ADDRESS BY COMMISSIONER OF THE

SOUTH AFRICAN REVENUE SERVICE TO THE

STANDING COMMITTEE ON FINANCE

ON THE PRESENTATION OF THE

SARS STRATEGIC PLAN 2012/13-2016/17 AND

THE 2012/13 SARS ANNUAL PERFORMANCE PLAN

8 MAY 2012

Introduction

Honourable chairperson and members

Thank you for the opportunity to present the SARS Strategic Plan for the next five years as well as the new SARS Annual Performance Plan for 2012/13 in line with government's outcomes-based performance monitoring and evaluation process.

We appreciate the limited time of the committee and are cognisant of the preference to spend what time we have engaging with the SARS leadership over issues of strategic importance. For this reason, with the permission of the chair, I will limit my presentation to a short overview of our Strategic Plan in which I will cover:

1. Our core outcomes and strategy to achieve them
2. Our current environment and risks facing SARS
3. Our five year priorities for each of the four core outcomes
4. The key measures and targets we have set for achieving these; and
5. Our resource plan.

Firstly, though, allow me to introduce the SARS leadership team which is here today to help me answer any questions you may have.

Allow me to offer the apologies of our Deputy Commissioner Ivan Pillay, who is overseas and cannot be with us today

With us today we have:

Mr Kosie Louw, Chief Legal and Policy Officer

Mr Gene Ravele, Chief Officer for Customs and Border Control

Mr Barry Hore, our Chief Operations Officer

Ms Elsie Pule, our Chief Human Resources Officer

Ms Trix Coetzer, our Chief Finance Officer

Ms Sunita Manik, our Group Executive for the Large Business Centre

We also have with us today Mr Peter Richer, the head of the SARS strategy office which was instrumental in preparing the pack you have received last week which includes the Strategic Plan, Annual Performance Plan and our Compliance Programme. We have also included a copy of the report to the committee on the return on investment on our Modernisation Programme. We will be updating this report in a few months once we have audited figures for last year.

Finally, there is one new face in our team: Mr Bob Head has joined SARS recently in an advisory capacity after more than 30 years of working in the financial services industry around the world culminating in a variety of very senior executive positions in Old Mutual, Nedbank and Mutual and Federal. Bob has joined SARS on a three year contract to help improve our knowledge and expertise with regards the financial services sector and in particular to share with us some of the methods large multinational corporations use to limit their tax liabilities including through transfer pricing and complex financial instruments. His expertise is already proving very useful to building our capacity in this regard within the Large Business Centre.

Our core outcomes and the strategy to achieve them

Honourable members, as noted by the Deputy Minister, the President has committed our government to an extensive infrastructure development programme in support of

its goal of poverty alleviation through job creation, economic growth and sustainable development.

The SARS mandate of collecting all revenues due, protecting our borders and facilitating legitimate trade forms a core foundation of the realisation of this goal.

As in previous years, we have distilled our requirement into four core outcomes in support of this mandate:

- Increasing customs compliance
- Increasing tax compliance
- Increasing the ease and fairness of doing business with SARS; and
- Increasing cost effectiveness, efficiency and institutional respectability

The five year strategy to achieve these as presented in this Strategic Plan reflects a consistency and continuity with previous Strategic Plans and, in essence, involves our continued progress in modernising SARS and empowering our people to deliver a professional, efficient and cost-effective service to the citizens of our country. These core strategic principles are outlined on pages 25 and 26 of our Strategic Plan and are summarised in a table on page 27.

The current environment and risks facing SARS

Honourable members, in his opening remarks, the Deputy Minister has provided the context within which we must implement this strategy and he has already outlined some of the risks which we are facing including the continuing economic uncertainties and the risks to voluntary compliance which corruption and inefficiency pose.

Beyond these broader global risks there exist more SARS-specific risks which must be understood, managed and mitigated as best we can if SARS is to continue to meet the expectations of our nation. These risks are explained in more detail on pages 17 to 20 of the Strategic Plan but I think it is worth highlighting one or two of these risks very briefly:

1. **Managing resources efficiently in promoting collaboration among government to improve service delivery**

   Coordination and collaboration among various parts of government is a key enabler for cost-effective improvements in service delivery to our citizens. In this regard, SARS is involved collaborative efforts with other government agencies to leverage the knowledge we have gained and the investments government has made in SARS to benefit the wider public sector and thereby our citizens. While these partnerships – especially with Home Affairs – have direct benefits to all South Africans and to SARS, they do have an impact on the resources available and will require careful planning and managing so as not to impact on our own progress as an organisation.

2. **Businesses are increasingly using sophisticated and complex financial schemes to evade their tax obligations**

   We have detected an increase in the use of cross-border structuring and transfer pricing manipulations by businesses to unfairly and illegally reduce their local tax liabilities. Part of this is due to pressures on profits due to the economic climate and part of it is due to the growth in multinationals which account for nearly 70% of all world trade. Developing economies especially in Africa are at higher risk of revenue loss through such practices in part because they frequently lack the knowledge and skill to detect, investigate and prosecute these types of tax crimes. Just for interest, I have a slide here depicting an example of one such transaction. I will not go into any great detail but I think you can see just how complex one loan transaction can be. For those of you who are interested, Bob can give you some further insight into these kinds of transactions.

3. **Managing our debt book**

   In any business, managing debt is crucial to an organisation's profitability. This is especially true for an organisation whose primary mandate is revenue collection and, given the scale of revenue which we manage, debt management is a particular area of focus for SARS. We are pleased to note that significant progress is being made in this regard through a combination of account maintenance and debt collection. Preliminary figures for the 2011/12 financial year show that the debt book rose by just 1.3% and given that one

would expect debt to rise annually with revenues, this is a significant achievement against a 14 year compound debt growth rate of 8% and the tough economic conditions. It is further worth noting that the increase includes an additional R1.66 billion in debt generated by administrative penalties which are new. Our initiatives in this regard are starting to pay off but there is still a long way to go in getting our debt book to the levels we would like.

4. **VAT refunds**

   The economic conditions have resulted in two additional pressures on VAT refunds: the first is an increase in the pressure on SARS to release legitimate refunds as rapidly as possible – especially for small businesses which can struggle with cash flow; on the other side of the coin, we are detecting an increase in the incidence of attempted VAT fraud. Our Modernisation of VAT last year has already resulted in significant improvements to both these areas. The yield achieved since the introduction of the new VAT risk engine in May last year is R11 billion in revised assessments in the fiscus's favour.

5. **Complaints management**

   While our modernisation enhancements have led to significant service and efficiency improvements for the majority of taxpayers and traders, we are highly cognisant of the frustrations of those whose affairs do not follow the normal, automated process. In this regard, we intend focusing our efforts in the coming years on improving our exception management and especially in providing an efficient and effective complaint management process to help track and resolve service challenges.

Our strategy to achieve our outcomes and mitigate our risks

Honourable members, we have identified a number of initiatives in support of our strategy to address these risks and to ensure we continue to deliver on our mandate. These are covered in detail in Chapter 6 of the Strategic Plan from page 28 to 39.

To **increase Customs Compliance** we plan to**:**

- Rollout the preferred trader programme

- Strengthen border control and inter-governmental coordination at border posts
- Deploy cargo and container scanners at border posts
- Develop a customs risk screening tool and develop and implement an integrated customs and border management solution for SARS via our wholly-owned subsidiary, Interfront.

Honourable members, a key part of risk management is establishing and constantly refreshing reference price databases to help detect under-declaration. This is especially important in the clothing and textiles industry which has been threatened by under-valuations and which forms a key part of our compliance focus for the period ahead.

In two recent examples a major importer to the retail sector:

- Claimed imported baby blankets were valued at R16 when they had a retail price of R300
- Imported towels valued at R4.28 per kilogram while the reference price was nearly four times higher at R15 per kilogram

To increase **Tax Compliance** we plan to:

- Improve risk management through enhanced risk tools, administrative penalties and debt management
- Continue our outreach programmes to all South Africans to build a culture of fiscal citizenship
- Implement the Tax Administration Act once it is enacted later this year
- Implement targeted interventions in high risk areas. These high risk areas (pp33 and 34), which have been summarised in the inaugural SARS Compliance Programme announced by the Minister of Finance last month, are:

- Transfer pricing by large business
- Wealthy South Africans and the trusts they use to reduce their tax
- Small business where both registration and submission compliance remains low
- Tax practitioners who have low compliance in their own capacity and who help taxpayers to evade tax
- The illicit cigarette industry
- And the clothing and textile industry as just mentioned under customs compliance
- We will also be focusing special attention on the construction sector which our research has shown to be the least tax compliant sector in the formal economy. Given that this sector receives a significant portion of public infrastructure spending from the fiscus, compliance is even more critical and we intend to ensure that those companies benefitting from public sector tenders maintain their compliance for the duration of the contract and don't only need a tax clearance certificate at the beginning of the process

Honourable members, to increase the **ease and fairness of doing business with SARS** we plan to:

- Reduce the administrative burden in CIT and other taxes through modernisation of these tax types
- Digitise taxpayer and trader records and transactions
- Improve the speed of legitimate trade through our borders through our Customs modernisation programme which is now entering its third year

To increase **cost effectiveness, internal efficiency and institutional respectability** we plan to**:**

- Create a dedicated enforcement capability within SARS
- Adopt a whole of government view to achieve value chain efficiencies across of range of areas including sharing and verifying data with other government agencies such as Home Affairs, dti, FSC and Department of Labour
- Integrate internal and external data across multiple taxes and customs to gain a single view of the taxpayer and trader
- Speed up decision-making within the organisation by empowering our managers and staff to make informed decisions within risk-based controls

Measuring our performance

Honourable members, we continue to strengthen the alignment of our performance management approach to that of government's planning, performance monitoring and evaluation approach.

We aim to hold ourselves accountable in the eyes of the government and its people against clear, objective and specific targets for each of our outcomes. These are provided on pages 43 and 44 of our Strategic Plan.

Resource Plan

In terms of our resource plan, our projected expenditure over the medium term is R9.5 billion for the current financial year growing approximately 5% to R9.99 billion for next year; and a further 5% to R10.55 billion for 2014/15.

Importantly, we intend to achieve our objectives over this period without growing our head count which is projected to remain relatively stable at approximately 15 500 employees over the next three years. Details can be found on pages 46 and 47 of our Strategic Plan.

Conclusion

In conclusion, honourable members, we believe the five-year strategy we present to you today will build on the foundation we have laid over the past 18 years of our democracy to provide continued and sustainable support for government's

programme of action to reduce poverty, create jobs and provide a better quality of life for all South Africans.

We avail ourselves to your questions and feedback.

I thank you.