

**PRESENTATION TO STANDING COMMITTEE ON FINANCE
ANNUAL PERFORMANCE PLAN 2019/20**

THIS IS AN UNUSUAL YEAR

- **YEAR 1 OF A NEW ADMINISTRATION & PARLIAMENT**
- **REBUILDING OF SARS: ADDRESSING CURRENT CONTEXT**
- **DELIVER THE AGREED ANNUAL PERFORMANCE PLAN**
- **DEVELOP A NEW FIVE YEAR STRATEGIC PLAN**

PRESENTATION OUTLINE

1. **FIRST TWO MONTHS AS NEW SARS COMMISSIONER**

- a. IMMEDIATE PRIORITIES
- b. INITIAL OBSERVATIONS & RESPONSES
- c. NUGENT COMMISSION RECOMMENDATION

1. **STRATEGIC FRAMING OF NEXT 5 YEARS**

- a. SIGNPOSTING THE 5 YEAR STRATEGIC *PLAN*

1. **PERFORMANCE PRIORITIES 2019/20**

- a. ANNUAL PERFORMANCE PLAN 2019/20

INTERNAL STAKEHOLDERS

- Restore Governance, Integrity & Confidence
- Recover & Arrest Losses to quickly stabilize SARS
- Revenue Recovery Programme to address revenue shortfall
- Create dedicated capacity to address work arising from Nugent, Zondo and other Commissions

OBSERVATIONS DURING FIRST TWO MONTHS

DURING MY INITIAL OFFICE VISITS AND ENGAGEMENT WITH SOME 80% OF OUR STAFF, THEIR FEEDBACK INCLUDES:

- **Climate of fear & intimidation**
- **Racial tension is palpable**
- **Levels of trauma and hurt is concerning**
- **Staff feel disconnected from leadership**
- **High levels of distrust in leadership**
- **Different treatment for leadership vs staff**
- **Many staff report that they are doing meaningless work**
- **Growing impatience to see nugent report implemented**
- **Other concerns raised related to budget cuts**

HOW ARE WE RESPONDING TO STAFF

OUR RESPONSE NEED TO:

- 1. Show that we truly care**
- 2. Demonstrate that we have listened**
- 3. Earn the trust of our employees**
- 4. Be strategic and transformational**

WE ARE EMBARKING ON THE FOLLOWING:

- 1. Continue to meet & engage staff**
- 2. Explicitly define what culture we want**
- 3. Evangelize the higher purpose of sars**
- 4. Refresh the SARS employee value proposition**
- 5. Launch a brand new employee engagement programme**
- 6. Establish a listening campaign to address trauma**

OBSERVATIONS DURING FIRST TWO MONTHS

MY OWN OBSERVATIONS INCLUDE:

- ***LEADERSHIP BEHAVIOUR REFLECTS:***
 - **Low level accountability**
 - **Transactional engagement with staff**
 - **Narrow APP delivery focus**

- ***LEADERSHIP CONTRIBUTED TO THE PREVAILING CULTURE:***
 - **Low trust**
 - **Fear & intimidation**
 - **Excessive use of disciplinaries**
 - **Longstanding suspensions unresolved**
 - **Supernumeraries**

RESPONDING TO LEADERSHIP ISSUES

FOR STABILITY IN THE SHORT TERM:

1. **Review the Nugent recommendations**
2. **Confirmed acting appointments of chief officers to end 2019**
3. **Review and assign meaningful work to supernumeraries**
4. **Ongoing engagement & leadership performance review**

INITIATE A STRATEGIC LEADERSHIP PROGRAMME:

1. **Clarify purpose: why a senior leadership team**
2. **Define competence requirements: attributes & skills**
3. **Assess internal competence**
4. **Recruit from external as required**
5. **Launch leadership engagement**

EXTERNAL STAKEHOLDERS

- Restore Governance, Integrity & Confidence
- Engage Large Taxpayer Groups
- Cooperation with key Government Departments: National Treasury, DTi & ED, Home Affairs
- Government Agencies: NPA, FIC, SIU, SAPS, AG
- Tax Ombudsman
- Regulatory Bodies
- Organised Labour
- Parliamentary Committees

REVENUE RECOVERY

1. Set up a focused Revenue Recovery Campaign
 - a. Identify Initial revenue leakages
 - b. Identify & pursue delinquent taxpayers and practitioners
 - c. Address Compliance: Provisional Payments, Outstanding Returns, Audit
 - d. Telephone Outreach Campaigns
2. Set up a focused Illicit Economy Capacity
 - a. Tobacco, Mining & Minerals, other illicit Imports
 - b. Raise Customs Surveillance at Ports of Entry
3. Direct appropriate capacity for Dispute Resolution & Settlement
4. Consider other short term actions to improve Compliance Culture

NUGENT COMMISSION REPORT

NUGENT COMMISSION FINDINGS

The “Nugent” Commission reported that since 2014, SARS experienced:

- A MASSIVE FAILURE IN GOVERNANCE & INTEGRITY
- THE “BAIN OPERATING MODEL REVIEW” DELIBERATELY SOUGHT TO RENDER THE ORGANIZATION INCAPABLE OF FULLY SERVING ITS MANDATE BY:
 - Dismantling trusted functional capacity such as the large business centre, compliance unit, integrity unit, and the capacity to deal with the illicit economy
 - Impede the SARS modernization programme
 - Disintermediate and marginalized senior executives
 - Trigger an exodus of capable and experienced staff
- A DECLINE OF EMPLOYEE MORALE & CONFIDENCE
- A DECLINE IN HARD WON PUBLIC CONFIDENCE IN SARS

PROGRESS ON NUGENT RECOMMENDATIONS

ESTABLISHED A LIAISON DESK IN OFFICE OF COMMISSIONER TO ANCHOR RESPONSES TO NUGENT AND OTHER COMMISSIONS:

1. GOVERNANCE OF SARS

With National Treasury, Preparing Discussion Paper

2. ORGANIZATION CAPABILITY

Large Business Centre Re-established

Anti-corruption Unit - Review & Strengthen

Compliance Unit - Re-established

Illicit Economy - Established Interim Capacity

Operating Model Review - Planned For Later This Year

PROGRESS ON NUGENT RECOMMENDATIONS

3. LEADERSHIP & STAFF ISSUES

- a. Ongoing engagement to reconnect with employees
- b. Review disciplinary cases since 2014
- c. Addressed “supernumeraries“
- d. Establish a listening campaign
- e. Reaching out to individuals who left

4. PROCUREMENT MATTERS

- a. Review of significant contracts commenced
- b. Considering civil & criminal cases
- c. Working with investigative agencies

5. STRENGTHENING STAKEHOLDER COLLABORATION

REBUILDING

THE SOUTH AFRICAN REVENUE SERVICE
ANNUAL PERFORMANCE PLAN 2019/20

ANNUAL PERFORMANCE PLAN 2019/20
& SIGNPOSTING THE NEXT 5 YEARS!

SARS DERIVES ITS MANDATE IN LAW...

SARS DERIVES ITS MANDATE FROM THE SARS ACT (No. 34 of 1997)

To make provision for the efficient and effective administration of the revenue collecting system of South Africa.

The following Acts are examples of the primary legislation SARS administers:

- Income Tax Act, 1962
- Customs and Excise Act, 1964
- Value-Added Tax Act, 1991
- Tax Administration Act, 2011
- Employment Tax Incentives Act, 2013

... TO COLLECT TAXES TO FUND GOVERNMENT
EXPENDITURE & PROGRAMMES

COMPOSITION OF PRINTED ESTIMATES

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Business As Usual (economy)

Administrative Actions
(Compliance Programme & Revenue Recovery Programmes eg Tax Gap)

Tax Policy (e.g carbon tax; increase in VAT; Fuel increase)

...BUT SARS' EFFICACY RELIES ON...

1. It's technical competence to administer the relevant legislation
2. The way it conceptualizes a Theory of Compliance
 - a. Voluntary Compliance
 - b. Compliance Model
 - c. Compliance Programme
3. How well it's plugged into the Economy
 - a. Aware of all Economic Activities
 - b. Tracking Stocks & Flows
 - c. Evolving Players
 - d. Evolving Context
4. Building a respected and competent organization
5. The ability to restore trust and present a credible threat of detection

...BE RESPONSIVE TO AN EVOLVING CONTEXT

TECHNOLOGY DRIVEN DISRUPTIVE INNOVATION, ALONG WITH SHIFTS IN GEOPOLITICS HAS A SIGNIFICANT IMPACT ON SOCIETY & ECONOMIC GROWTH. IN TURN THIS IMPACTS THE TAXPAYER UNIVERSE GIVING RISE TO UNPRECEDENTED OPPORTUNITIES & RISKS FOR GOVERNMENTS AND REVENUE AUTHORITIES:

1. **Stubborn persistence of triple challenges: poverty, inequality & unemployment**
2. **Changing world of work & threat of irrelevance**
3. **Competition for talent - scarce, highly mobile & global**
4. **Complex new value chains & operating models**
5. **Virtualization of economic activities**
6. **Cyber criminals & tax risks**
7. **Proliferation of illicit economic activities**
8. **Deregulation, decentralization & democratization**

...AND MITIGATE STRATEGIC RISKS

Risks facing SARS stem from its exposure to the local and global economic climate; the compliance behavior of taxpayers in response to the climate and risks from SARS' own operations

- **Cyber security threat**
- **Loss of Public trust and credibility**
- **Illicit trade and smuggling**
- **Increasing non-compliance by taxpayers and traders**
- **Business interruption**
- **Loss of leakage of data and information**
- **Not achieving revenue estimates due to less than expected collections**
- **Workforce capability fragile**

SARS TURNAROUND DEPENDS ON CLARITY

- 1. Clear understanding of our mandate**
- 2. Clarity of our Higher Purpose**
- 3. Clarity of our Vision for 2024**
- 4. Clarity of our Strategic Intent**
- 5. Our Compliance Programme**
- 6. Our Capability & Capacity to Execute**

CLARITY OF PURPOSE

Whilst our Mandate is to:

- Collect all revenues due
- Ensure optimal compliance with tax and customs legislation
- Provide a customs service to optimize revenue, border protection & facilitate legitimate trade,

SARS exists to serve the **HIGHER PURPOSE** of

***ENABLING GOVERNMENT TO BUILD A CAPABLE STATE
THAT FOSTERS SUSTAINABLE ECONOMIC GROWTH &
SOCIAL DEVELOPMENT THAT SERVES THE
WELLBEING OF ALL SOUTH AFRICANS***

SARS VISION FOR 2024

A SMART, MODERN SARS WITH UNQUESTIONABLE INTEGRITY, TRUSTED & ADMIRER

THIS ASPIRATION IMPLIES:

INTERNALLY, we

- Stakeholders are engaged ethically and beyond reproach
- Use technology and data to build an intelligent organization
- Evolve our staffing model towards high value knowledge & service work
- Become an Employer of Choice with a high performing, engaged workforce

EXTERNALLY, we

- Achieve substantially our strategic intent of Voluntary Compliance
- Benchmark against the best among our peers internationally
- Regain public trust and confidence
- Provide the financial resources for Government to deliver

CLARITY OF STRATEGIC INTENT

***DEVELOP A TAX & CUSTOMS SYSTEM OF
VOLUNTARY COMPLIANCE, AND WHERE
APPROPRIATE, ENFORCE RESPONSIBLY
AND DECISIVELY***

COMPLIANCE PROGRAMME

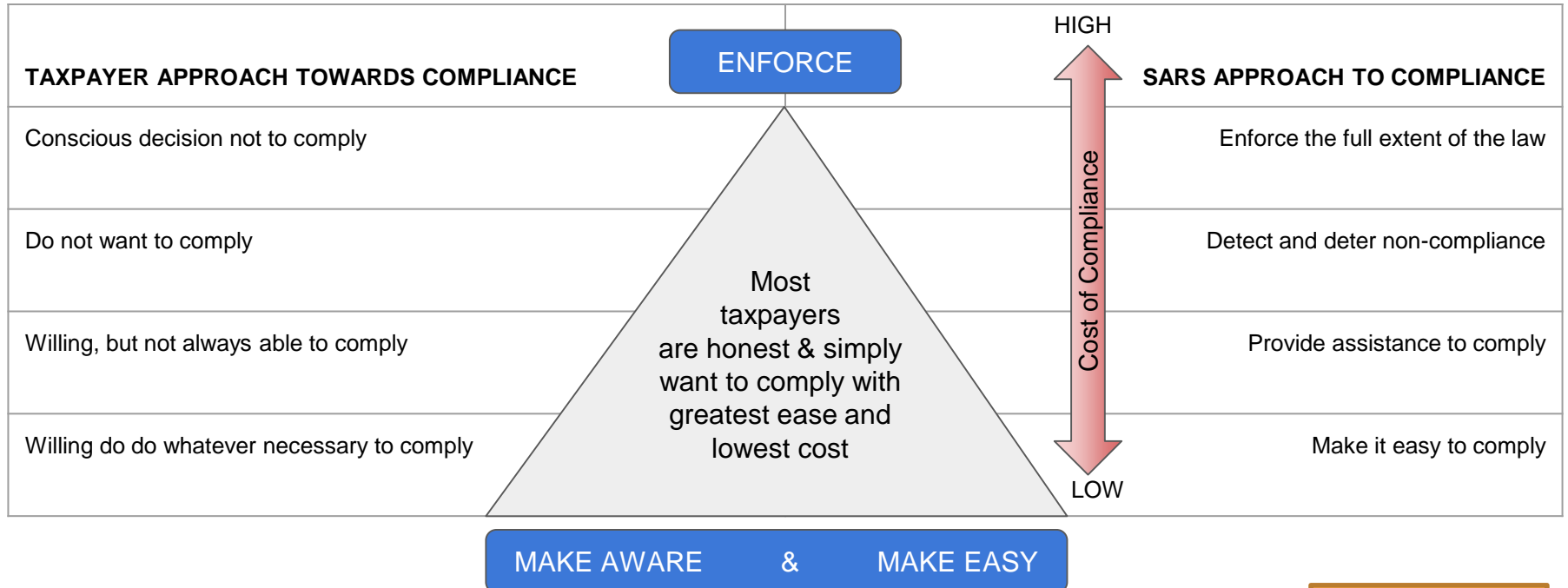
COMPLIANCE GLOSSARY

TERM	DESCRIPTION
VOLUNTARY COMPLIANCE	When taxpayers fulfil their obligations to register when they ought to, file on time, ensure that all declarations are honest and complete, and pay their taxes when its due.
COMPLIANCE THEORY	The working hypothesis that informs how we think about, and engage with the majority of taxpayers within a particular class or segment
COMPLIANCE MODEL	How we organize ourselves and allocate resources in order to achieve maximum voluntary compliance, collect the revenue that due, facilitate trade and protect the economic integrity at ports of entry
COMPLIANCE PROGRAMME	The themes, aspects and areas we choose to focus on for a particular planning period in order to leverage our resources and to create clarity, certainty and transparency for taxpayers

SARS THEORY OF COMPLIANCE

***WE BELIEVE THAT MOST TAXPAYERS ARE
HONEST AND SIMPLY WANT TO FULFIL THEIR
OBLIGATION WITH THE LEAST AMOUNT OF
EFFORT & COST***

OUR THEORY OF TAX COMPLIANCE DRIVES OUR MODEL OF COMPLIANCE



COMPLIANCE BEHAVIOURAL INSIGHTS

Voluntary Compliance is best achieved when SARS:

- Make it easy for taxpayers to comply
- Provide clarity and certainty of how we see taxpayers obligations
- Ensure that there's always a credible threat of detection
- Base our actions on a thorough profiling of individual and groups of taxpayers
- Customize our engagement and communication with taxpayers
- Provide transparency to taxpayers about how we approach our work
- Communicate the consequence of non-compliance
- Communicate how tax revenue is spent

THIS DRIVES OUR COMPLIANCE MODEL

STRATEGIC INTENT: *Develop a Tax & Customs system based on Voluntary Compliance, and where appropriate, enforce responsibly and decisively*

In support of our Strategic Intent we have **9 Strategic Objectives**

1. Provide Clarity & Certainty of tax obligations
2. Make it Easy for Taxpayers to Comply & fulfil their obligations
3. Make it hard & costly for Taxpayers who do not Comply
4. Develop a high performing, diverse, agile and engaged workforce
5. Increase the use of data to improve integrity, derive insight & improve outcomes
6. Modernize our systems to provide digital & streamlined services
7. Drive efficient use of resources to deliver quality outcomes & performance excellence
8. Work with & through Stakeholders to improve the tax system
9. Build public trust and confidence in the tax administration system

COMPLIANCE MODEL

SEGMENTATION

- Salaried Individuals
- High Net Worth Individuals
- Small/Medium Businesses
- Large Business
- Restricted Individuals
- Illicit Economy

CLARITY

Providing Taxpayers & Traders with awareness, clarity, certainty of their tax paying obligations

- Outreach
- Awareness
- Education
- Publication
- Interpretations & Rulings
- Legal Policy & Products

SERVICE

Creating an enabling environment that makes it easy and simple to comply

- Registration
- Declaration & Filing
- Assessment
- Payments

ENFORCEMENT

Responsibly enforce compliance to make it difficult for those who do not comply

- Risk Profiling
- Case Selection
- Theme Selection
- Audit & Investigation
- Dispute Resolution
- Debt Collection

KEY OUTCOMES

A. PRODUCTION

- Voluntary Compliance
- Tax Gap
- Trade Facilitation
- “Border” Protection
- Total Revenue
- Compliance Yield
- Expense Budget
- Capital Budget

B. PROD CAPABILITY

- Talent Management
- Modernization
- Tax Policy
- Data Management
- Research & Analysis
- Risk Management
- Planning
- Governance
- Stakeholders
- Operating Model

PROGRAMMES

AWARENESS

The following initiatives provide Taxpayers with awareness, clarity, certainty of their tax paying obligations

The detailed activities in support of this Strategic Objective include:

1. Taxpayer Campaigns
2. Development of media, materials & publications in support of the respective Campaigns
3. Develop Compliance Programme on the basis of:
4. Legal Policy, Products, Interpretations & Rulings
5. Voluntary Disclosure Programmes

SERVICE

Creating an enabling environment that makes it easy and simple to comply

The detailed activities in support of this Strategic Objective include:

1. Registration
2. Customs
3. Payments

PROGRAMMES

ENFORCEMENT

Responsibly enforce compliance when taxpayers negligently, or deliberately fail to comply

The detailed activities in support of this Strategic Objective include:

COMPLIANCE RISK MANAGEMENT

1. Risk rules for case selection
2. Penalty regimes
3. Risk profiling and case selection
4. Dispute Resolution

ENFORCEMENT PROGRAMME

1. Registration compliance
2. Outstanding declarations
3. Revised Assessments
4. Compliance Audits
5. Criminal Investigations
6. Physical Inspections
7. Illicit Economy & Trade
8. Voluntary Disclosure Assessment
9. Debt Collection

HUMAN CAPITAL

SEGMENT

WORKFORCE & TALENT MANAGEMENT

Develop a high performing, diverse, agile and engaged workforce capable of delivering the mandate and adapting to the future world of work

The detailed activities in support of this Strategic Objective include:

1. Systematic Rebuilding & Repurposing of Leadership Team
2. Systematic Employee Programme to Higher Purpose and Batho Pele
3. Build a respected Employee Value Proposition to retain and attract the “right people”
4. A plan to evolve the workforce from low value administrative work to high value and service work
5. Review, Rebuild & Recruit Internal Capability and Capacity specifically in areas such as:
 - a. Strategic IT & Digital Transformation
 - b. Data Science & Predictive Analytics
 - c. Research: Economic, Behavioural, Risk
6. Developing a framework for Performance Excellence and Employee Engagement
7. Review identify other Priorities identified

BUILDING INSTITUTIONAL CAPABILITY

SEGMENT

WORKFORCE & TALENT MANAGEMENT

Develop a high performing, diverse, agile and engaged workforce capable of delivering the mandate and adapting to the future world of work

DATA MANAGEMENT

Increase the use of data to improve integrity & risk management, derive critical insights and improve outcomes

SYSTEMS MODERNIZATION

Modernize our tax & customs systems to provide digital & streamlined services & improve risk management

RESOURCE MANAGEMENT

Use resources efficiently & effectively to deliver quality outcomes and performance excellence

IMMEDIATE FOCUS PROJECTS

1.	TAX GAP & REVENUE RECOVER
2.	RE-ENGAGEMENT OF OUR EMPLOYEES
3.	RESPONSE TO COMMISSIONS
4.	RE-ENGAGEMENT OF THE PUBLIC
5.	FILING SEASON 2019/20

IMMEDIATE FOCUS PROJECTS

7.	DEBT MANAGEMENT
8.	SIGNIFICANT TAXPAYER DISPUTES
9.	ILLCIT ECONOMY
10.	5 YEAR STRATEGIC PLAN
11.	BORDER MANAGEMENT
12.	LEADERSHIP & ORGANIZATION ARRANGEMENTS

2019/20 Summary Budget over the MTEF period

Expenditure Estimates	2019/20 Submission R'000	2020/21 Submission R'000	2021/22 Submission R'000
National Treasury Grant	9 529 031	10 110 017	10 673 090
<i>Final Grant Receivable</i>	9 488 723	10 067 492	10 628 226
<i>Final OTO Grant Receivable</i>	40 308	42 525	44 864
Interest Income	-	-	-
Other Income	312 187	315 309	318 462
Total Funds Available	9 841 218	10 425 326	10 991 552
Baseline Expenditure (BAU)	10 649 510	11 272 561	11 966 141
<i>Total CAPEX including BAU</i>	-	-	-
Available Projects	-808 291	-847 235	-974 589
Projects	-	-	-
Funding surplus shortfall	-808 291	-847 235	-974 589

