Budget Vote 10: National Treasury

Nhlanhla Nene

Deputy Minister of Finance

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Honourable members

It is my honour to present to you the overview of the work of the Finance Family, a number of institutions whose activities underpin our political economy. In closing the debate on the State of the Nation address in February 1999, Nelson Mandela had this to say: "We are a democracy - young and fledgling, but one which can boast of firm institutions and a culture that no force can take from the people of South Africa."

We are today a 19-year-old teenager, but one which can boast of the calibre of institutions such as the South African Revenue Services (SARS), the Public Investment Corporation (PIC), the Financial Intelligence Centre (FIC), the Financial Services Board (FSB), and the Government Pensions Administration Agency (GPAA).

These institutions are among the pillars of our economic and political order. Nobel laureate Douglas North defines institutions thus: "Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behaviour, conventions, and self-imposed codes of conduct), and their enforcement characteristics."

The Finance Family is therefore one of the constraints that structure human interaction within our borders. The FIC and the FSB ensure the integrity, security and strength of our financial system. SARS collects the revenue that makes it possible for government to pay for our collective ambitions as a nation. The GPAA looks after the retirement needs of our civil servants. And the PIC, on the other hand, ensures that the Government Employees Pension Fund (GEPF) and social security funds have sufficient funds to meet their obligations.

In their most recent paper, Taxation and Development, Professors Timothy Besley and Torsten Persson make the point that "the power to tax lies at the heart of state development".

Besley and Persson take their lead from Nicholas Kaldor who said: “It is shortage of resources, and not inadequate incentives, which limits the pace of economic development. Indeed the importance of public revenue from the point of view of accelerated economic development could hardly be exaggerated.”

SARS has played a crucial role in ensuring that successive ANC administrations have had the revenue to fund our collective ambitions as a nation. For the 2013/14 fiscal year, SARS is required to collect R898 billion of revenue, which is nearly 10 per cent or R84 billion more than the previous year. Over the same period our economy is expected to grow at 2.7%.

Meeting this target will not be easy. Not only because of the tough economic environment in which South Africa and the rest of the world find themselves, but also because of corporates and wealthy individuals who organise their affairs in such a way that they do not pay their fair share of tax. They achieve this through sophisticated tax avoidance and evasion schemes.

South Africa is not alone in this. The Group of 20 nations, of which South Africa is a member, has picked up the cudgels against this scourge. At the G20 summit last month, the erosion of sovereign tax bases and the shifting of profit by corporates from jurisdictions where it is generated to those where they can pay the least tax were key topics of discussion based on an OECD report which highlighted the potentially crippling effects this can have on the fiscal sustainability of nations.

The shifting around of profits is justified on the basis that companies have a duty to maximise the wealth of their shareholders by paying as little tax as loopholes between jurisdictions and the ambiguity the letter of the law allows. This includes setting up subsidiary companies in tax haven as conduits for the transfer of profits from where they are generated.

This is not only unjustifiable, but immoral. South Africa has its fair share of multinational companies who rack up billions of rands in revenues and yet pay almost no tax here because they use transfer pricing, profit shifting, other forms of tax evasion and aggressive tax avoidance schemes which denude our fiscus. This at a time when governments are being forced by circumstances to support economic activity as the private sector has withdrawn to the sidelines.

Among the tools at SARS's disposal are global agreements on the exchange of information which we must extend to more jurisdictions, and the powers granted to SARS in the new Tax Administration Act to detect and deter non-compliance, including stiff penalties for those who are willfully non-compliant.

SARS will continue its work to improve the levels of tax compliance in the country and it will apply the benefits of a modernized and increasingly automated tax system. In order to improve access and availability of its services to all citizens, SARS will focus on the following—

- Increase the use of mobile technology to allow taxpayers easy and convenient access to services wherever they are;
- Review its branch footprint to better reach taxpayers and traders;
- Develop a single registration process for businesses and traders to reduce the costs of compliance. This will reduce the administrative burden for businesses in terms of tax and customs registration;
- Increase the presence of mobile offices and shared locations for those who do not have access to such technology or choose to interact face-to-face;
- Bring all economic activity within its purview even when there is no revenue to be derived. This includes having sight of all informal businesses;
- Increase collaboration with other government departments, including the Departments of Home Affairs and Social Development;
- Increase education and engagement with taxpayers and traders throughout their lifetime; and
- Modernise the Corporate Income Tax (CIT) system for companies and automating the process. A new income tax return for companies – ITR14 – was released two weeks ago.

SARS is well advanced with the transformation of the Tax Clearance Certificate system as announced by the Minister in the February Budget speech. The new process will address a number of shortcomings of the current TCC, namely that taxpayers need to collect their printed TCC at a branch, that it is susceptible to forgery, and that it does not monitor on-going compliance of a business for the duration of a contract.

Financial Intelligence Centre (FIC)

Money laundering and the financing of terrorist activities pose a serious threat to the integrity and stability of financial markets and institutions. These activities can discourage foreign direct investment and distort capital flows. Money laundering, in particular, can also be a conduit for through which unscrupulous taxpayers hide their income from the revenue collection agencies. It is for these reasons that the international community has made the fight against these activities a priority.

So, the FIC plays an important role in ensuring the integrity and stability of our financial system. Through ever-closer working relationships with the law enforcement authorities and the South African Revenue Service, the FIC provides the financial intelligence which is increasingly being used in the investigation of priority crimes in South Africa.

In February this year, the Minister of Finance announced that he had requested the FIC to explore how we might bring South Africa in line with international anti-corruption and anti-money laundering standards in so far as Politically Exposed Persons (PEPs) are concerned.

The FIC has re-issued guidelines to all accountable and reporting financial and other institutions on how they should treat clients who qualify as PEPs. In addition, the FIC has begun a process of amending the FIC Act to include explicit provisions to deal with PEPs.

The extent of reporting to the FIC and the referrals of matters to the law enforcement authorities continues to grow. Over the past year the FIC referred 883 matters to law enforcement agencies for investigation. The FIC estimates that the value of these referrals for the past year amounted to R76 billion. Many of these matters involve lengthy and complex analysis and often run over multiple years. Last year, the FIC froze R334 million which had been derived through fraud. At the request of law enforcement agencies, the FIC also helped in the investigation of an additional 1445 matters.

Financial Services Board (FSB)

The recent financial crisis and subsequent events have been yet another reminder of the importance of sound financial institutions and the fair treat by these institutions and their intermediaries of the people who buy financial services and products. The financial crisis and the scandals such as the LIBOR fixing case have also been a reminder of the importance of integrity and stability of financial markets and institutions. Without strong regulators, we can have neither sound financial institutions nor financial markets with integrity.

So it is against this backdrop that the Financial Service Board (FSB) is girding its loins to promote the soundness of insurers and reinsurers through the effective application of international regulatory and supervisory standards. The FSB is developing a new risk-based solvency regime for the South African long and short-term insurance industries, namely the Solvency Assessment and Management (SAM) regime.

The SAM regime will be based on the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted where necessary to suit South African circumstances.

The Solvency II is based on three pillars:

• Quantitative requirements, dealing with issues such as the valuation of assets and liabilities and the setting of capital requirements. This can be based on a standardised model, prescribed by the supervisor, or an insurer's own internal model, approved by the supervisor.

• Qualitative requirements, including standards and guidance on governance, internal controls, risk management and supervisory processes.

• Reporting and disclosure.

The proposed implementation date for SAM is 01 January 2016. However, interim transition mechanisms will be put into place in respect of Governance, Internal Controls and Risk Management. Before then, there will be a number of other changes to regulation of insurance companies and these will come into effect from January next year.

Twin Peaks Regulatory System

The FSB has been working together with the South African Reserve Bank and National Treasury on the preparation for the implementation of the Twin Peaks model of regulation. This work will continue and is expected to intensify as we come closer and closer to the implementation stage.

The FSB has established a Twin Peaks Implementation Steering Committee which will make recommendations regarding the practical steps that must be taken for a successful implementation of Twin Peaks.

Public Investment Corporation (PIC)

For the period of 2013-16, the PIC has the following areas of strategic focus:

(a) Contribute to education, health, housing, infrastructure and environmental projects

GEPF has set aside 5 per cent of its total assets, equivalent to R62.5 billion, for investment in these types of projects. As at 31 March 2013, 46% of this has already been committed and / or invested (R28.8 billion). In the year ahead, PIC will continue to implement the developmental investment policy of the GEPF.

(b) Continued investment in Africa

South Africa's future economic growth and prosperity is tied to that of the African continent. It is for this reason that 5 per cent of GEPF assets have also been set aside for investment in Africa. These investments will be particularly focused on private equity and developmental-type projects. This will be a key complementary intervention in the development of Africa’s infrastructure, with long-term benefit of a more productive continental economy.

(c) BEE and transformation

The PIC has been, and will continue to focus, in the year going forward on aiding BEE and transformation in a number of sectors. The PIC will:

• Contribute to enterprise development in the asset management and broker sectors;

• Develop SMMEs and private equity; and

• Promote transformation in the property sector by allocating assets to Black entrepreneurs who demonstrate an ability to perform and meet the PIC’s due diligence and investment criteria.

Government Pensions Administration Agency (GPAA)

We continue to reiterate the importance of household savings to ensure that fellow South Africans retire comfortably. From Government's side, we are continuing to invest in pensions to ensure that the loyal service of government employees is rewarded when they retire.

In this regard, honourable members, we are modernising our systems to ensure that we pay benefits accurately and on time. To date, the Western Cape has been piloting the use of GPAA's electronic document submission system. This will allow us to reduce the time taken to make payments. For documents submitted using our traditional submission channels, during the 2012/13 financial year more than 80% of benefits were paid on time. To improve further on this performance, GPAA is also encouraging department and entities to expedite the submission of information to the GPAA. Some of the delays in processing retirement benefits are due to the late submission by departments of information to the GPAA, or the submission of incomplete information.

We have begun a Retiring Member Campaign which ensures that public servants receive their pension in the same month that they retire.

We continue to take services to pensioners and members through our outreach programmes through our Community Roadshows and Mobile Offices initiatives and in doing this we are bringing services to the people, even those living in deep rural areas, providing them with opportunities to have their concerns addressed on the spot.

For the first time in the history of GEPF and the GPAA, about 751 637 members have received benefit statements outlining the benefits they are entitled to from GEPF. This will be increased in the next year and adopted as an annual practice going forward to assist members planning and managing their retirement savings.

We are also continuing to be plagued by unclaimed benefits. This is an area of deep concern and we have worked to reduce unclaimed benefits by 19, 3% from baseline of over R606 million at the end of 2011/12 to R489 million at the end of 2012/13.

I thank you.