

MEDIA STATEMENT

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MINISTER OF FINANCE**

On the occasion of the ANNOUNCEMENT OF THE PRELIMINARY REVENUE RESULTS FOR THE FISCAL YEAR ENDING 31 MARCH 2002

11 April 2002

The 2001/2 fiscal year has been extremely successful one for the SARS both from a revenue collection and compliance enhancement point of view.

I am therefore proud to inform the South African public that SARS has collected R249,2 billion for the fiscal year ending 31 March 2002. Collections exceeded the printed estimate by R15,2 billion.

This record collection marks yet another successful and robust contribution by SARS staff to a better life for all. My sincere congratulations go to SARS staff.

Whilst there has been a noticeable improvement in some aspects of the compliance culture, serious concerns remain. The SARS initiatives we are announcing focus on these concerns. In addition, in line with SARS' commitment to increasingly provide a better service to all South African taxpayers, we are announcing today service initiatives that are intended to make compliance a lot easier and less costly.

PRELIMINARY COLLECTIONS RESULTS

SARS collected a total of R249,2 billion which is in line with the revised estimates of R249,4 billion. This exceeded the printed revenue estimates of R234 billion by R15,2 billion, and falls slightly short of the revised estimate of R249,4 billion by R204 million (or 0,08%). Due to the long weekend that coincided with the end of the fiscal year, electronic payments of R707 million were not received in time to be accounted for in the year under review.

It is significant that in the last fiscal year SARS collected the total cash amount of R298,9 billion of which R49,7 billion was refunded to taxpayers. During the past fiscal year, SARS paid out a total of R6,4 billion in refunds to individuals which is R2,6 billion more than the printed estimates – an increase of R1,3 billion from last year. These refunds have put money directly back into the pockets of taxpayers.

	R billion
Gross collections	298,9
Refunds	49,7
Net collections	<u>249,2</u>

The largest contributor to the surplus over the printed estimates was the increased collection from companies yielding a total of R42,7 billion against the printed estimate of R30 billion. VAT collections amounted to R60,5 billion against the printed estimate of R60,4 billion and the revised estimate of R58,6 billion.

Persons and individuals contributed a total of R91,3 billion exceeding the printed estimate of R90,1 billion by R1,2 billion and the revised estimate of R91 billion by R300 million, mainly due to higher assessment payments resulting from improved processing turnaround times.

An amount of R8,6 billion was collected from customs duties, R10,3 billion from excise duties, and R15 billion from fuel levy.

I want to extend my thanks and appreciation to those individuals and corporate taxpayers whose increasing compliance with the tax and customs laws of this country have made it possible for government to increase its social spending and give bigger tax cuts to taxpayers.

COMPLIANCE CULTURE AND PROGRAMME FOR THE YEAR

Despite the good revenue collections, the compliance levels in South Africa are still unacceptably low. There are still too many individuals and businesses who should be registered for tax that are not. There is a poor culture in respect of the submission of tax returns – both in terms of the time taken to file and non-submission. Over 3 million income tax returns are outstanding.

SARS contends on a daily basis with aggressive tax planning that purportedly adheres to the law, and with taxpayers who simply ignore their tax obligations or actively seek to defraud the country.

VAT fraud remains a serious problem, particularly in the retail sector, which is plagued by round-tripping and similar offences. Currently there are a significant number of big investigations being undertaken by SARS. At the same time I want to welcome the recent pioneering agreement between SARS and EDCON which will inspire other partnership arrangements between the private sector and SARS.

During the past fiscal year, the payroll questionnaires highlighted several abuses of the employees' tax system. As individual income tax is the single largest source of revenue at 36% of total revenue, the potential revenue loss through these abuses runs into billions of Rand.

All of these schemes result in a huge TAX GAP in South Africa – a matter I referred to in the Budget Speech. SARS is in the advanced stages of an analysis of the tax gap. Preliminary indications are that previous estimates are understated and that the formal sector of the economy contributes substantially towards the gap.

This year, SARS will, even more energetically and creatively implement a series of initiatives that will make more significant inroads into the non-compliance culture, and to ensure that this year's revenue target of R265 billion is achieved.

The following initiatives are among those that will be implemented in the current fiscal year:

?? Expanding the Woodmead Project

SARS has concluded a successful pilot of a specialist and integrated audit office commonly known as the Woodmead project. This project was initiated to specifically target identified high-risk industries, taxpayers, and transactions, whilst getting a better understanding of the tax gap and taxpayer morality. During the past fiscal year, the Woodmead project has collected R4,3 billion.

One of the key successes of the Woodmead project was the recruitment of highly skilled auditors with the relevant business exposure. These auditors were able to detect avoidance and evasion schemes because of their background and exposure. SARS will replicate these specialist and integrated audit offices in other parts of Gauteng, Cape Town and Durban. SARS has embarked on a recruitment drive to attract the appropriate skills for these additional offices.

?? Payroll Audit

Some of the abuses that have been detected by SARS's payroll audits include employers improperly paying their employees' private expenses, the abuse of allowances such as travel and subsistence allowances, the splitting of income, and others. Most concerning of all is the failure by employers to pay over amounts deducted from their employees.

This year, SARS will embark on a compliance drive focusing on employees' tax abuses. These additional audits will result in increased criminal prosecutions.

?? Foreign investment tax clearance

In terms of existing policy South African individuals over 18 years in age and in good standing with SARS may invest up to R750 000 outside the country. Such investors are required to obtain a Tax Clearance Certificate (TCC) from SARS prior to any foreign investment. There is evidence of substantial abuse on the part of investors in obtaining TCC's to move funds offshore.

A new process will therefore be implemented to minimize abuse, which will include:

- ~~///~~ Additional information requirements
- ~~///~~ Pre-issue audits on TCC requesters
- ~~///~~ Certificates will be issued directly to the banks or authorized dealers.

?? Tax Clearance Certificate in respect of government tenders

SARS has concluded a review of payments made on government contracts. The review revealed that many vendors who have obtained tax clearance certificates have under-declared their incomes. Some vendors have gone so far as to de-register for tax purposes whilst actively trading.

During the current year, SARS will audit those taxpayers who have previously applied for tax clearance certificates.

?? Customs

In order to ensure better control over goods entering, leaving, and moving through South Africa, the following initiatives will be rolled out –

- ~~///~~ An increased emphasis on goods imported via the postal system, goods removed by rail, and goods carried by persons leaving South Africa
- ~~///~~ Greater use of post-clearance inspections at the premises of importers
- ~~///~~ The registration and licensing of persons doing customs business
- ~~///~~ The entering into arrangements with Portnet to facilitate the greater use of scanning facilities at our major ports of entry
- ~~///~~ Closer co-operation with the South African Police Service to curb drug smuggling through the secondment of dedicated officers to the police service.

?? Outstanding Returns

SARS will be employing up to 1000 temporary staff who will be physically collecting all outstanding returns from taxpayers and deliver summonses to the taxpayers that do not respond. The first 250 of the 1000 temporary staff are already undergoing training. The collection of outstanding returns project will be an integrated approach between the SARS Call Centre, Branch Offices and the temporary staff.

NEW SERVICE INITIATIVES

In addition to its revenue and compliance initiatives, SARS is committed to introducing a new service approach that focuses on providing more effective service delivery. (See Appendix 1). This includes a more efficient application of the law and an improvement in SARS's responsiveness to taxpayer needs. Against this background SARS will be launching two specific initiatives directed towards streamlining and enhancing its ability to respond to and resolve taxpayer problems.

The first initiative focuses on disputes arising from the interpretation of the tax laws and decisions made in terms of those laws. The different tax laws already contain mechanisms to resolve these disputes. However, SARS recognises that there is room for further improvement in these dispute resolution mechanisms. New rules for the objection and appeal process have been drafted including a new framework for an alternative dispute resolution process. This has been supplemented by an increase in the jurisdiction of the Special Board– the tax equivalent of the small claims court – to handle disputes of up to R100 000.

The new rules for the objection and appeal process have been the subject of extensive consultation with tax practitioners, advocates, and judges over the past year. This approach will ensure that taxpayers and SARS meet to explore the possibilities of settling the matter before it ultimately enters the court system. These rules will be promulgated in the second half of the year.

In order to reduce litigation costs and delays, the new approach to dispute resolution will also incorporate an alternative dispute resolution mechanism. An alternative dispute resolution unit has already been established at SARS's head office to begin processing existing disputes at the head office. Alternative dispute resolution sections will be established at branch office level during the second half of the year.

The second initiative recognises that mechanisms are required to assist taxpayers who are having difficulty in resolving problems of a procedural nature with SARS. In line with the announcement made in the Budget Speech, SARS will establish a Taxpayer Complaints Resolution Office which will function independently of branch offices, reports directly to the Commissioner, and maintain an objective perspective on the complaints it receives. The creation of this office is tangible evidence of SARS's commitment to the improvement of service delivery.

The Taxpayer Complaints Resolution Office will fast track and follow up on complaints on procedural matters that cannot be resolved at the branch office level. Where the complaint relates to a dispute as to the merits of a decision or assessment, the Taxpayer Complaints Resolution Office will advise the taxpayer of the steps that he or she needs to take to make use of the dispute resolution mechanisms. The taxpayer complaints resolution office will not be involved in deciding the merits of the assessment.

The Taxpayer Complaints Resolution Office will focus on, among others, the following issues:

- ~~///~~ Delays in making decisions, processing returns or effecting refunds, correction of mistakes, etc.
- ~~///~~ Failure to respond to taxpayer's communication within a reasonable time
- ~~///~~ Failure to provide reasons for making an adjustment to a return
- ~~///~~ Poor attitude and behaviour of staff
- ~~///~~ Poor or misleading advice by any of the SARS officials
- ~~///~~ Treatment when stopped by Customs

This office will not only benefit individual taxpayers who make use of it, but will also enable SARS to assist all taxpayers by building and maintaining a profile of areas requiring improvements.