MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**Media Statement by the Minister of Finance, Mr Pravin Gordhan, on the Preliminary Outcome of Revenue Collection for the 2012/13 Fiscal Year**

**PRETORIA, 2 April 2013** – Today we would like to inform South Africans about our current economic environment, our fiscal status, the successes of the South African Revenue Service (SARS) with this year's revenue target and the context in which our economy is performing.

The February 2013 Budget set SARS a revenue target of R810.2 billion.

The initial revenue target in the 2012 Budget was R826.4 billion and was revised downwards twice during the course of the fiscal year (to R821.4 billon in the October 2012 MTBPS) as GDP growth slowed, particularly during the last quarter of 2012. The final revision was R16.3 billion lower than the original estimate in the 2012 Budget.

For the 2012/13 financial year SARS collected R814.1 billion, which is R4 billion (0.5%) above the revised estimate of the February 2013 Budget. This is an admirable revenue performance. The reality remains that revenue collection is still R12 billion below our initial expectations in the 2012 Budget.

**1. Economic drivers of revenue**

- The weak global environment and a number of domestic supply side disruptions, particularly in the mining sector led to a moderation in economic growth from 3.5% in 2011 to 2.5% in 2012. This negatively affected job creation and corporate profits, leading to a downward revision of revenue estimates during the 2013 Budget.
- Despite these challenging economic conditions, tax revenue growth remained resilient in 2012/13
- Robust investment by the public corporations provided support to import growth, which led to strong growth in import VAT and revenue from import duties
- Some sectors such as Finance, Real Estate and Business Services recorded higher than average growth.
- While employment growth moderated, compensation of employees increased by 8.8% in 2012, which contributed positively to growth in Personal Income Tax.

The moderation in household consumption expenditure was offset by sustained buoyancy in government consumption expenditure which supported domestic VAT.

The preliminary revenue outcome today strengthens the fiscal message that informed the budget published in February 2013. The revenue outcome is in line with the economic performance and reinforces our expectation for continued improvements in tax revenue as the economy continues to recover over the medium term.

In addition, while under-spending by government departments and agencies is a concern for service delivery, there are no indications that any department or agency has significantly overspent, illustrating the will and administrative strength to ensure that the integrity of the fiscus is not undermined by departments spending more than they are allocated.

Slightly higher revenue collections (R4billion) have the effect of reducing the consolidated government deficit from 5.2% of GDP to 5.1% for 2012/13. Preliminary analysis of spending outcomes indicates that government spending is likely to come in below the estimates published in the February 2013 budget.

In particular, the withholding of local equitable share funds to municipalities where conditional allocations from previous years have not been fully spent, unspent disaster relief grants, delays in the Community Works Programme, and slower than anticipated spending on school infrastructure backlogs are the main areas of spending underperformance.

It can be anticipated that the consolidated fiscal deficit for 2012/13 will come in below 5% of GDP.

**3. The main revenue highlights are—**

- Total revenue of R814.1 billion represents an increase of R71.5 billion (9.6%) over the previous financial year’s R742.6
- The three main revenue contributors for 2012/13 were—
  - **Personal Income Tax (PIT)**: total collections were R276.8 billion and grew by R25.5 billion (10.1%) compared to R251.3 billion for the previous financial year, and were R2 billion (0.7%) above the Revised Estimate in the 2013 Budget
  - **Corporate Income Tax (CIT):** total collections were R161.1 billion and grew by R7.8 billion (5.1%) compared to R153.3 billion for the previous financial year, and were R3.4 billion (2.1%) above the Revised Estimate in the 2013 Budget
  - **Value Added Tax (VAT):** total VAT collections were R215.5 billion and grew by R24.4 billion (12.8%) compared the R191 billion for the previous financial year. VAT receipts were marginally lower by R1.6 billion (0.7%) against the Revised Estimate in the 2013 Budget

- This preliminary revenue outcome represents growth in collections of R71.6 billion (9.6% nominally) compared to the previous financial year and it exceeds the combined contribution of real GDP growth of 2.5% and inflation of 5.6 % by 1.5%.
- The collection of R814.1 billion improves the tax-to-GDP ratio from 25.2% in the 2013 Budget to 25.4%. This is a positive indicator of SARS's ability to improve collections in difficult times and signals that our tax-to-GDP ratio is recovering to the levels before the financial crisis.

I want to thank every registered taxpayer who paid their fair share of tax during this tax year and who did so on time, since SARS had three days fewer to make the target due to the Easter weekend at the end of March.

It is worth emphasising that the total tax burden is one to which almost all participants in our economy contribute. Registered taxpayers, together with a much broader base of consumers - including the unemployed, the aged and workers who earn below the tax registration threshold – collectively constitute a growing body of economically active citizens who have contributed to this revenue outcome and a growing tax base.

**4. Tax Refunds—**

For the 2012/13 financial year refunds across all tax types from SARS to taxpayers amounted to R173 billion which is R8.6 billion (5.5%) higher than the previous financial year. This is a direct contribution from the tax system to the domestic economy.

- **PIT Refunds** totalled R19.7 billion which is R2.1 billion or 12.2% higher than the previous financial year
- **CIT Refunds** totalled R14.7 billion which is R1.1 billion or 7.0% lower than the previous financial year
- **VAT Refunds** totalled R138.6 billion which is R7.6 billion or 5.8% higher than the previous financial year

**5. Comparison of Revenue before the Financial Crisis**

We must acknowledge that we are still in a challenging fiscal situation and that revenue collection has not yet recovered to the same levels as before the 2009 financial crisis when the tax-to-GDP-ratio peaked at 27.6% of GDP during 2007/08 (25.4% in 2012/13).

With the exception of CIT for Large Corporates all taxes have recovered to pre-crisis levels. Specifically CIT from SMMEs have recovered more favourably, having grown over the past year by 13%. Large corporates which constitutes 66% of CIT grew modestly during 2012/13 at 1.4%, dragged down by the contraction in mining provisional tax receipts. The extraction from the economy in the tax-to-GDP ratio has returned in 2012/13 to the long term average of about 25%, but is still below the pre-crisis level.

## 6. Impact of Mining on Revenue

Most of the negative impact on CIT collections can be accounted for by the poor performance in the Mining sector and the direct consequences of unprotected strikes in the industry. The direct and indirect impact on tax revenue is estimated to be above R11.3 billion

The growth rate for CIT provisional tax until October 2012 was 13%, slumping to 3.4% in December 2012. The Mining sector reported losses of about R6 billion in provisional tax revenue. Subsequently CIT growth recovered to 5.1% as at end March 2013 mainly buoyed by contributions from the Financial services and trade sectors within the SMME segment. From a large business perspective improved performance was due to Paragraph 19.3 gains and improved performance in Telecoms and Automotive.

Overall CIT revenue excluding Mining expanded by 10%.

## 7. Specific SARS efforts—

As economic growth remained muted at 2.5% during 2012, SARS had to employ additional efforts to carefully manage revenue flows to ensure that it met and surpassed the revenue target for 2012/13:

### 7.1 Reducing the Debt Book

For the first time in its history SARS has managed to reduce its debt book, which consists of all outstanding assessed tax debts for which payments are overdue.

- In real terms the debt book was reduced by R6 billion – from R88 billion to R82.5 billion
- The current ratio of outstanding debt to total revenue is around 10% and SARS will continue to reduce outstanding tax debt to a ratio of 6% over the next five years.
- It required SARS to prioritise its resources at the call centre, branch office and the Large Business Centre to identify recoverable outstanding debt, to contact defaulting taxpayers and to effect methods to recover outstanding tax.

#### 7.1.1 The SARS Call Centre and Branch Operations—

- The SARS Call Centre received 5.505 million inbound calls while Branch Operations provided services to 6.388 million walk-in taxpayers.

- These divisions made 2.764 million outbound calls and initiated 1.049 million SMS text messages
- Text messages alone generated some R362.7 million in revenue
- A total of R 9.2 billion in outstanding debt was collected for the year through these methods with debt of more than R1.3 billion collected during the last two months of the financial year

**7.1.2 The SARS Compliance Division—**

- Set itself a target to recover R1 billion in outstanding debt and exceeded this target by collecting R1.06 billion
- Since the beginning of February 2013, the division made 425 913 calls for 187 885 cases which eventually yielded R745 million in additional revenue.
- Also worked closely with the Masters Office in the Department of Justice over the past two months to finalise more than 500 Deceased Estates and collected additional Estate Duties and penalties of more than R116 million.
- The division also engaged the Chief Financial Officers of various municipalities and were able to identify and pursue defaulting contactors who were awarded public tenders
- SARS assisted these contractors to submit outstanding tax returns and then worked with municipalities to pay what was due in outstanding taxes – particularly for VAT - directly to SARS.
- More than R85 million in outstanding debt and small, emerging businesses to became tax compliant.

**7.1.3 The SARS Large Business Centre (LBC)—**

- The LBC's contribution to total revenue collection for 2012/13 is R281 billion.
- The division delivered additional revenue R12 billion and exceeded this target by R1.6 billion This was achieved by focussing on:

  - **Paragraph 19 (3) Provisional Tax Payments**

  The LBC had initiated 6 153 Paragraph 19(3) interventions and issued 558 revised provisional tax estimates, which generated provisional tax of R6.2billion

  - **Debt Book Reduction**

  LBC staff made 1 428 calls during March 2013 to non-compliant taxpayers and recovered R2.1 billion in outstanding debt

  - **Reversed Refunds**

  Monitoring refund payments more closely resulted in additional revenue of R1.02 billion where taxpayers could not substantiate refund claims

- **Settlements on Assessed Tax**

  Out of Court Settlements with large corporations yielded R1.2 billion in additional revenue.

**7.2 The Voluntary Disclosure Programme (VDP)**

Following policy changes, the VDP is now a permanent part of the tax system. It allows for taxpayers to regularise their tax affairs without facing the risk of additional penalties and interest. For the year under review, R1.5 billion was collected through the VDP

**8. Conclusion—**

In a very challenging economic environment SARS has achieved a truly remarkable result which has a very positive impact on the fiscus. Government remains steadfast in the fiscal trajectory announced in the 2013 Budget. We will continue to improve efficiency in spending, always looking for the best possible value for money.

**ENDS.**

**For further media enquiries, please contact Adrian Lackay, SARS Spokesperson, 083 388 2580**