ADDRESS BY COMMISSIONER OF THE

SOUTH AFRICAN REVENUE SERVICE TO THE

STANDING COMMITTEE ON FINANCE

ON THE *2011 TAX STATISTICS*

23 MAY 2012

Introduction

Honourable chairperson and members

It is an honour to be with you once again to present to you an overview of the most recent *Tax Statistics* publication which we released on Budget day in February this year. ***[Slide 0]***

This presentation will cover the following topics: ***[Slide 1]***

- Revenue and the economic crisis
- Growth in compliance
- Revenue trends per tax type
- Conclusion

The *Tax Statistics* is a joint publication by SARS and National Treasury and is aimed at providing information, in line with the Promotion of Access to Information Act, to a wide variety of stakeholders involved in the development and implementation of tax, fiscal and economic policy. ***[Slide 3]***

This is the fourth edition and it contains information as at 31 March 2011 on a range of tax and customs data sourced from the core SARS systems including:

- The tax register
- Tax returns and assessments

- Declarations and assessments
- Payments and refunds, and
- Bills of entry

Taken over a period of time, this information provides a useful insight into taxation and the South African economy including such areas as:

- The sources and trends of revenue over the past few years
- The demographics of taxpayers and how these are changing
- The sources of income and deductions of taxpayers submitting annual returns; and
- The contributors to VAT and CIT according to economic and industrial sector to name but a few

Since the first release of the publication in 2008, it has been increasingly widely used by Members of Parliament, academics, economists, the media and other commentators to help inform and guide debates about tax policy and how best to meet the needs of our country. ***[Slide 4]***

This latest publication is more than 150 pages long and contains thousands of data points. Statistics can be used – and indeed abused – to support a variety of arguments and counter-arguments. Honourable members, I am sure you are all familiar with the famous Mark Twain quotation that there are three kinds of lies: "*Lies, damned lies and statistics*".

Thus, the true power of statistics is not in any individual data point but rather through the trends and shifts they reveal when used over a period of time and when interpreted within a particular context.

Honourable members, there is neither time nor great value in presenting this publication to you page by page, slide by slide, statistics by statistic.

Rather, my intention today is to give you a brief overview of the story which these statistics tell.

It is a story of how South Africa has been able to weather with remarkable resilience the economic storm which continues to buffet us, our key trading partners and the

entire globe. It tells how we have been able to do this though our government's adoption and careful implementation of a prudent fiscal policy supported by a strong culture of compliance.

Firstly, though allow me to introduce the team which has accompanied me here today to help field your questions and explain these statistics more fully.

I am joined by Dr Randall Carolissen who is our Group Executive of Revenue Analysis and who, along with Treasury officials, is responsible for the compilation of the *Tax Statistics* publication each year.

Also with us is our Group Executive for the Large Business Centre, Miss Sunita Manik, our Chief Economist, Dr Thami Madinane along with Deon Breytenbach, an Executive from Revenue Analysis and Raymond Sithole: Senior Economist at National Treasury.

Revenue and the economic crisis [Slide 5]

Honourable members, revenue correlates strongly with shifts in GDP and economic activity and South Africa has not been immune to the 2008 economic downturn.

From 2000 to 2008, SARS maintained a compound annual growth rate in tax collections of 13.2%. This halved to just 5.9% during and post the financial crisis starting 2008. ***[Slide 6]*** The concomitant reduction of tax to GDP ratio from about 27% at its peak in 2008 to just over 24% currently has meant our government has had to raise its gross loan debt to GDP ratio from 27.8% to 40.1% during this period to maintain the counter-cyclicality stance assumed as part of the overall fiscal strategy. ***[Slide 7]***

The *Tax Statistics* shows that the impact of the global recession on the South African fiscus amounted to an estimated R255 billion of reduced tax revenue ***[Slide 8]***

But the fiscal space which our policies had provided allowed us to increase borrowings without having to resort to raising taxes and punishing austerity measures as is the case in Brazil, the Eurozone and elsewhere. ***[Slide 9]***

In many of the developed countries tax collections contracted sharply in 2008 with the worst downturns seen in those countries that were the most exposed to the subprime crisis exported from the USA. These first set of countries that collapsed were Portugal, Ireland, Italy, Greece and Spain, dubbed the PIIGS. Revenue collections in Spain and Ireland contracted by as much as 17% and 14% respectively in 2008. At that stage, and in general terms, developing countries still enjoyed reasonable growth in tax revenues.

In 2009 the G7 economies joined the fray with the USA, UK and Germany registering contractions in revenue of 17%, 7% and 6% respectively with the PIIGS continuing their downward spiral. Developing countries, with the exception of China and India, were then experiencing moderating growth rates. In 2010 most countries arrested this free fall and in some cases modest recoveries were seen. In 2010 the USA and Germany grew by 2.7% and 1.3% respectively. Growth on the Europe remained flat except for the UK which resorted to raising taxes.

During this period of global upheaval South African tax collections remained comparatively resilient. The Tax Statistics show that in 2008/09, while the economies of most of its trading partners showed contraction, the South African revenue collections continued to grow by 9.1%.

This was mostly due to the support provided by the lag effect of Corporate Income Tax. In 2009/10 the combined effect of flat consumption and trade taxes and the reduced company profits that came through in the tax collections led to a contraction of 4.2%.

Tax revenue rebounded strongly by 12.6% in 2010/11 and all taxes, with the exception of CIT, have now recovered to pre-crisis levels. For the 2011/12 year the unaudited revenue shows growth of 10.2%. The tax revenue for the current year (2012/13) is expected to grow by 11.3%. ***[Slide 10]***

Growth in compliance [Slide 11]

Honourable members, when we appeared before you two weeks ago to present our annual Strategic Plan, our Deputy Minister made the point that among the very visible signs of significant compliance gains since 1994 were significant increases in the number of taxpayers contributing to our nation's well-being.

These gains are borne out in numbers of registered taxpayers reflected in this publication on page 2. ***[Slide 12]*** But this publication only tells the story for the past five years. The true story of the growth in contribution is reflected in the figures since the birth of our democracy 18 years ago as follows:

- The growth in the individual tax register from 1.7 million in 1994 to 6 million in 2010. The register has since doubled again following a policy change in 2011 to register all individuals in formal employment.
- Over the same period the number of companies registered for income tax increased from 422 000 in 1994 to more than 2 million in 2011/12;
- registered VAT vendors increased from 397 000 in 1994 to 664 000 at present
- and the number of registered employers grew from 177 000 in 1994 to 385 000 to date

Honourable members, it is worth re-emphasising what our Minister and Deputy Minister have been at pains to point out on numerous occasions: that almost every single South African makes a contribution to the fiscus – be it through income tax on earnings, capital gains or interest, Value Added Tax when a child buys a sweet, the fuel levy when we fill up our vehicles or the many other tax instruments designed to ensure we all share the responsibility for our country's future.

It is this shared responsibility that has contributed to our fiscal strength and stability growing each year as reflected by revenue increasing from R114 billion in 1994/95 to over R742.7 billion in the most recent financial year.

The growth in compliance is also reflected in the increase in submissions of individual income tax returns on time to SARS. On page 26 of the *Tax Statistics* you will see that on-time filing increased from 58% in 2008/09 to 80.7% during the 2010/11 Tax Season. ***[Slide 13]***

Honourable members, this improvement is directly attributable to the impact of the modernisation programme which has made it ever easier to submit a return, has vastly improved the turnaround times for assessment and the payment of refunds, and has allowed more accurate enforcement of return submissions by individuals including through administrative penalties.

I am sure that you will have noticed that similar compliance is not yet reflected in the statistics for Corporate Income Tax.

On page 79 of the *Tax Statistics* we reveal that the percentage of assessments completed for companies liable to submit returns is less than satisfactory at 54.6% for 2007, 44.5% for 2008, 37.5% for 2009 and 28% for 2010. ***[Slide 14]***

Honourable members part of this is due to the 12 months allowed for companies to submit returns after their financial year end, and here it should be remembered that a company can choose any month as its year end, so a January company submitting a 2010 return is allowed to submit it only in January 2011, similarly a December company will be allowed to submit its return in December 2011. However, a greater part is due to the inadequacy of the registration information we have for companies, many of which are listed as active but in reality are either dormant or non-existent. You will note that the table at the bottom of page 79 shows a much higher proportion of assessments when compared to companies actually active and making provisional payments.

We are currently busy with the modernisation of CIT – which includes a clean-up of the register and working with other government departments in this regard to ensure companies which are registered are also registered for tax.

The impact of modernisation is being felt in the VAT register which is reflected on page 116 of the *Tax Statistics*. ***[Slide 15]*** Here you will note that registrations have actually declined by approximately 80 000 between 2008 and 2011. This is part of an on-going clean-up of the register which SARS has been conducting as part of our focus on bogus VAT registrations and attempts to defraud the fiscus *via* illegitimate VAT claims.

Revenue trends per tax type [Slide 16]

Honourable members, the *Tax Statistics* also provide insight into the changing dynamics of the three largest contributors to revenue annually: Personal Income Tax, Company Income Tax and Value Added Tax which together account for 80% of all tax collected. ***[Slide 17]***

Allow me to highlight some of the trends in these taxes which are reflected in the statistics.

Personal Income Tax (PIT)

In 2011/12 the biggest portion (98.1%) of PIT was collected through the PAYE system and in this case tracking compliance is relatively easy as the employer is responsible for providing taxpayer information.

The remaining PIT is collected through the provisional tax system and this category would account for investment, rental and trust income. It is in this area where there remains greater potential for tax avoidance or evasion.

Generally the statistics show little impact on salary income as a result of the global recession. While job losses most certainly occurred during this period, our figures suggest that most of these losses occurred in the lower income groups, most of whom were below the tax threshold. PIT slowed from growth of 15.6% in 2008/09 to 5.1% in 2009/10 but then bounced back to growth of 10.6% and 10.3% in the two subsequent fiscal years. ***[Slide 18]***

What is shown by the statistics is the increased earning and upward mobility of South Africa's workers. The statistics show that in 2007 only 5.5% of assessed taxpayers had taxable income above R400 000 – but that this grew sharply to 8.8% by 2010. ***[Slide 19]***

The statistics also tell a story of the growing gender equality in the workplace: the number of female taxpayers assessed grew by 163 000 (or 9.5%) between 2007 and 2010 compared to an increase of only 44 000 (or 1.5%) in males. ***[Slide 20]***

The progressiveness of the rate structure ensured that in for example the 2010 tax year, 43.3% of assessed taxpayers (all having taxable income of less than R120 000) only had to contribute 3.9% of assessed tax. The biggest burden being placed on taxpayers with taxable income in excess of R400 000 who only constituted 8.8% of taxpayers but ended up being liable for 54.2% of the assessed tax. ***[Slide 21]***

The effective tax rate on individuals declined significantly (by 0.9% from 21.6% to 20.7%) in the 2010 tax year as a result of the tax relief combined with lower growth in remuneration and employment than expected which resulted in PIT collections in 2009/10 only growing by 5.1%. ***[Slide 22]***

PIT Tax relief

Honourable members, the statistics also tell a story of real tax relief for South Africa's taxpayers over the past few years. Of the R95 billion in tax relief for individuals granted over the past decade, the vast majority has benefitted the lower and middle income earners providing both inflationary relief (known as fiscal drag) and real relief.

On page 25 and 26 of the *Tax Statistics* you will find a breakdown of tax relief granted to individuals since 1994 which shows that an individual with a taxable income of R100 000 in 1994/95 was paying tax at an effective rate of 33.8%. This would have increased to 39.5% in 2010/11 if their income had kept pace with inflation and had no relief granted. But the effect of tax relief provided has reduced the effective rate to just 18.2%. ***[Slide 23]***

Company Income tax

Honourable members, Corporate Income Tax suffered the most dramatic decline in its contribution to the fiscus, during the global financial crisis. It declined from R165.4 billion in 2008/09 to R135 billion in 2009/10 and although some recovery to R152 billion in 2011/12 was seen, CIT collections have not yet reached pre-crisis levels. ***[Slide 24]***

The statistics also show that South Africa continues to have a very concentrated corporate sector with less than 1% of companies paying just over 60% of corporate taxes. ***[Slide 25]***

Moreover of the 580 000 that were assessed in 2009 Tax Year, 202 000 were in an assessed loss whilst a further 108 000 had zero taxable income.

The statistics also show the very positive impact to the fiscus of the introduction of the 80% rule, which was implemented for companies with year-ends after 1 March 2009 which required taxpayers with taxable income in excess of R1 million to settle at least 80% of their tax liability by the time they make their second provisional payment or incur significant penalties. ***[Slide 26]***

The table on page 78 shows third or "top-up" provisional payments declining by over 52% in 2009 /10 and by a further 46% in 2010/11 to a point where on average 93% of all CIT provisional tax is now paid by the time the 2nd provisional payment is made compared to 75% in 2007/08.

Value Added Tax

Honourable members, VAT collections reduced during 2009/10 as a result of the recession but bounced back in 2010/11 achieving the highest growth since the introduction of VAT. ***[Slide 27]***

This was achieved against the backdrop of stricter registration requirements, as well as an extensive clean-up of the register, that was implemented in October 2008 to limit the extent of fraudulent claims lodged as mentioned earlier.

Despite the reduction in active vendors, net VAT collections improved from R154.3 billion in 2008/09 to R191.0 billion in 2011/12.

VAT is the first tax that signals changes in the economy and for this reason the monitoring of the sub components of VAT is important. During the recession as consumption and investment slumped, import VAT declined significantly from R92 billon in 2008/09 to R70.3 billion in 2009/10, VAT refunds also reduced during this period from R124.8 billion to R117.4 billion. The continuous monitoring of these movements allowed the Minister to warn markets on the impact of the recession on

tax revenue already in June 2009, well before the MTBPS estimates was announced in October 2009.

The enhancements to the VAT risk engine further contributed to reduce claimed refunds by more than R11 billion in 2011/12.

Conclusion [Slide 28]

Honourable members, it is said that the definition of statistics is the science of producing unreliable facts from reliable figures.

The *Tax Statistics* publication is a young publication only in its fourth year. Each year we add to it and expand it to provide an ever more useful and reliable database of figures relating to taxation, a topic that affects and interests all of us.

The inclusion of analysis on the top 2500 companies across various tax types are being considered for inclusion in future publications; sector specific publications for sectors such as mining and banking; as well as statistics pertaining to property transactions (transfer duty), mineral and petroleum resource royalties and employment statistics as derived from submitted IRP5 reconciliations and a trade and excise statistics publication. ***[Slide 29]***

We do so to expand the dialogue on taxation with a view to reaching an ever-widening consensus around how best to build this nation we share and how best to share the responsibility of this building programme.

I hope this publication will be used not to substantiate unreliable facts but to contribute to more meaningful dialogue.

I thank you and avail ourselves for your further questions.