

SOUTH AFRICAN REVENUE SERVICE

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ANNUAL PERFORMANCE PLAN

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2013/14

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# Abbreviations

AEO	Accredited Economic Operator
BMA	Border Management Agency
BRICS	Brazil, Russia, India, China and South Africa
CIPC	Companies and Intellectual Property Commission
CIT	Corporate Income Tax
DHA	Department of Home Affairs
DTI	Department of Trade and Industry
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
GDP	Gross Domestic Product
HNWI	High Net Worth Individual
ICBS	Interfront Customs and Border Solution
JSE	Johannesburg Securities Exchange
LBC	Large Business Centre
MAAA	Mutual Administrative Assistance Agreement
NDP	National Development Plan
NHI	National Health Insurance
OECD	Organisation for Economic Co-operation and Development
OSBP	One Stop Border Post
PAYE	Pay As You Earn
PIT	Personal Income Tax
PPS	Passenger Processing System
SACU	Southern African Customs Union
SANDEF	South African National Defence Force
SAPS	South African Police Service
SARS	South African Revenue Service
SAS	Suspicious Activity System
SMS	Short Message Service
SSA	State Security Agency
TAA	Tax Administration Act
TAT	Turnaround Time
TCC	Tax Clearance Certificate
UN	United Nations
USA	United States of America
VAT	Value Added Tax
VIP	Very Important Person
WCO	World Customs Organisation
XBRL	eXtensible Business Reporting Language

Message from the  
Commissioner

01

## 01 | Message from the Commissioner

It gives me great pleasure to present the South African Revenue Service's (SARS) Annual Performance Plan for the fiscal year 2013/14. This plan outlines the key initiatives and activities that SARS will undertake during the 2013/14 fiscal year towards achieving its core strategic outcomes as set out in the SARS 2013/14 – 2017/18 Strategic Plan. It highlights how SARS will support key government priorities as set out in the National Development Plan (NDP) whilst enhancing its own capabilities to increase compliance amongst taxpayers and traders.



SARS operates in a challenging period characterised by continuing uncertainty in both the global and local economic environments. And in this challenging fiscal and budgetary environment, SARS has to do more with less to transform and build resilience into its systems to respond to the challenges it faces. In this regard, SARS has tailored its actions for this fiscal year to build upon the progress made over the years, to increase compliance and ease the compliance burden on taxpayers and traders.

During the 2013/14 fiscal year, SARS will increase tax and customs compliance by carrying out targeted enforcement and compliance activities in those areas that have not complied as identified through the SARS Compliance Programme. To ease the compliance burden on businesses, SARS's emphasis will be reflected through planned initiatives such as the rollout of the single registration process, extension of the Preferred Trader Programme to excise taxpayers and traders and simplified (registration, filing and payment) requirements for small businesses. Further efforts to improve compliance and reduce fraud will see SARS roll out a new electronic Tax Clearance Certificate (TCC) system.

SARS's efforts to improve its risk management systems and capabilities will be boosted further during this fiscal year, by the development and introduction of new systems functionalities within the Personal Income Tax (PIT), Value-Added Tax (VAT) and Customs systems and through expanded data matching with third-party sources. This will help to plug existing revenue leakages and loopholes. To contribute towards effective government, continuation of the 'whole of government' approach will put emphasis on the synergies that can be gained from collaborating with other government departments to achieve value chain efficiencies.

To ensure that SARS employees have the right skills in the right place at the right time and are meaningfully engaged, SARS will develop a new people strategy to serve as a roadmap for attracting and retaining the best and the brightest people to work for SARS. In addition to the above key strategic initiatives, SARS will play an integral role in the review of the tax policy framework as announced by the Minister of Finance's 2013 Budget Speech.

Increasing compliance, easing the compliance burden and getting the most out of SARS resources are the main objectives of the SARS 2013/14 – 2017/18 Strategic Plan and are also reflected in this Annual Performance Plan. I am confident that with this plan, SARS will continue to respond positively to the challenges it faces in the year ahead.

A handwritten signature in black ink, appearing to read 'Oupa Magashula'.

**Oupa Magashula**

SARS Commissioner

Official Sign-off

02

## 02 | Official Sign-off

It is hereby certified that this Annual Performance Plan was developed by the Executive Committee of the South African Revenue Service and takes into account all relevant policies, legislation and other mandates for which we are responsible. This Plan accurately reflects the strategic outcome oriented goals and objectives which the department will endeavour to achieve over the period.



**Oupa Magashula**  
SARS Commissioner

Background

03

### 3.1 National Policy Direction

SARS's vision is informed by its legislative mandate. As an organ of state, its mandate outlines its obligations towards the state and its people. This mandate supports and is directly informed by a higher purpose, namely to contribute directly to the economic and social development of the country in order for Government to meet its priorities.

The Government through the National Development Plan – 2030 adopted a new economic growth path to drive the economy. The NDP laid out the country's primary challenges as:

1. Too few people work
2. The quality of school education for black people is poor
3. Infrastructure is poorly located, inadequate and under-maintained
4. Spatial divides hobble inclusive development
5. The economy is unsustainably resource intensive
6. The public health system cannot meet demand or sustain quality
7. Public services are uneven and often of poor quality
8. Corruption levels are high
9. South Africa remains a divided society

As a response to these challenges the NDP aims to eliminate poverty and reduce inequality by 2030 by:

1. Raising employment through faster economic growth
2. Improving the quality of education, skills development and innovation
3. Building the capability of the state to play a developmental, transformative role

### 3.2 The role of SARS in the wider Government and National Agenda

In order to achieve the objectives of the National Development Plan, SARS will continue to effectively collect the revenue required by Government to meet its fiscal and policy responsibilities as well as continue to facilitate legitimate trade in order to grow the country's economy. In addition, SARS will promote effective government, strong leadership and active citizenry by:

- Continuing to improve service and raising compliance
- Continuing to partner with other government units to improve the state's overall effectiveness and efficiency
- Engaging with other players in tax and customs administration, regionally and internationally
- Reducing the cost of compliance and the cost of doing business in South Africa
- Raising the competitiveness and export earnings of the country through efficient and effective facilitation of legitimate trade
- Ensuring that SARS is corruption free and assisting in anti-corruption measures across government, particularly in procurement processes
- Drawing all citizens and entities into a relationship with SARS

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- *Raising employment through faster economic growth*
  - *Improving the quality of education, skills development and innovation*
  - *Building the capability of the state to play a developmental, transformative role*
-

## 3.3 SARS's Operating Environment

This section identifies several assumptions about the external and internal environments that inform our strategic planning process. Key topics include the Census 2011, trends in the global tax environment, economic trends and key strategic risks facing SARS and what these changes imply about SARS's ability to collect the revenues needed to finance government priorities and increase compliance.

### 3.3.1 Census 2011

The 2011 Census provides valuable insight on how South Africa has progressed in the last decade. Some of the salient features of the census report indicate the following improvements in the general well-being of the country:

- Over 76% of South Africans live in formal dwellings
- 53% of these dwellings are owner-occupied, with 41% fully paid off
- 91% of South Africans have running water in their houses or yards
- 85% of South Africans have electricity in their homes, 68% has refrigerators and 75% have televisions
- 89% of South Africans have cell phones
- 75% of South Africans have formal education, 41% of which is secondary or higher
- Household income has increased by 113% between 2001 and 2011
- Household sizes are becoming smaller, from 5 to at least 3 people per household
- Median mortality age has increased from 22 to 25 years old
- More people are migrating to urban cities, more to Gauteng (net migration of 4.3 million people, including foreigners)

SARS will utilise the information emanating from the census to further improve and expand its services and compliance message to the rest of the population.

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### 3.3.2 Global economic environment

The SARS Annual Performance Plan 2013/14 is set in the context of continuing financial stability concerns in the Euro zone, with the economic environment characterised by a slow and fragile recovery. In major non-Euro zone economies such as the U.S., there are signs of tentative improvement in growth, albeit moderate. In the emerging economies, particularly India and China, there are observable indicators of growth rebound following the restrained pace of growth in 2012. Consistent with global economic activities, world trade has shown gradual acceleration in momentum, with inflation declining in advanced economies, but mixed in emerging economies. Globally, unemployment remains a challenge, with signs of moderation in some major advanced economies. Overall, the global economic overview and prospects will remain muted, diverse and challenging for households, businesses, and will continue to exert pressure on tax revenue.

### 3.3.3 Domestic economic environment

The process of economic growth as measured by the rise or decline in real GDP and the comprehensive measure of economic performance activity of a country, invariably affects tax revenue receipts and ultimately impact on government ability to spend and on levels of borrowing. The current global economic environment, which is characterised by slow growth, has produced significant shocks worldwide that have led to drastic changes in tax revenue performances and large swings in government deficits and debts.

South Africa has not been immune from the impact of the slow global economic recovery and from its own internal macroeconomic factors, which in turn has had an impact on the performance of tax revenue and level of tax compliance. This will ultimately have a negative impact on government spending and borrowing.

### 3.3.4 Global tax environment

The proliferation of sophisticated tax avoidance and evasion schemes continues to rise despite efforts to address them leading to a perceived unfair erosion of the tax base of countries and possibly causing serious risks to the countries' fiscus.

According to a recent Organisation for Economic Co-operation and Development (OECD) report (Addressing Base Erosion and Profit Shifting: 2013), multinational corporations continue to use sophisticated schemes (use of cross-border structures, transfer pricing arrangements, intragroup transactions, hybrid mismatches) to exploit loopholes in local tax codes, double taxation agreements and tax treaties to avoid or significantly minimise their tax obligations in countries where they operate and make profits. The report gives detailed analysis of data on:

- Statutory income tax vs. effective tax rates of multinational companies
- Levels of foreign direct investment in countries – with particular emphasis on foreign direct investment conducted through special purpose entities
- Changes in corporate tax revenues as a percentage of Gross Domestic Product (GDP) over a period of time

The report concludes that based on the analysis (albeit inconclusive) there is an abundance of circumstantial evidence of a rise in base erosion and profit shifting behaviour by multinational companies.

The report also describes the developments in the global economy that have an impact on the way businesses are organised and as a consequence, on the management of their tax affairs. The report cites the following developments as facilitating the development of global business models that shift productive activities to locations that are distant from the location of customers:

- Free movement of capital and labour
- Shift of manufacturing bases from high-cost to low-cost

- Gradual removal of trade barriers
- Technological and telecommunications developments
- The ever growing importance of intellectual capital and digital products

The report also identifies several areas of concern in the international tax system that provides opportunities for base erosion and profit shifting behaviour of multinational entities:

- Differences between the rules in domestic tax systems for the classification of entities and some financial instruments
- Tax treatment of inter-group financial transactions that permit relatively high leveraging of group companies in high-tax jurisdictions
- Transfer pricing rules that permit inappropriate allocation of risk to related parties in low-tax jurisdictions
- Anti-avoidance measures such as general anti-avoidance rules, controlled foreign corporation rules, thin capitalisation rules and rules to prevent treaty abuse that are ineffective in preventing tax avoidance
- Existence of harmful preferential tax regimes

The Group of 20 countries (G20 - of which South Africa is a member) has specifically recognised base erosion and profit shifting employing the above schemes as a major area of concern that could threaten stability of countries. The G20 has agreed to adopt the proposals of the OECD report to counter these abusive schemes.

Individual countries are also taking the initiative to introduce regulatory and legislative reforms to counter these schemes. The introduction of the Foreign Account Tax Compliance Act (FATCA) in the United States of America (USA) is an important development in its efforts to improve tax compliance involving foreign financial assets and offshore accounts. The South African government, through the SARS, National Treasury and Financial Intelligence Centre (FIC) has begun negotiations regarding unilateral inter-governmental agreement with the United States government on information exchange specifically relating to FATCA. Although this agreement focuses on USA citizens, the overall aim is to improve information gathering from financial institutions through improved automatic exchange of information with other treaty partners. South Africa seeks reciprocal bilateral and multi-lateral agreements on tax matters.

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*Developments in the global tax environment have implications for the manner in which SARS collects the revenue required to meet government's fiscal responsibilities*

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The Global Forum's Mutual Administrative Assistance Agreement (MAAA) should be ratified during the course of this year. Once ratified, it will increase SARS's information exchange scope with jurisdictions that currently do not have bilateral agreements with SARS. This will also facilitate SARS compliance efforts (particularly debt collection efforts) which would not have been possible under existing double taxation agreements.

Developments in the global tax environment have implications for the manner in which SARS collects the revenue required to meet government's fiscal responsibilities. These developments will also affect the perceived fairness of the overall tax system of the country if no action is taken. SARS must keep up with these ever changing schemes and develop

the skills and collaborations needed to ensure that erosion of the South African tax base is prevented from happening and that everyone that has the use of the country's public resources pays their fair share of taxes they owe.

## **3.4 Continuing risks facing SARS**

As with the previous Annual Performance Plan, this plan assumes key strategic risks for SARS over the next five years. These risks stem from SARS's exposure to the local and global economic climate, the compliance behaviour of taxpayers and traders in response to this climate and the risks stemming from SARS's own operations.

### **3.4.1 Fiscal pressures exacerbate revenue collection pressure on SARS**

Uncertainties in the global economic environment, a widening budget deficit and an increasing public debt-to-GDP ratio place increasing pressure on SARS to meet challenging revenue targets. The existing tax base continues to be placed under pressure to help deliver economic relief, provide assistance to the unemployed and help fund government's expenditure requirements.

### **3.4.2 The threat of illicit economy is a growing and is undermining the formal economy, and will impact negatively on tax revenues**

The illicit economy is a serious threat to legitimate forms of business and financial activity and undermines economic growth and the tax revenue base. Illicit economic activities contribute towards many of the social ills currently found in the South African society. Some of these activities include smuggling and the sale of contraband cigarettes, drug abuse, wildlife exploitation and illegal immigration. Illicit economic activities also have an effect of eroding the formal tax base from which SARS will collect tax revenue. It is estimated that there is an annual loss of between R4.5 billion and R6 billion to the fiscus due to the smuggling and consumption of contraband cigarettes.

### **3.4.3 Unfavourable public perception of poor state service delivery and corruption pose the largest compliance risk to SARS**

Research and empirical evidence show that taxpayer's attitude towards compliance, and their willingness to comply, is influenced by how they perceive those funds to be utilised. Concerns about corruption in the public sector remains an issue; recent surveys show that corruption has replaced crime as the number one issue concerning South African citizens.

Perception about the quality of service delivery is equally a serious concern. Recent protests about service delivery bear testimony to this. The media has published articles questioning the need for citizens to fulfil their tax obligations, when parts of the State are allegedly corrupt or incompetent. These factors affect SARS's ability to achieve compliance.

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*The illicit economy is a serious threat to legitimate forms of business and financial activity and undermines economic growth and the tax revenue base*

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### **3.4.4 Potential widening of SARS mandate as part of Government's efforts to improve service delivery**

The government remains committed to improving service delivery to its citizens. In order to achieve this in a cost efficient manner, a high degree of coordination and collaboration is required among different state organs, and distinctive capabilities residing within one state organ should be considered in order to improve the entire state processes or to deliver better services to the South African public. The SARS mandate may potentially be widened to cater for the following:

- Government aims to balance trade facilitation to enable economic growth with improved border security to combat the illicit movement of goods and people. To achieve effective border security, a Border Management Agency (BMA) model has been proposed to ensure greater operational synergies among the different processes at the border and provide clear delineation of responsibility and accountability for all the required aspects of border management. Under this model, the aspects of SARS's mandate pertaining to the protection of South Africa's borders, will be impacted
- The National Health Insurance (NHI) scheme initiated by government aims to ensure that all citizens have access to primary health care through a state-funded health insurance scheme. SARS will need to cater for any additional taxes that may need to be collected to fund this scheme. Furthermore, SARS may be required to administer the payment of claims, through leveraging the risk management principles, platforms and systems it has developed for the tax and customs environment. This would mean a significant shift in SARS's mandate and will require a rethink of how we do business
- In addition, as part of SARS strategy to pursue a 'whole of government approach', SARS has been involved in collaboration efforts with other government departments [e.g. the Department of Home Affairs (DHA) and The Companies Intellectual Property Commission (CIPC)]

The risk inherent in the above is that failure to adequately plan and capacitate SARS for the potential widening of the mandate may have an adverse effect on the execution of the current mandate.

### **3.4.5 Businesses are increasingly using sophisticated and complex financial schemes to evade their tax obligations and minimise the impact of slow economic recovery on profitability**

SARS has detected an evolution from businesses utilising domestic loopholes to evade tax to now take advantage of cross-border structuring and transfer pricing manipulations. Some of the contributing factors are:

- Global economic uncertainty has resulted in multinational companies seeking innovative ways to protect their profitability and returns to shareholders, by reducing their tax burden

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*Global economic uncertainty has resulted in multinational companies seeking innovative ways to protect their profitability and returns to shareholders, by reducing their tax burden*

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- Growing presence of multinational corporations in South Africa, which account for nearly 70% of worldwide trade, have the greatest ability to shift profits from high tax jurisdictions to low tax jurisdictions
- Developing countries, such as South Africa, are likely to be the most impacted by transfer pricing manipulations, as the current Organisation for Economic Cooperation and Development and United Nations (UN) transfer pricing frameworks are seen to favour developed countries (e.g. due to the use of comparable data that is more relevant in developed countries). The relative shortage of transfer pricing skills and expertise in these jurisdictions is another likely factor.

#### **3.4.6 Non-compliance of high net worth individuals and the use of trusts to conceal their income**

Analysis shows that a significant number of high net worth individuals (HNWI) are under-declaring their income, resulting in significant revenue losses. SARS's collaboration with banks have indicated that there are between 10 000 to 20 000 individuals that meet the high net worth threshold, i.e. either R7 million in annual income or R75 million in assets. However, a significantly lower number of these have declared their true worth with SARS.

#### **3.4.7 VAT fraud and refund pressures**

The VAT systems and processes within SARS will continue to be placed under pressure as businesses respond to the impact of the slow economic recovery on their businesses. There is thus an increased chance of VAT fraud taking place, i.e. over-claiming of input VAT or under-declaration and/or non-declaration of output VAT to protect the profitability of the business concern. In this regard, SARS is looking to be a lot more vigilant at time of vendor registration. SARS will however continue to improve turnaround times in processing legitimate refunds to ensure that vendors have liquidity to sustain their businesses during these challenging times.

#### **3.4.8 Continued growth in the taxpayer overdue debt book**

Growth of the debt book is mainly due to poor accounts maintenance and the impact of the slow economic recovery on taxpayers' ability and willingness to pay. The SARS debt book continues to grow at an undesirable rate. As at 31 March 2012, the debt book (excluding debt not yet due) was R88.6 billion, up from R87.5 billion as at 31 March 2011. While part of the growth is attributable to the slow economic recovery, manual paper-based processes posed challenges to the integrity of taxpayer accounts. The planned modernisation of the debt environment will aid greatly in improving the maintenance of taxpayer accounts and improve debt collection and management efforts.

### **3.4.9 Succession Risk**

Delivery of the SARS strategic plan is heavily contingent on the continuity and stability of the organisation's leadership. Much of SARS's success in the past has been as a result of the relatively long tenures of the senior leadership team. However, approximately 20% of the senior leadership could potentially be leaving in the next four years, due to either retirement or the expiration of contracts. Many of the skills concerned are extremely scarce resources in South Africa and critical to SARS. Addressing this will require a carefully planned transition to the new leadership through identification of potential successors and ensuring an adequate grooming and handover process.

Resource plan

04

## 4.1 Expenditure estimates over the medium-term expenditure framework

SARS's projected revenue and expenditure (without footprint expansion) for 2013/14 to 2015/16 is presented in Table 1 below:

Expenditure Estimates (Rm)	2013/14	2014/15	2015/16
National Treasury Grant	9,534	9,983	10,336
Interest income	60	60	60
Other Income	250	250	250
Roll-over funding	-	119	355
<b>Total Funds Available</b>	<b>9,844</b>	<b>10,412</b>	<b>11,001</b>
<b>Funding Allocation</b>			
Baseline Expenditure (BAU)	9,134	9,851	10,626
Initiatives and Projects	710	561	375
<b>Total Allocation (Budget)</b>	<b>9,844</b>	<b>10,412</b>	<b>11,001</b>

Table 1: SARS's expenditure estimates

## 4.2 Projected Human Resource capacity

SARS's projected headcount for 2013/14 to 2015/16 is presented in Table 2 below:

	2013/14	2014/15	2015/16
Permanent employees	14 800	14 800	14 500
Temporary employees (% of Total Headcount)	0.54%	0.50%	0.48%
<b>Total</b>	<b>14 880</b>	<b>14 875</b>	<b>14 570</b>
% net growth excluding temporary employees	0.34%	0.00%	-2.03%

Table 2: SARS's projected headcount

Annual performance plan  
initiatives and activities  
2013/2014

05

# 05 | Annual performance plan initiatives and activities – 2013/2014

## 5.1 Core Outcome: Increased customs compliance

### ASPIRATION

To develop partnerships with all supply chain stakeholders to facilitate legitimate trade, while combating illicit trade.

SARS seeks to further government's aim of growing the economy and creating employment through better trade facilitation and combating illicit trade activities. Trade is facilitated through reducing compliance barriers and processing the movement of legitimate goods in an efficient manner whilst preventing the movement of illegal goods.

SARS also aims to improve the information flow relating to trade, to positively affect turnaround times and assist in managing inspections better through more timely and accurate identification of compliance risks. This will also be done by using its tax information base more effectively, to validate information and to reduce the requirements on traders.

### Selected Strategic initiatives to accomplish this outcome:

#### 5.1.1 SARS will offer a differentiated service offering in the customs environment by rolling out a Preferred Trader Programme:

The objective of the project remains to complete the roll-out of the importer and exporter solution by building a new relationship management function for clients that are formally awarded Preferred Trader status.

Key milestone activities that will be performed during 2013/2014:

- Developing the Preferred Trader case management system that will assist in managing a consistent delivery model that meets prescribed standards - from client application, through engagement and audit to the awarding of status
- Developing an integrated risk and compliance approach for Preferred Trader Programme. The intent is to align management of risk across all the activities involved with Preferred Traders (including: risk profiling, audit, relationship management and inspection management), and heighten the quality of assessment and scoring
- Developing and piloting an Authorised Economic Operator (AEO) programme to cover supply chain safety and security as per the WCO Safe Framework of Standards
- Supporting Southern African Customs Union (SACU) countries develop their own Preferred Trader Programmes to ensure standardisation across these trading partners
- Rolling out of the **Excise Preferred Trader Programme**, comprising of:
  - Publishing a set of specific Preferred Trader Excise Policies and Audit documents
  - Performing Audit trainings specific to Excise Preferred Trader requirements
  - Developing an Excise Risk approach and a risk capacity for the Excise Preferred Trader Programme

- Developing a test of Knowledge for Excise Manufacturers, in association with the SARS Academy, supported by the creation of Preferred Trader external guides for each supply chain role
- Designing the Accreditation rules including criteria and benefits for Excise Manufacturers, and develop a Request for Legal Amendment

### **5.1.2 SARS will automate and digitise the customs environment in order to improve efficiencies and turnaround times by implementing cargo and manifest acquittal system changes:**

The purpose of this initiative is to ensure the reconciliation/acquittal of all manifests received by Customs and subsequently the introduction of missing-and-mismatch cases on Service Manager through which inspections can be done by staff.

Key milestone activities that will be performed during 2013/2014:

- Completion of SAP rollout and Service Manager functionality to all legacy branches
- Cargo related data take-on:
  - Developing a matching and reconciliation module to enforce submission of manifests across all modalities to ensure effective penalty administration and mismatch resolution
  - Configuring border gate entry/exit management processes to resolve a number of pressing issues such as changing data on clearances relating to transport details, manifest numbers and manual control over part-shipments
  - Phased implementation of mandatory electronic road freight manifests at land border posts in order to achieve efficient cross border processing based on a single process

### **5.1.3 SARS will strengthen external relationships in the customs environment through regional processing initiatives:**

In support of current and future “country to country” initiatives, SARS will continue to develop a uniform data and information exchange model which can be tailored according to bilateral/multilateral requirements.

Key milestone activities that will be performed during 2013/2014:

- More focus will be put on regional information exchange which seeks to reinforce customs ability to make rational decisions in real-time as to the integrity of trade data supplied by stakeholders [Mozambique, Swaziland, Zimbabwe and Brazil, Russia, India, China and South Africa - (BRICS)], through:
  - Standardised data requirements for exports, transit and imports as part of the cross border data reference model
  - Interconnected systems and aligned customs databases to enable the electronic exchange of data between customs administrations as early as possible in the movement of goods

- Mutual recognition, coordination and protocols between exporting, transit and importing administrations to eliminate unnecessary duplication of controls in the international supply chains
- Standards to enable the development of a system of mutual recognition of AEOs
- A set of rules governing the exchange of information between customs administrations, including rules on data protection

#### **5.1.4 SARS will minimise the administrative burden in customs for travellers by implementing the following:**

##### **◆ Passenger Processing System (PPS)**

The purpose of this initiative remains the enhancement of the traveller experience when entering or leaving the country as well as ensuring enhanced security and data exchange between the different border agencies.

Key milestone activities that will be performed during 2013/2014:

- Rolling-out of the of the new passenger processing functionality to Beitbridge and Lebombo
- PPS Phase 2 implementation to cover any gaps identified during the first phase and to address additional requirements for international ports

##### **◆ One Stop Border Post (OSBP)**

The objective of this initiative remains the expedition of passenger and goods traffic between South Africa and Mozambique.

Key milestone activities that will be performed during 2013/2014:

- Finalising the appointment of the Competent Authority and its mandate
- Finalising the drafting of policies and procedures
- Creating infrastructure and operational environment
- Commencing with roll out

##### **◆ Interfront Core and Tariff Book**

The objective of this project is to replace the current Customs legacy back-end operational system with the implementation of a new integrated Customs Management System.

Key milestone activities that will be performed during 2013/2014:

- Introduction of a new declaration processing system that will capture and pre-validate clearance documents, the inspection workflow and the dashboard functionality
- Rolling out of the new Customs Notification Form to other modalities (air and sea), including a new printable “read only” version of the form for traders
- Expansion of the tariff book functionality, through:
  - Introduction of on-line tariff review and calculation functionality for traders
  - Implementation of functionality over the Intranet for customs officer tariff validation

### **5.1.5 SARS will strengthen its risk management capabilities in customs by implementing the following initiatives:**

#### **◆ Cargo, container and baggage scanners**

In support of SARS's strategy of increasing security at our ports of entry, the purpose of the next phase of this initiative is to deploy a batch of baggage scanners as well as a couple of additional cargo scanners at selected ports.

Key milestone activities that will be performed during 2013/2014:

- The deployment of cargo scanners in Cape Town
- The deployment of a new cargo scanner in Durban
- The relocation of the existing Durban cargo scanner to Beitbridge

#### **◆ Customs Bonded Warehouse solution**

In line with SARS's customs modernisation, SARS will improve its control measures whilst enhancing trade facilitation for bonded warehouses.

Key milestone activities that will be performed during 2013/2014:

- Introduction of a warehouse inventory management and customs declaration system and integration of clients system with current solution implemented in SARS, enabling communication between our system and all accredited warehouse facilities
- Embarking on a risk based inspection process leveraging off the current declaration inspection solution

#### **◆ Mobile Solution**

In the coming year, Customs will expand the iPod inspection management mobile capability introduced over the past eighteen months by further enhancing its inspection capability and introducing new forms of mobile solutions.

Key milestone activities that will be performed during 2013/2014:

- Expanding the current mobile inspection offering to include depot based inspections, examinations under supervision, and the inclusion of other sea and airports on the mobile platform
- Introducing a Customs reporting platform on a mobile device that will give Customs managers at all levels (Operational, Tactical and Strategic) the ability to monitor and pre-emptively act based on customs reports and monitors

#### **◆ Customs Bills**

SARS will introduce the Customs Control Bill, which is intended to replace the provisions of the Customs and Excise Act, 1964, relating to customs control of all means of transport, goods and persons entering or leaving the Republic. Provisions of the Act covering customs and excise duties, will be contained in separate legislation, that is, a Customs Duty Bill and an Excise Duty Bill.

Key milestone activities that will be performed during 2013/2014:

- Conducting a gap analysis between the customs bills and the operating systems [legacy/ Interfront Customs and Border Solution - (ICBS)]
- Undertaking of an introspective analysis of the Bills to identify new operating principles of the Bills for executive considerations/discussion
- Alignment of the Bills to the Operating structures
- Drafting of policy/procedures in support of the Bills

## 5.2 Core Outcome: Increased tax compliance

### ASPIRATION

To consistently increase voluntary compliance across a broader taxpayer base through targeted and informed outreach, education, superior service and enforcement interventions.

SARS operates on the principle of voluntary compliance, requiring a balance between service, education and enforcement. SARS believes that compliance is promoted through the provision of high quality service to taxpayers and traders, engagement with the emerging tax base and through targeted enforcement actions. Enforcement is called for in the interest of ensuring the equitable treatment of all who pays tax, and to avoid overburdening those who do contribute willingly.

**Selected Strategic initiatives to accomplish this outcome:**

### 5.2.1 SARS will conduct targeted compliance interventions in high-risk areas under the SARS Compliance Programme:

The Compliance Programme is a set of compliance-improvement strategies that aims to increase the compliance of target taxpayer groups, processes and tax products in a systematic manner over a multi-year period. The following seven priority areas will continue to be the focus of the programme in 2013/2014:

#### ◆ Large Businesses and Transfer Pricing

Since the introduction of transfer pricing legislation, SARS has had a limited number of transfer pricing assessments and successes. This area will remain a focus area for the coming year.

Key milestone activities that will be performed during 2013/2014:

- Undertaking research on large companies' deductions and benchmark findings against industry norms to establish gaps in order to strengthen risk profiling
- Carrying out audits of multinational corporations on a holding structure level to establish the extent to which they are reducing their true tax liability through tax avoidance schemes

- Modernising the provisional payments system from manual to electronic to pro-actively enhance service to provisional taxpayers. Developing forward compliance arrangements, advance rulings, advance pricing and pre-filing agreements with taxpayers
- Carrying out investigations on thirty party data on offshore transactions with a view to establish compliance of multinational corporations

#### ◆ **High Net Worth Individuals and their associated Trusts**

The compliance issues faced in this area are that a large number of HNWI are under declaring their income and making use of trusts as a means to evade tax. This segment will remain a focus area for the coming year.

Key milestone activities that will be performed during 2013/2014:

- Increasing SARS involvement in international exchange of information programmes through continued engagements with the US on the Foreign Accounts Tax Compliance Act and the Global Forum's Mutual Administrative Assistance Agreement
- Modernising trusts and implementing the IT12TR (trusts return form)
- Carrying out a review on how to leverage "industry" norms and benchmarks, and improving SARS's ability to trace the flow of funds around the world through international exchange of information programmes
- Developing forward compliance arrangements, advance rulings, advance pricing and pre-filing agreements with HNWI's
- Designing a questionnaire which will solicit information from HNWI's and their related entities to enhance audit and investigations capabilities. Bringing more HNWI's on SARS's register from the international exchange of information programmes
- Carrying out audits on individuals identified as having discrepancies between their asset base and declared income
- Carrying out campaigns to encourage taxpayers to make voluntary disclosures and informing them of the consequences in the event of failure to do so

#### ◆ **Small Businesses and Cost of Compliance**

In order to reduce the compliance burden as well as compliance costs SARS will continue to simplify and improve requirements, processes and systems used to service the small business.

Key milestone activities that will be performed during 2013/2014:

- Implement the "single registration" process as a basis for a simplified manner for small businesses to register with SARS. SARS will also collaborate with key external stakeholders in this regard to leverage SARS investment in this initiative to provide a single registration point for businesses across the whole of government. This will eliminate duplication and save unnecessary costs for small businesses
- Test the viability of issuing a "business licence" to a certain category of qualifying small businesses as a basis for ensuring their participation in the tax system. In terms of this proposal, a business licence tax will be paid annually by small business for conducting business in a particular area and, depending on the criteria adopted, this will be the only tax paid

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*In order to reduce the compliance burden as well as compliance costs SARS will continue to simplify and improve requirements, processes and systems used to service the small business*

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- Re-examine the effectiveness of existing major policy interventions and eliminate those that create costs on small businesses. Many of the interventions introduced by SARS over the years have not had the desired effect on small business compliance. To help increase the uptake of the Turnover Tax product, SARS will review and refine its structure to identify weaknesses and deficiencies. To help provide for further relief for small businesses SARS will review the accelerated wear and tear allowances as well as the tax free thresholds. To further reduce the administrative burden on small businesses, SARS will evaluate and/refine current filing and payment requirements
- Establish a small business office to champion and coordinate SARS's efforts to make it easier for small businesses to comply with their obligations. This intervention will offer tailored and differentiated service offering for the small business segment. The small business office will also offer better tax information and advice and will be tasked with reducing the tax burden on small businesses
- Work with other government departments and key external stakeholders to develop and implement meaningful burden reduction interventions in the small business segment. The aim of this initiative is to streamline and simplify other regulations and processes having a negative effect on small business growth and compliance
- Make SARS forms easier to complete and streamline internal procedures to reduce internal red tape and duplication. The aim of this initiative is to allow the average small business owner to comply with obligations without having to hire an accountant or a preparer. Initiatives aim at simplifying language used on forms and guidelines are already in progress

#### ◆ Tax practitioners and trade intermediaries

Analysis shows that the compliance of tax practitioners is low. This segment will remain a focus area for the coming year.

Key milestone activities that will be performed during 2013/2014:

- Strengthening enforcement through audits and investigations for tax practitioners and trade intermediaries to ensure that they are persons of good standing in terms of their personal tax compliance
- Encouraging tax practitioners to join professional bodies through outreach programmes
- Encouraging taxpayers to report unethical behaviour to SARS and the relevant association/s through the SARS anti-corruption hotline and Suspicious Activity System (SAS) on the SARS's internet
- Carrying out more integrated audits on tax practitioners and trade intermediaries
- Focusing on debt collection efforts on the top 5% of practitioners who owe 96% of all debt due by practitioners

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*South Africa is currently experiencing significant losses in excise revenue, with over 10 million kilograms of raw tobacco entering SARS controlled warehouses for export being unaccounted for. SARS aims to intensify its enforcement efforts to rid the economy of this segment*

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#### ◆ Illicit cigarettes

South Africa is currently experiencing significant losses in excise revenue, with over 10 million kilograms of raw tobacco entering SARS controlled warehouses for export being unaccounted for. SARS aims to intensify its enforcement efforts to rid the economy of this segment.

Key milestone activities that will be performed during 2013/2014:

- Increasing supervision of cigarettes exported via warehouses
- Improving the manual tracking of cigarettes in transit through South Africa to ensure that the declared quantities are accounted for at both the points of entry and exit
- Developing a set of targeted risk criteria to detect illicit cigarettes through collaboration with tobacco industry experts. Intensifying retail cigarette inspections to ensure that wholesalers and retailers distributing illicit cigarettes are prosecuted accordingly
- Conducting targeted communications campaigns with industry aimed at consumers to help them identify illicit cigarettes and to understand the risks illicit cigarettes pose to their health and the economy

◆ **Construction Industry**

The construction industry has one of the lowest compliance rates of all industries. SARS's compliance initiatives in this area will seek to strengthen and dedicate audit focus in selected regions where the highest risk is indicated.

Key milestone activities that will be performed during 2013/2014:

- Conducting integrated audits where entities have received government tenders and did not declare the income. Introducing an early contact strategy with non-compliant taxpayers to ensure progressive compliance
- Making use of agency appointments to recover outstanding debts

◆ **Clothing and Textiles Industry**

Recent statistics indicate that the continued undervaluation of imports of clothing and textiles continue to cause significant damage to the South African economy. This area will remain a focus area for the coming year.

Key milestone activities that will be performed during 2013/2014:

- Enhancing the reference pricing tool which is used as a reference price mechanism to identify undervaluation of imports for certain products as a way to mitigate non-compliance
- Conducting integrated audits on non-compliant clothing and textile entities
- Increasing the number of inspections at border posts

**5.2.2 SARS will strengthen its risk management in Personal Income Tax, Pay As You Earn, Company Income Tax and Value Added Tax through the following initiatives in each of the areas:**

◆ **Personal Income Tax**

Risk management in PIT is fairly advanced and SARS's efforts over the next year will be to strengthen these processes.

Key milestone activities that will be performed during 2013/2014:

- Incorporation of the compliance history of taxpayers in assessment and audit (to avoid repeat audits where no prior risk is identified)

- Refinement of the risk engine to perform initial as well as residual risk evaluations to support the automated escalation of cases
- Potential collaboration with credit bureaus to obtain third party information on taxpayers
- Design of a system that allows third-party suppliers to register, interact and submit data via secure connections

#### ◆ Pay As You Earn (PAYE)

SARS will introduce the PAYE risk engine to select cases for follow-up based on Employer PAYE submissions and in addition IRP5 corrections submitted by individuals during PIT filing season. This will replace most of the current follow-up type cases created currently and will take account of SARS available capacity in prioritising cases.

#### ◆ Corporate Income Tax (CIT)

The existing risk engine will be further expanded to include automated ratio analysis for each business sector. The CIT data model will leverage company financial information supplied to SARS in a similar form utilised by the Johannesburg Securities Exchange (JSE) and international stock exchanges for financial result publication and reporting [eXtensible Business Reporting Language (XBRL).] This will further enhance the case selection for CIT audits.

#### ◆ Value Added Tax

A new risk identification methodology will be developed to address key risks and gaps in the VAT refund process. This includes a reduction of screening volumes to increase the effectiveness of screeners and the introduction of new criteria in the VAT risk tool to increase the probability of predicting risk.

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*A new risk identification methodology will be developed to address key risks and gaps in the VAT refund process*

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### **5.2.3 SARS will strengthen risk management in the management of taxpayer and trader debt:**

In addition to the risk management work aimed at specific tax types, credit screening will be introduced to address low value, high volume debt. SARS will leverage the credit screening system developed by credit bureaus and other data sources to inform the risk criteria applied in the debt environment.

### **5.2.4 SARS will continue to make enhancements to the administrative penalty platform:**

Key milestone activities that will be performed during 2013/2014:

- Integration of the current monthly "campaign-style" penalty imposition process into a daily process in order to spread system processing times
- Support for additional notification channels such as Short Message Service (SMS) and outbound telephone calls to inform taxpayers of penalties that they may have incurred, both as an additional means to alert them and as mechanism to establish contact with them where postal information may be incorrect or obsolete

- Implementation of automated reconciliation of penalty imposition, recurrence and remedy events, as well as generated correspondence between SARS systems involved in the penalty administration processes

#### **5.2.5 SARS will continue to build fiscal citizenship:**

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.

The key milestone activities that will be performed during 2013/2014:

- Registering all South African citizens and businesses operating in South Africa with SARS by collaborating with the Department of Home Affairs, CIPC and Municipalities
- Collaborating with the Department of Home Affairs and CIPC to bring all foreign migrant businesses into the SARS net
- Intensifying deployment of mobile registration teams to all areas of economic activity
- Increasing engagement with all citizens even if they are not yet eligible to remit any tax
- Reviewing SARS's footprint and identify areas in the country that require new points of presence to increase reach and enable SARS to better service and educate taxpayers/traders, existing and potential alike
- Reducing the distance between SARS and taxpayers/traders to a distance of not more than 80 kilometres

#### **5.2.6 SARS will continue to work with other tax jurisdictions and countries to collaborate on global compliance and enforcement issues to protect erosion of South Africa's tax base:**

SARS will continue to provide assistance to the South African government to increase effectiveness of treaties and agreements with other nations, tax jurisdictions and international organisations.

The key milestone activities that will be performed during 2013/2014:

- As part of the team negotiating on the Global Forum, SARS will conclude negotiations on the Mutual Administrative Assistance Agreement which will increase SARS's scope to exchange and request information from jurisdictions that currently do not have bilateral agreements with SARS. Furthermore, the MAAA opens the possibility of SARS to request assistance in tax collection from countries which would not have been possible under existing double taxation agreements to collect from
- SARS together with the Financial Intelligence Centre and National Treasury, is currently involved in negotiations with the US government on information exchange specifically relating to the Foreign Account Tax Compliance Act. Although this agreement focuses on

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the US, the aim of SARS is to improve information gathering from financial institutions through improved automatic exchange of information with other treaty partners

- Collaborate with the Financial Action Task Force (FATF) to support SARS's mandate in implementing global safeguards to protect the integrity of the financial system to meet the objectives of tackling money laundering, for example. This is particularly relevant to SARS as tax crime is considered a predicate offence to money laundering and smuggling offences. Customs and Excise duties offences are also included

These agreements will enhance SARS's risk detection and risk profiling capabilities and ultimately growth in revenue collection. From a broader government perspective, these initiatives will improve the levels of compliance as well as to reduce the levels of fraud through money laundering.

#### **5.2.7 SARS will implement the Youth Employment Incentive Scheme:**

The Minister of Finance announced in his 2013 Budget speech a proposal for the implementation of an employment incentive scheme through the tax system. SARS will implement the proposal through the PAYE system.

### **5.3 Core Outcome: Increased ease and fairness of doing business with SARS**

#### **ASPIRATION**

To deliver cost-efficient, rapid and reliable service to all taxpayers and traders.

#### **Selected Strategic initiatives to accomplish this outcome:**

##### **5.3.1 SARS will continue to make improvements to its administrative systems and processes in order to reduce the administrative burden on taxpayers and traders through the following interventions:**

###### **◆ Corporate Income Tax modernisation**

Modernising CIT will aim at simplifying and automating business processes to automatically identify anomalous returns for further investigation and follow up.

Key milestone activities that will be performed during 2013/2014:

- Rationalisation of the CIT return forms to minimize the administrative burden on the taxpayer
- Pre-population of the data using VAT201 information and PAYE reconciliation
- Single-registration for corporate income tax through collaboration with the Companies and Intellectual Property Commission

#### ◆ Tax Administration Act (TAA)

The TAA is intended to simplify and provide greater coherence in South African tax administration law. It eliminates duplication, removes redundant requirements and aligns disparate requirements that currently exist in different tax Acts ranging in age from 4 to 63 years old. It creates a single, modern framework for the common administrative provisions of the tax Acts.

The key milestone activity that will be performed during 2013/2014:

- Implementing a reporting and feedback mechanism between SARS and the Ombuds office.

#### ◆ VAT modernisation

The VAT modernisation will focus on leveraging the principles of the PAYE declarations process, whereby the declared input and output VAT amounts claimed and collected will be reconciled against that organisation's suppliers and customers across the supply chain that have also submitted VAT return declarations.

Key milestone activities that will be performed during 2013/2014:

- e@syFile Vendor Software to enable VAT vendors to electronically submit invoice information in support of their VAT201 return. The VAT201 enables to reconcile all filed input and output invoices
- A direct electronic submission channel that will allow business information systems to supply electronic data to SARS automatically through an iterative request process
- Enhancements to the Risk Engine – change to risk assessment method to interrogate provided data, assess the need for further corroborating data as necessary and cross-match invoice information between VAT vendors to identify discrepancies prioritised for compliance and enforcement activities

#### ◆ Trusts modernisation

The objective of this initiative is to ensure that all trusts and related entities are brought together for purposes of tax compliance.

Key milestone activities that will be performed during 2013/2014:

- The introduction of the Trusts Risk Engine for primary risk assessment of Trusts
- Fewer but more focused audits based on the results of the risk engine

#### ◆ Ring Fencing enhancements

The Large Business Centre (LBC) modernisation efforts in 2012 revealed ring fencing rule intricacies that needed rework and also to consider were other restricted taxpayer interaction channels. SARS aims to close these gaps in the year ahead.

Key milestone activities that will be performed during 2013/2014:

- Reviewing the Large Business Centre ring fencing rules
- Reviewing the tiered case referral and escalation for case Service Level Agreement (SLA) management

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*The TAA is intended to simplify and provide greater coherence in South African tax administration law. It eliminates duplication, removes redundant requirements and aligns disparate requirements that currently exist in different tax Acts ranging in age from 4 to 63 years old. It creates a single, modern framework for the common administrative provisions of the tax Acts*

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- Extending the functionality to include Very Important Person (VIP), Parliamentary Service Unit (PSU) and HNWI units

#### ◆ Complaints management

SARS will ensure that client's queries are resolved timeously and taxpayer's repeat calls are flagged and escalated to appropriate channels. A mechanism has been created to identify these calls to ensure that these issues are resolved timeously. These calls will be prioritised and routed for specialist intervention. In the upcoming year, further steps will be taken to enhance this facility with a view to provide an improved service to the taxpayer.

### 5.3.2 SARS will conduct a business registration reform process:

Key milestone activities that will be performed during 2013/2014:

- Implementing a "single registration" process as a basis for a simplified manner for businesses to register with SARS. SARS will collaborate with key external stakeholders [DHA, CIPC, Municipalities and The Small Enterprise Development Agency - (SEDA)] in this regard to leverage SARS investment in this initiative to provide a single registration point for businesses across the whole of government. This will eliminate duplication and save unnecessary costs especially for small businesses
- Develop proposals for introduction of legislation that requires all businesses to have an operating licence as a basis for ensuring their participation in the tax system

### 5.3.3 SARS will transform its processes in issuing Electronic Tax Clearance Certificates (TCC):

SARS will transform the current TCC process from a predominantly manual process to a more taxpayer driven, self-help and electronic process.

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*SARS will transform the current TCC process from a predominantly manual process to a more taxpayer driven, self-help and electronic process*

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Key milestone activities that will be performed during 2013/2014:

- Transformation of the current TCC process from a manual to a taxpayer driven, self-help and electronic process to minimise the scourge of tender fraud
- Real time online self-service ability to obtain Tax Clearance Status
- To enable third party access to check taxpayer's compliance status online
- Interface to National Treasury procurement and payments system for regulatory compliance requirements

### 5.3.4 SARS will improve accessibility and performance of taxpayer/trader service channels through implementation of the following key initiative:

#### ◆ Electronic Channel Services

The SARS mobile e-Filing function and other services will be expanded to facilitate the availability of services offered and to increase uptake and usage of these channels.

Key milestone activities that will be performed during 2013/2014:

- Help You e-File (HYEF) - Co-browsing with clients through self-service channels for increased convenience and to realise cost savings through:
  - Default session to agents for identified active HYEF session from IVR/CTI, improved terms and conditions, reporting, including other enhancements and fixes
  - Educational messaging on e-Filing to be included
  - Income tax for individual's functionality including PIT 2013 updates, default HYEF contact centre assistance and generic case for contact centre call back assistance
- Expanding service channels by introducing new mobile channels for taxpayers/traders to easily and conveniently access SARS products and processes
- The SARS website will be radically enhanced for improved service and communication.

## 5.4 Core Outcome: Increased cost effectiveness, internal efficiencies and institutional respectability

### ASPIRATION

To exercise maximum prudence with resources made available to SARS and to build service delivery excellence for SARS and its government partners.

**Selected Strategic initiatives to accomplish this outcome:**

### 5.4.1 SARS will continue to adopt a whole of government view to achieve value chain efficiencies:

SARS will continue to collaborate with other government departments to achieve value chain efficiencies and to improve SARS's compliance efforts in the long run.

Key milestone activities that will be performed during 2013/2014:

- Providing support for setting up the contact centre for DHA to achieve greater operational and systems integration between SARS's own activities and those of its state partners
- Collaborating with CIPC to develop and implement a single business registration platform
- Collaborating with other government departments (CIPC, DHA, SEDA, National Treasury and Municipalities) to reduce the administrative burden on small businesses

### 5.4.2 SARS will ensure that its people are performing at their peak:

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. SARS will therefore ensure that its people still perform at their peak.

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*SARS will continue to collaborate with other government departments to achieve value chain efficiencies and to improve SARS's compliance efforts in the long run*

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Key milestone activities that will be performed during 2013/2014:

- Explore an innovative remuneration policy that is competitive in the market place for critical skills and that better links performance to remuneration
- Continue to optimise the SARS Learning Academy to ensure development of the required technical skills
- Continue with efforts to have progressive employee relations practices

#### **5.4.3 SARS will fight fraud and corruption to ensure improved efficiency and good governance:**

SARS will carry out the following activities to combat fraud and corruption in order to ensure improved revenue collection.

Key milestone activities that will be performed during 2013/2014:

- Introduction of a new investigations and prosecutions management system that includes a knowledge management and analysis capability. The system will enable improved data analysis and quick access to information required for management decision making
- Enhancement and revision of the current vetting process through collaborations with the State Security Agency (SSA), South African National Defence Force and South African Police Service (SAPS). The objective of the project will be to ensure that vetting of state officials is conducted within reduced turnaround times
- Increasing awareness around conflict of interest issues, awareness campaigns to empower all SARS employees will be carried out throughout the organisation with the first launch happening during the 2013/2014 fiscal period
- Continue to develop recovery capabilities by formalizing and strengthening SARS's relationships with other agencies involved in anti-corruption activities
- Strengthening SARS's access control systems to protect the confidentiality of SARS as well as taxpayer and trader information

#### **5.4.4 SARS will continue to automate and digitalise to enhance service delivery by Going Green:**

In support of the SARS wide effort to promote a green environment the Service Programme will modernise the processes involved in receiving physical documents in the branches, assessment and enforcement centres. The printing of paper will be reduced and the solution will be in line with the existing Document Retention Policy currently in practice at SARS.

Key milestone activities that will be performed during 2013/2014:

- The reduction of all faxes and email addresses presently being used by SARS staff
- Conversion of all incoming/outgoing faxes received to email format
- Exploring the mobile channel as an additional point of interaction with SARS

Measuring SARS's delivery

06

## 06 | Measuring SARS's delivery

### 6.1 Alignment with government and 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.

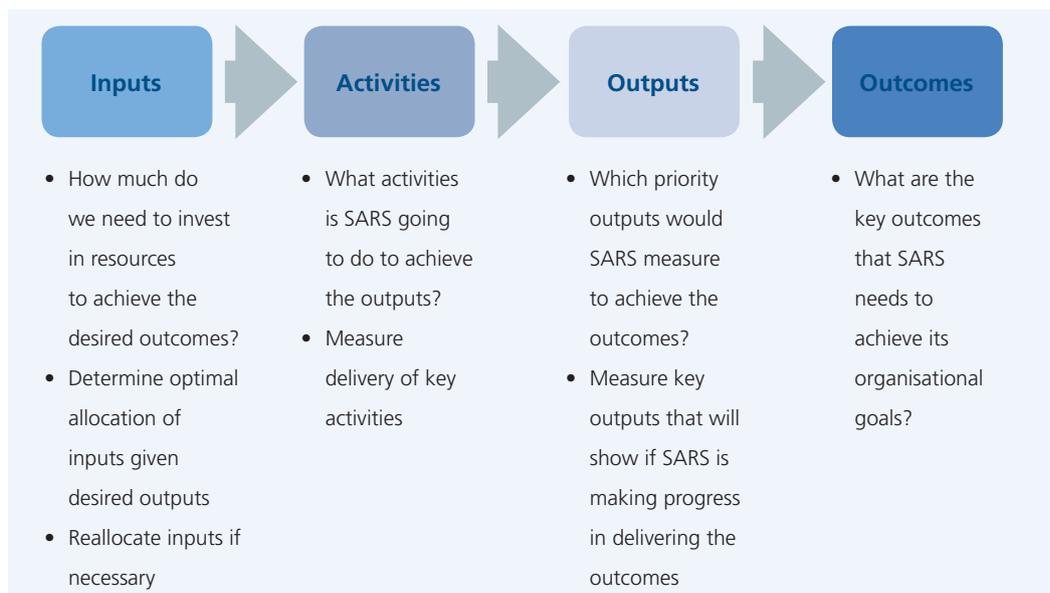


Figure 1: SARS's measurement approach

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'
- 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
- 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.

## 6.2 SARS'S outcome measures – annual and quarterly targets

The measures and targets for 2013/14 are:

Strategic Outcome	Measures	Baseline	Annual Targets 2013/14	Quarterly targets			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Increased Customs compliance	Customs revenue collected (R billion)	Actual collections for 2012/13	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance
	% of trade that have been audited with a view to obtaining Preferred Trader status	19.45	20	n/a	n/a	n/a	20
	% Of cargo declarations targeted	12	12	n/a	n/a	n/a	12
	% Uptake in electronic manifest submissions	90	90	n/a	n/a	n/a	90
	Interfront deliverable	Sales product strategy developed and signed off	Continue to work on sales pitch expansion strategy	n/a	n/a	n/a	Continue to work on sales pitch expansion strategy
	Interfront Governance-Unqualified audit report	Unqualified audit report	Unqualified Audit Report	n/a	n/a	n/a	Unqualified Audit Report
	% Increase in Customs compliance index	Track against baseline	Track against baseline	n/a	n/a	n/a	Track against baseline
	% Decrease in size of illicit economy	Develop measure and baseline	Develop measure and baseline	n/a	n/a	n/a	Develop measure and baseline

Baselines provided are 2012/13 3rd quarter year to date actuals

Strategic Outcome	Measures	Baseline	Annual Targets 2013/14	Quarterly targets			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Increased Tax compliance	Total revenue (excluding Customs revenue) collected (R billion)	Actual collections 2012/13	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance	As per agreed target with Minister of Finance
	Debt Book as a % of tax revenue	11.17	10	n/a	n/a	n/a	10
	% PIT filing compliance	86.05	84	n/a	n/a	n/a	84
	% Audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) above the threshold	6.9	6	n/a	n/a	n/a	6
	% In-depth audit coverage of registered taxpayers (PIT, CIT, VAT/Excise & PAYE) above the threshold	0.18	0.15	n/a	n/a	n/a	0.15
	% Increase in the Small Business register	Track against baseline	Track against baseline	n/a	n/a	n/a	Track against baseline
	% CIT filing compliance	Track against baseline	Track against baseline	n/a	n/a	n/a	Track against baseline
	Tax compliance index for each tax product	Develop measure and baseline	Develop measure and baseline	n/a	n/a	n/a	Develop measure and baseline
	% VAT filing compliance	Track against baseline	Track against baseline	n/a	n/a	n/a	Track against baseline

Baselines provided are 2012/13 3rd quarter year to date actuals

Strategic Outcome	Measures	Baseline	Annual Targets 2013/14	Quarterly targets			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Increased ease and fairness of doing business with SARS	% Uptake in electronic filing, declaration and payment submissions for all tax products	95.6	95	95	95	95	95
	% Uptake in electronic customs bills/declarations (EDI)	99.8	100	n/a	n/a	n/a	100
	Average processing turnaround time for PIT returns (working days)	0.16	Less than 1	n/a	n/a	n/a	Less than 1
	Average processing turnaround time for CIT returns (working days)	0.95	Less than 2	n/a	n/a	n/a	Less than 2
	Average processing turnaround time for VAT refunds (working days)	Actual achievement for 2012/13	21	n/a	n/a	n/a	21
	Average processing time for VAT registrations (working days)	Develop measure and baseline	Develop measure and baseline	n/a	n/a	n/a	Develop measure and baseline
	% First contact resolution in contact centres and branches	Develop measure and baseline	Track against baseline	n/a	n/a	n/a	Track against baseline
	Taxpayer and trader compliance burden	Develop measure and baseline	Develop measure and baseline	n/a	n/a	n/a	Develop measure and baseline

Baselines provided are 2012/13 3rd quarter year to date actuals

Strategic Outcome	Measures	Baseline	Annual Targets 2013/14	Quarterly targets			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Increased cost effectiveness, internal efficiency and institutional respectability	Employee Engagement	50.5%	51%	n/a	n/a	n/a	51%
	Leadership Effectiveness Index	86.5%	87%	n/a	n/a	n/a	87%
	Employment Equity: Demographics	70.83%	71%	n/a	n/a	n/a	71%
	Employment Equity: Gender on management level	41.09%	42%	n/a	n/a	n/a	42%
	Employment Equity: Disability	2.04%	2.5%	n/a	n/a	n/a	2.5%
	Treasury allocation to revenue percentage	Actual achievement for 2012/13	Between 1 and 1.2				
	Unqualified report by Auditor-General	Unqualified report	Unqualified report	n/a	n/a	n/a	Unqualified report
	Unit cost per process	Track against baseline	Track against baseline	n/a	n/a	n/a	Track against baseline
	Productivity per employee	Track against baseline	Track against baseline	n/a	n/a	n/a	Track against baseline

Baselines provided are 2012/13 3rd quarter year to date actuals

Annexures

07

## 7.1 Annexure A: Materiality Framework

MATERIALITY FRAMEWORK: OWN ACCOUNTS		
Section 55(2)(b) PFMA- "The annual report and financial statements must include particulars of-		
PFMA Subsections	Qualitative	Quantitative
(i) Any material losses through criminal conduct	Consolidated losses attributable to criminal conduct relating to own accounts.	100% of the monetary value of identified criminal cases during the financial year
(ii) Any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year	Consolidated irregular expenditure and fruitless and wasteful expenditure.	100% of the monetary value of irregular expenditure and fruitless and wasteful expenditure.
(iii) Any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure	Disciplinary steps taken and/or criminal charges laid as a result of material losses through criminal conduct.	100% : Number of: <ul style="list-style-type: none"> <li>disciplinary cases opened</li> <li>disciplinary cases concluded</li> <li>criminal cases opened</li> <li>criminal cases concluded</li> <li>during the financial year</li> </ul>
(iv) Any losses recovered or written off	Losses written off or recovered as a result of criminal conduct.	100% of the monetary value of losses written off or recovered during the financial year

## 7.2 Annexure B: Significant Framework

SIGNIFICANT FRAMEWORK		
Section 54(2) PFMA- "Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars to its executive authority for approval of the transactions:		
PFMA Subsection	Qualitative	Quantitative
a) Establishment or participation in the establishment of a company;	All transactions or actions entered in relation to section 54(2)(a) to (c) of the PFMA.	100%- as it is not normal business of SARS
b) Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement;		
c) Acquisition or disposal of a significant shareholding in a company;		
d) Acquisition or disposal of a significant asset;	Any acquisition or disposal in relation to section 54(d) of the PFMA.	Acquisition of a single tangible or intangible asset to the value of 15% of the cost of the total fixed assets for the financial year prior to the year in which the acquisition takes place. Disposal of tangible assets individually or cumulatively to the value of 10% or more of the cost price of total tangible assets for the financial year prior to the year in which the disposal takes place. Scrapping of intangible assets, individually or cumulatively to the value of 10% or more of the cost price of total intangible assets for the financial year prior to the year in which the scrapping took place.
e) Commencement or cessation of a significant business activity; and	Any commencement or cessation of business activity outside of SARS' core business in relation to section 54(2)(e) of the PFMA.	100%- as it is not normal business of SARS
f) a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.	Any change in nature or extent of interest in relation to section 54(2)(f).	100%- as it is not normal business of SARS

