MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

MINISTER'S SPEECH AT THE SARS 2017/18 PRELIMINARY REVENUE OUTCOME ANNOUNCEMENT

Ladies and gentlemen, welcome to today's media briefing on the preliminary outcome of revenue collection for the 2017/2018 fiscal year.

Our announcement today follows the State of the Nation Address and Budget Speech as one of the most important dates on the country's fiscal calendar.

Today we report the amount of revenue that SARS has collected during the last fiscal year on behalf of taxpayers for spending on government's programmes towards economic development, growth, job creation and the provision of basic services, as well as importantly, arresting spiralling debt.

There is, of course, a new optimism in our body politic and economic environment that we need to acknowledge and harness.

On 23 March 2018 Moody's reaffirmed South Africa's long term foreign and local currency debt ratings at 'Baa3' and also revised the outlook to stable from negative, and this is largely based on decisive actions that our President Ramaphosa and his administration have taken to place us on a better trajectory towards growth.

The South African Revenue Service has collected an amount of R1216.6 billion in the financial year 2017/18. It should be noted that these are preliminary results, which will be subject to final audit. The preliminary result is very close within 0.06% to the forecasted estimate of R1217.4 billion announced by the Minister in the Budget Speech 2018. It represents a growth of R72.4 billion (6.3%) compared to the 2016/17 financial year.

SARS collected a gross amount of R1451.0 billion which was offset by refunds of R234.3 billion, resulting in net collections of R1.216,6 billion.

Well done to SARS and the people of South Africa who made this possible. This revenue injection represents money that comes from ordinary, hard-working South

Africans and demonstrates our resilience as a nation to overcome obstacles and challenges, and our commitment to protect and deepen our democracy.

Revenue collection is driven by the state of the economy, as we all know, the fiscal policy choices that we make, administrative efficiency and tax morality which determines taxpayer compliance. As much as the performance of any tax administration is premised on the economy, other key determinants are business and consumer confidence, tax morality and the credibility of the tax administration.

The 2017/18 financial year was characterised by distinct and clearly delineated growth patterns. Until December 2017, revenue in aggregate grew by 6.2% year on year. For the period December to February 2018, revenue growth, on a month on month basis accelerated to between 9.5% and 15.5%, strengthening aggregated year on year growth to about 7.3%. This strengthening of revenue growth during the 3-month period can be attributed to a number of things:

- An improvement in business confidence to levels last seen in 2015, resulting in improved profit outlook and hence provisional payments;
- Strengthening of commodity prices, which buoyed company income tax from especially the mining sector in December 2017;
- Purchasing Manager's Index (PMI) which indicated a recovery in the manufacturing sector, which translated in improved company income tax (CIT) from this sector.
- The stronger currency towards the latter part of 2017 assisted companies with imports, which benefitted our trade taxes.

The slower recovery of consumer confidence resulted in lower domestic VAT, as more citizens elect to reduce household debt. As a result, domestic VAT grew at a muted level of 4.5%, well below the 8.1% growth seen in the previous year.

Business confidence is yet to translate into higher employment numbers and significant growth in the wage bill. As a result, Pay-As-You-Earn (PAYE), the largest contributor to the SARS tax portfolio, came in at 8.6%, significantly below the 9.2% levels experienced in the past two years.

Revenue collections, on a month-on-month basis, contracted in March 2018, driving down the aggregated yearly growth to 6.3%. Dividend taxes contracted by R3.9 billion in relation to prior year.

In the prior year, companies anticipated an increase in the Dividend Tax rate, which changed from 15% to 20% effective 22 February last year, declared extra ordinarily high dividends. Due to the shorter business month in March, Customs had to close their statements two days earlier than normal, shifting about R1.8 billion to the next financial year.

Domestic VAT from large business came in flat in March 2018, deviating from the growth trajectory established during the course of the year.

The main sources of revenue that contributed to the R1216.6 billion collected were Personal Income Tax (PIT), Value-Added Tax (VAT) and Company Income Tax (CIT).

- PIT contributed R462.5 billion (38.0%)
- VAT contributed R297.8 billion (24.5%)
- CIT contributed R220.2 billion (18.1%)
- Customs contributed R49.4 billion (4.1%)

Every year SARS implements comprehensive initiatives to optimise revenue collections. The short-term Special Voluntary Disclosure Program, initiated to offer taxpayers the opportunity to declare off shore wealth raised R2,9 billion in taxes in the financial year from 827 processed SVDP applications from the 2,024 applications that were received. The ongoing Voluntary Disclosure Program continues to perform well and has realised R10.8 billion in total since 2012 when the VDP was launched.

SARS collected more than R800 million from the national Prominent Business Individuals project. This initiative was developed to ensure an end-to-end view of a taxpayer's business profile and hence tax liability.

Invoking paragraph 19(3) of the Fourth Schedule of the Income Tax Act, SARS may request additional payments from provisional taxpayers based on the latest estimates of financial performance. This year SARS collected R10.7 billion from Paragraph 19(3) interventions.

For any tax authority, tax compliance is one of the key determinants of its revenue performance. SARS has seen a deterioration in compliance as indicated by the overall growth in outstanding returns across all tax types.

More concerning though is the increasing tendency of business to withhold taxes such as VAT and PAYE collected on behalf of SARS. SARS has stepped up its outreach and enforcement programs and the call centres and offices made over one million outbound calls to taxpayers. The SARS outstanding returns campaign will be boosted this year to bring this matter under control. SARS is also collaborating with the Department of Justice to expedite the prosecution of tax offences.

Despite this decline in compliance, the majority of taxpayers continue to pay their tax obligations diligently.

Concluding remarks:

The 2017 GDP growth projection has been revised upward to 1 per cent, which is higher than the 0.7 per cent expected at the time of MTBPS last year. We are anticipating growth of 1.5 per cent in 2018, rising to 2.1 per cent in 2020. While this is a good start, there are immediate policy interventions that we need to make to ensure that we create the right environment for investment, growth and employment.

Government has made significant changes to the fiscal framework, including revising our expenditure ceiling downwards from what was presented in the Medium-Term Budget Expenditure Framework last year.

New tax measures such as a higher VAT rate and below-inflation adjustments to personal income tax brackets, as well as implementation of the sugary beverages levy took effect a few days ago. The VAT hike is anticipated to raise an additional R22.9 billion in 2018/19.

The role of SARS cannot be over-emphasised. Ninety percent of our budget comes from the revenue collected by the South African Revenue Service – let me repeat, 90%. This massive contribution forms the basis of our fiscal framework and is critical in consolidating our national sovereign debt.

One of our focus areas should be to restore and rebuild public trust and credibility with taxpayers, traders, our stakeholders, our partners, and all South Africans.

It is, therefore, critical that all taxpayers and citizens always have full confidence that every cent provided to the fiscus will be well spent and that they will all be treated with the highest levels of service, with dignity, respect and fairness.

In turn, tax morality determines tax compliance. If South Africans play their part by paying taxes, government is also better placed to play its part in delivering services effectively. This is the social contract between government and citizens.

Thank you:

Thank you to the Acting Commissioner and the SARS Executive Committee for their leadership. My appreciation goes to the 14000 SARS staff who, despite a difficult climate, continue to ensure that Government has financial resources to deliver a better life for all in South Africa. Their dedication inspires all of us and makes me proud to be their Minister.

I hope that today's announcement and the manner in which SARS has achieved this milestone, under difficult circumstances, will restore some trust and credibility in our government and its revenue authority.

Finally, let me again thank South Africans, each and every citizen, consumer, business owner, every taxpayer and trader who paid their fair share of tax, contributing to the revenue collected.

Thank you for your attention.

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