Key activities to achieve the above include:

- ◆ Strengthen government partnerships with a view to improve the revenue collection value chain and border management
- ◆ Leverage South Africa's international treaty network and cooperation with tax and customs administrations to exchange information on education, service and enforcement
- ◆ Improve our business stakeholder partnerships
- ◆ Manage relationships with the media
- ◆ Engage in community and taxpayer outreach and education and
- ◆ Grow and enable broader community contribution of SARS staff.

How delivery against this strategic priority will be measured:

- ◆ Delivery of these supporting priorities will be measured through developing and monitoring relevant output measures internally.

07

Measuring SARS's delivery

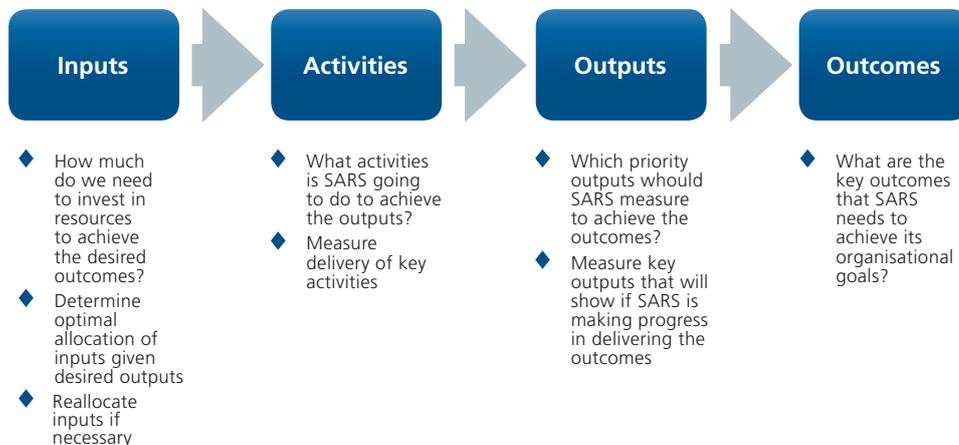
Measuring SARS's delivery

7.1 Alignment with Government's planning and performance management approach and international best practice

SARS is aligning its planning and performance management approach to Government and international best practice

SARS needs to align its performance management approach to that of the government's new planning, performance monitoring and evaluation approach, with the emphasis on delivery. This new planning approach emphasises the need for SARS to set and achieve against clear outcomes measures for each of the core outcomes.

Measurement Approach



In addition, SARS has researched the measurement and reporting approaches of global revenue administrations. Lessons from this research were also used to inform the planning and performance management approach. Key lessons included:

- ◆ Historically, revenue administrations have tended to focus their reporting for accountability purposes on "outputs" (e.g. number of returns filed, audits completed, etc.) more so than "outcomes"
- ◆ Many revenue bodies have now taken steps to increase the focus of their planning and performance evaluation towards the "outcomes" to be achieved from their administration
- ◆ For some revenue administrations, this has included the use of direct and indirect measures of taxpayer compliance, measures that reflect the quality of services delivered to the taxpayer and tax professional, reduction in the taxpayer's compliance burden and measures that reflect the taxpayer's satisfaction with, and confidence in, the revenue administration and
- ◆ A number of revenue administrations derive a comprehensive performance management framework that includes the practice of setting "targets" that focus on the outcomes to be achieved and which are made public, against which progress is reported in annual performance reports.

SARS aims to hold itself accountable in the eyes of the government and its people against associated targets. However, moving towards an outcomes-based approach is no easy task. A recent OECD report (Tax administration in OECD and selected

non-OECD countries: 2010) showed that even countries that have been using this approach for over 15 years continue to struggle with issues of measurement and target setting. This is especially the case for “outcomes”. A key challenge for all countries is obtaining good quality information which is valid, reliable and timely. Other numerous challenges are also encountered, for example:

- ◆ **Finding accurate measures of performance:** Outcome measures are technically more difficult to measure, they are complex and involve the interaction of many factors, planned and unplanned. Also, there are problems with time lag issues and in some cases the results are not completely within the control of the revenue administration. Most countries have adopted a combination of outputs and outcomes.
- ◆ **Establishing and maintaining systems of data collection:** To ensure quality there needs to be a process by which data is verified and validated. However, setting up and maintaining these systems can be both complex and costly. It is especially challenging to assure the quality of the data when revenue administrations are dependent on third parties to provide the information.
- ◆ **Setting and using performance targets:** Performance targets help clarify performance expectations for a given time period. Other revenue administrations continue to struggle with the issues of target levels and numbers. There are problems with setting targets too high and/or too low. Setting targets too low means that revenue administrations are not challenged to improve performance. Setting them too high, while it can serve as a motivation, also creates unrealistic expectations and situations where revenue administrations can fail. It takes time to get the right level and to get to the comparative data to realise that targets are set at too high or too low a level. There is also an issue about how many targets to have. Too many targets create information overload and make it difficult to select. Too few targets create distortion effects again. It takes time to achieve the right balance.

To fully align with Government’s planning and performance approach, and to bring itself in line with international best practice, SARS has developed three sets of measures that map onto the “measurement value chain”. These are:

1. **Outcome measures:** At an overall level, SARS will develop outcome measures against each of its four core outcomes of increasing customs compliance, increasing tax compliance, increasing the ease and fairness of doing business with SARS and increasing cost-effectiveness and internal efficiency. These outcome measures will serve as the ultimate yardstick by which SARS will track and evaluate its ongoing delivery as an organisation and will be relevant in this and all future planning cycles. These outcome measures will be communicated to the government and to the South African public as a visible sign of the organisation’s commitment to achieving these outcomes.

While we develop accurate outcome measures of performance and establish robust systems of data collection to track against these outcome measures, SARS will, in the interim, use a set of proxy output measures to measure progress against the organisation’s core outcomes. When the ideal outcome measures have been developed, the use of these proxy output measures will be gradually phased out, or it will be used internally.

Moving to an outcomes based approach has proved challenging for other revenue administrations

Proxy output measures will be used while ideal outcome measures are developed

2. **Strategic priority measures:** A set of strategic priority measures will be developed and used to monitor SARS's delivery against its three-year strategic priorities. The strategic priorities are always in support of one or more of the core outcomes and the strategic priority measures will be used to track and evaluate key outputs that will indicate if SARS is making progress in delivering the outcomes. Thus, the strategic priority measures will be output measures. These strategic priority measures will be reviewed and replaced with new measures at the end of every planning cycle, in line with the strategic priorities relevant for the next planning period. These measures will be tracked and evaluated internally to track our progress.
3. **Divisional measures:** These input-, activity-, and output-based measures will be used to track progress against divisional objectives that are in support of SARS's strategic priorities and outcomes.

7.2 Developing and implementing outcome measures to track SARS's delivery against its stated targets

Core Outcome	Ideal Outcome Measures
Increase customs compliance	Customs compliance index (per tax product) Decrease in size of illicit economy
Increase tax compliance	Tax compliance index
Increased ease and fairness in doing business with SARS	Reduction in taxpayer compliance burden Reduction in trader compliance burden
Increased cost-effectiveness, internal efficiencies and institutional respectability	Unit cost/process Productivity/employee

In addition, SARS will also develop a metric to measure the size of the illicit economy. To measure customs compliance, SARS will develop a customs compliance index. This index will comprise of two factors:

- ◆ **Preferred trader registration effectiveness:** The objective of this factor is to measure the amount of trade that this covered by the preferred trader programme and
- ◆ **Preferred trader compliance level:** The objective of this factor is to measure the level of compliance among the registered preferred traders and will be measured by conducting regular compliance audits on the preferred trader pool.

In addition, SARS will also develop a measure to track the size of the illicit economy.

To measure tax compliance SARS will develop a tax compliance index for each tax type (PIT, CIT, VAT, PAYE). This index will comprise of four factors:

- ◆ **Registration compliance:** The objective of this factor is to measure the percentage of taxpayers that are eligible to pay tax that have registered with SARS. External research will be necessary to get a reasonable indication of the number of people eligible to pay tax and

- ◆ **Filing compliance:** The objective of this factor is to measure the percentage of taxpayers that filed returns in the tax year due. External research will be necessary to get a reasonable indication of the expected number of returns in the tax year.
- ◆ **Declaration compliance:** The objective of this factor is to get an indication of the level of full and honest disclosure among the taxpaying public (i.e. full declaration of income) and
- ◆ **Payment compliance:** The objective of this factor is to measure the percentage of taxpayers that have met their payment objectives post the completion of the assessment.

To measure **increased ease and fairness of doing business with SARS** a taxpayer compliance burden measure and a trader compliance burden measure will be developed.

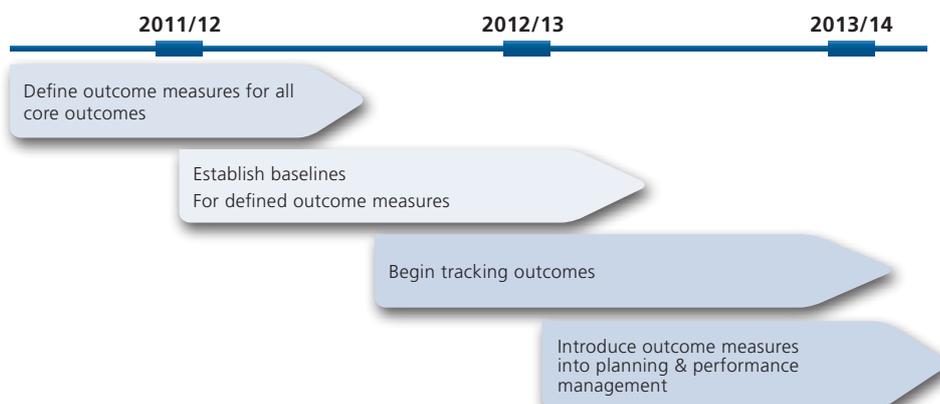
To measure increased **cost effectiveness** and **internal efficiency**, two measures will be developed:

- ◆ **Unit cost/process:** This measure will be used to measure the cost associated with each process in SARS (innovation, registration, filing, declaration, payment) and
- ◆ **Productivity/employee:** This measure will be used to measure the level of output per employee.

SARS has developed a plan to develop, test and implement these outcome measures. Baselines will need to be established for each of these outcome measures to provide a basis for sound target setting.

Proposed implementation plan for outcome measures

While the ideal outcome measures are being developed and implemented, a set of proxy output measures will be used to monitor and evaluate SARS's delivery against its core outcomes. These proxy measures have been selected to provide a reasonable level of accuracy of progress against the core outcomes and to hold the organisation accountable in the eyes of Government and the people of South Africa. The output measures selected as proxies are well-established, robust and reliable metrics at SARS.



Baselines and three-year targets for these measures are provided in the next section.

The measures and targets for 2011/12 – 2013/14 are

	Measures	Targets			
		Baseline	2011/12	2012/13	2013/14
Increased Customs compliance	Customs revenue collected (Rbn)	MTBPS Target for 2010/11	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance
	% Trade volume coverage by Preferred Traders [Number of Preferred Traders declarations processed vs total number of declarations processed]	0	5	12	25
	% Of cargo declarations targeted [Number of lines of declarations targeted vs total number of lines of declarations]	14	13	12	11
	% Uptake in electronic manifest submissions (Number of electronic manifest submissions vs. total number of manifest submissions)	0	60	80	95
	% Increase in Customs compliance index	Not defined currently	Develop measure and baseline	Track against baseline	Introduce measure into SARS performance management
	% Decrease in size of illicit economy				
	Achieving progress against identified benchmarks (eg. post clearance audit coverage)	Not defined currently	Develop measure and baseline	Track against baseline	Introduce measure into SARS performance management
Increased Tax compliance	Total revenue (excluding Customs revenue) collected (Rbn)	MTBPS Target for 2010/11	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance
	% PIT filing compliance [Number of PIT returns submitted in tax year due vs. Total number of PIT returns required in tax year]	79	79	80	81
	Cash recovered from debt book (Rbn)	8.8	11	11	11
	% Audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) above the threshold	3	4	5	6
	% Increase in the Small Business register	Not defined currently	Develop and measure baseline	Track against baseline	Introduce measure into SARS performance management
	Debt book as a % of tax revenue*				
	% CIT and VAT filing compliance [Number of CIT and VAT returns submitted in tax year due vs Total number of CIT and VAT returns required in tax year]				
	Tax compliance index for each tax product	Not defined currently	Develop and measure baseline	Track against baseline	Introduce measure into SARS performance management
Achieving progress against identified benchmarks (eg. audit performance)					

* This measure will be developed post significant account maintenance to the debt book

	Measures	Targets			
		Baseline	2011/12	2012/13	2013/14
Increased ease and fairness in doing business with SARS	% Uptake in electronic filing, declaration and payment submissions for all tax products [No. of electronic filing, declaration and payment submissions vs total filing, declaration and payment submissions]	80	80	81	82
	% Uptake in electronic customs bills/ declarations (EDI)	70	80	90	95
	Average processing turnaround time for PIT returns (working days)	1.7	1.7	1.7	1.7
	Average processing turnaround time for CIT returns (working days)	2.85	2.85	2.6	2.1
	Average processing turnaround time for VAT refunds (working days)	21	15	10	<5
	Average processing time for VAT registrations (working days)	Not defined currently	Develop measure and baseline	Track against baseline	Introduce measure into SARS performance management
	% First contact resolution in contact centre and branches				
	% Reduction in escalated service queries				
	Taxpayer and trader compliance burden				
Achieving progress against identified benchmarks (eg. complaints resolution)	Not defined currently	Develop measure and baseline	Track against baseline	Introduce measure into SARS performance management	
Increased cost effectiveness and internal efficiency	Treasury allocation to revenue percentage	1.3	1.2	1.2	1.2
	Unqualified report by Auditor-General	Unqualified report	Unqualified report	Unqualified report	Unqualified report
	% Of files digitised within SARS	Not defined currently	Develop measure and baseline	Track against baseline	Introduce measure into SARS performance management
	Unit cost per process				
	Productivity per employee				
	Achieving progress against identified benchmarks (eg. cost per process)	Not defined currently	Develop measure and baseline	Track against baseline	Introduce measure into SARS performance management

08

SARS's resource plan

SARS's resource plan

8.1 Expenditure estimates over the medium term

Our projected revenue and expenditure for 2011/12 to 2013/14 are given below.

Expenditure Estimates (R'000)	2011/12	2012/13	2013/14
National Treasury Grant	8 653 573	9 244 374	9 757 215
Interest income	30 000	30 000	30 000
Other Income	227 000	238 349	250 267
Total Funds Available	8 910 573	9 512 723	10 037 482
Funding Allocation			
Baseline Expenditure (BAU)	7 666 265	8 164 393	8 723 332
Initiatives and Projects	1 244 307	1 348 331	1 314 150
Total Allocation (Budget)	8 910 573	9 512 723	10 037 482

8.2 Projected human resource capacity

To deliver on its mandate SARS will require a diverse skill set. A provisional SARS workforce plan which is based upon our strategic aspirations and operating model, indicates a need to build capability in certain core, critical and scarce roles such as in audit, transfer pricing, forensic and investigation, compliance risk analysis, border protection, and trade facilitation areas.

SARS has adopted a multipronged sourcing strategy that will support its need for these core, critical and scarce skills and the drive to create employment in the country particularly the youth. SARS endeavours to:

- ◆ Build and retain core, critical and scarce skills through recruitment and building a learner pipeline at tertiary institutions
- ◆ Create opportunities for youth through learnerships and graduate programmes in the identified core, critical and scarce skills categories
- ◆ Implement learnerships for an external pipeline that will allow learners to exit with portable qualifications in the fields supported by the relevant Sector Education and Training Authorities (SETA) in South Africa
- ◆ Review SARS's skills mix in line with its changing organisational profile as a result of modernisation and redeploy resources to where they are required
- ◆ Retrain and redeploy existing employees to areas of the business where new or emerging skills and capabilities are required.

The SARS headcount is envisaged to have steady growth over the next three years of between 1.9% and 4.0% as reflected below:

	2010/11	2011/12	2012/13	2013/14
Permanent employees	15 034	15 330	15 434	15 635
Temps	862	650	550	400
% Net Growth Excl temps	1.9%	1.9%	3.0%	4.0%
Total	15 896	15 980	15 984	16 035

09

Conclusion

Conclusion

This plan is developed within the context of Government's continuing determination to expand and improve the delivery of vital services to all South Africans and to enhance the productive base of the country through improved infrastructural development.

In order for SARS to provide the means for Government to deliver on these goals, the cornerstone of all SARS plans must be to improve the levels of compliance to tax and customs legislation. To this end SARS has, over the past few years, embarked on a sustained programme to improve its services, educate the public on their obligations and to detect and deter non-compliance in line with its Compliance Model.

At the heart of these efforts over the past three years has been a modernisation programme, which, along with other significant enhancements within SARS, is already paying strong dividends. Compliance gains – both in respect of registration, filing and payment – have positioned South Africa to withstand the full effects of the global economic crisis including through a counter-cyclical fiscal policy. Where many developed and developing economies are being forced to initiate significant expenditure reduction and tax hikes at exactly the time the reverse is needed to sustain the momentum of economic recovery, South Africa's fiscal discipline and growing revenue has provided the space for a more tempered and measured response.

The next three years will build on this foundation to provide sustainable support for Government's programme of action to reduce poverty, create jobs and provide a better quality of life for all South Africans.



ANNEXURE : Materiality Framework

ANNEXURE : Materiality Framework



ANNEXURE : Materiality Framework

PFMA SECTION OWN ACCOUNTS	QUALITATIVE	QUANTITATIVE
<p>S55 (2)(b)(i-iii)</p> <p>a) Any material losses through criminal conduct;</p> <p>b) Disciplinary steps taken and/or criminal charges laid as a result of material losses (refer materiality amounts) through criminal conduct;</p> <p>c) Any irregular, fruitless and wasteful expenditure (as defined);</p> <p>d) Disciplinary steps taken and/or charges laid as a result of any irregular, fruitless and wasteful expenditure;</p> <p>e) Any losses written off or recovered.</p>	<p>All of the qualitative indicators to be subjected to the materiality levels as indicated in the Quantitative measures:</p> <p>a) Losses to be reported when all of the conditions below are satisfied:</p> <ul style="list-style-type: none"> - The loss has been quantified or can be reasonably estimated - A case has been opened with the SAPS when of a criminal nature; <p>b) Disciplinary steps taken and/or criminal charges laid as a result of material losses through criminal conduct</p> <p>c) Confirmed and reported irregular, fruitless and wasteful expenditure that meets the definition of such expenditure. This will include transactions and contractual arrangements not necessarily incurred but entered into;</p> <p>d) Any Losses written off or recovered that have not specifically been addressed as a result of criminal conduct, irregular expenditure, fruitless and wasteful expenditure. This will include events not falling within the ambit of the above for example, natural disasters, vendor failure, and disaster recovery expenditure.</p>	<p>a) For all losses attributable to criminal conduct, irregular, fruitless and wasteful expenditure as well as other losses the values will be:</p> <ul style="list-style-type: none"> - the individual or cumulative losses of R5 million and above <p>b) Disciplinary steps taken and/ or criminal charges laid with regard to the above incidents.</p>
<p>a) Any establishment or participation in the establishment of a company;</p> <p>b) Any participation in a significant partnership, trust, unincorporated joint venture or similar arrangement;</p> <p>c) Acquisition or disposal of a significant shareholding in a company;</p> <p>d) Acquisition and or disposal of a significant asset;</p> <p>e) The commencement or cessation of business activity (the commencement or cessation thereof);</p> <p>f) Any significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.</p>	<p>a) Any of the transactions or actions to be entered into Par (2) (a)-(c) will qualify to be included as these are not the normal business of SARS;</p> <p>b) Any acquisition or disposal contemplated in Par (2) (d) and approved by the Accounting Authority for the total Fixed asset category;</p> <p>c) Any business activity Par (2) (e) (the commencement or cessation thereof) that would impact on the ability of the Accounting authority to meet his mandate;</p> <p>d) Any significant change, the nature to be defined by the Accounting authority to fall under Par (2) (f).</p>	<p>Unless exempted in terms of Sec 55(4) the following will apply:</p> <p>a) Par (2) (a)-(c) – Any activities or transactions that meet the requirements of the said provisions;</p> <p>b) Acquisition and disposal of assets for the value of R250 million;</p> <p>c) Par (2) (e) as defined by the Accounting Authority d) Par (2) (f) any change as defined by the Accounting Authority.</p>

Lehae La SARS

299 Bronkhorst Street, Nieuw Muckleneuk 0181

Private Bag X923, Pretoria 0001, South Africa

Telephone: +27 12 422 4000

Fax: +27 12 422 5181

ISBN: 978-0-621-39933-2

RP35/2011



South African Revenue Service