NATIONAL TREASURY BUDGET VOTE SPEECH

BY NHLANHLA NENE (MP),

DEPUTY MINISTER OF FINANCE

18 MAY 2012

Honourable Members

The Ministry of Finance oversees a number of institutions that are affectionately referred to as the Finance Family. These are the South African Revenue Services (SARS), the Public Investment Corporation (PIC), the Financial Intelligence Centre (FIC), the Financial Services Board, and the Government Pensions Administration Agency (GPAA).

These institutions play critical roles in our political economy. SARS makes it possible for government to fund its programmes, the FIC ensures the integrity of the country's financial system, the FSB regulates all financial institutions other than banks, and the GPAA - the youngest member of the Finance Family – ensures that the men and women who dedicate their lives to serving their fellow citizens are well looked after.

The PIC, on the other hand, has up to now ensured that the Government Employees Pension Fund (GEPF) has had no need to call upon the state to dip into its pockets to meet its obligations as the guarantor of the retirement benefits of GEPF members. The GEPF has sufficient assets to cover its actuarial liabilities. And that is thanks to the performance of the PIC, which manages GEPF assets.

Revenue collection and tax and customs administration

The sovereign debt crisis which continues to play out in Europe is a stark reminder of the importance of fiscal stability and sustainability. Our prudent fiscal policies over the past decade have been supported by an ever-growing tax base and culture of compliance.

As a result we are well-placed to stimulate and further encourage economic growth and recovery through our counter-cyclical investment in infrastructure over the coming MTEF period.

In the past financial year the many millions of taxpayers in our country have again provided us with the means to implement this ambitious investment programme which, in a virtuous cycle, will stimulate growth, job creation and higher future revenue. We owe them our deep gratitude and a commitment to spend this money wisely, honestly and efficiently.

By the end of March this year, the South African Revenue Service had collected R742.7 billion in tax revenues, R4 billion more than the revised projection made during the Budget in February and 10 per cent higher than the previous year's collection.

Honourable members, it is worth reiterating that almost every single South African makes some contribution to this revenue. They make this through tax on income and earnings, VAT on purchases of goods and services, directly and indirectly through the fuel levy, the electricity levy and a range of other tax instruments designed to share our obligations fairly, sustainably and progressively.

It is to these patriotic South Africans that we owe the socio-economic gains that we as a nation have made since the birth of our democracy 18 years ago. Total tax revenue has increased from R114 billion in 1994/95 to more R742.7 billion this year – a more than fivefold increase.

This is an achievement in which we can all take pride. But it is also an achievement which must be constantly protected. SARS will do more not only to protect the tax base but to expand it.

Tax compliance is strongly influenced by the perceived value for money which our citizens receive for their hard-earned contributions. We must be honest: fraud and corruption undermine our tax base. Corruption, wasteful expenditure and inefficient use of resources erode our hard-won culture of compliance and the social compact between citizens and state.

Each one of us who relies on taxpayer money – from public servants to politicians to employees of state-owned enterprises – should ask before spending a cent: "Is this the best and most efficient use of taxpayers' money?"

It is therefore the responsibility of every public representative to protect the integrity of public institutions like SARS. If we want to understand the consequences of what happens if we don't – look no further than Greece!

We, as public representatives and servants, must also work harder to sustain public trust in the state. We must avoid words and deeds that erode that trust. We must ensure that we spend public money wisely. We must cut out unnecessary and expensive travel and hotel functions for our budget votes!

The willingness of taxpayers to part with portions of their hard-earned money every year depends on a number of factors. One of these is the perceived equity of the tax system and the knowledge that everyone is paying their fair share.

SARS recently released its inaugural Compliance Programme which will focus on seven key areas of higher risk and generally lower compliance. These include:

- the construction industry,
- transfer pricing by large businesses,
- the abuse of trusts by wealthy South Africans,
- illicit cigarettes,
- undervaluation of imports in the clothing and textile industry,
- tax practitioners and intermediaries.

SARS, in collaboration with other government departments, will also focus on the registration for tax purposes of foreign-owned small and micro-businesses. This is part of the efforts to grow our tax base and ensure fairness in the tax system. After piloting the system, SARS, Home Affairs, the SA Police Service and the Department of Trade and Industry are rolling out the registration system nationally.

We have brought to this house a mobile unit which uses a specially designed registration kit to capture the relevant details of the business, including personal and biometric details of the owner such as fingerprints if necessary along with GPS coordinates of the location of the business.

May I also remind Members of Parliament: You have available to you, the efficient and professional tax services of the SARS Parliamentary Unit right here in the parliamentary precinct. I can assure you that these SARS officials will give you the best advice and assistance to complete your annual tax returns.

This service is available to all MPs free of charge!

A second factor in protecting a culture of compliance is the integrity of SARS in administering and enforcing the tax and customs laws fairly and without favour. We cannot allow the public trust and faith in the tax system to be eroded by political influence or point-scoring. SARS must continue to act without fear or favour in ensuring the full compliance with the law by each and every South African – irrespective of who they are.

Honourable members, collecting revenue is one part of the SARS mandate. The other is in facilitating trade and protecting our economy and our people from unwanted and illegal goods. Customs will continue to improve its capability to combat illegal and illicit trade. We must protect domestic industries, particularly the clothing and textile industry in the interest of protecting jobs. During the past financial year SARS confiscated over 750 000 pieces of under-declared and illegal clothing worth R483 million.

The use of electronically enhanced trade data has helped to improve trade flows within SADC. This has reduced waiting periods across the borders significantly and is reflected in increased trade volumes with SADC.

Customs is exploring extending the systems modernization opportunities amongst SADC member countries to encourage the free flow of goods.

Customs has significantly reduced waiting times at our border posts, from an average of two hours to just 15 minutes or less. This has been achieved through the use of the latest technology, including hand-held i-Pod devices to provide critical risk information to Customs officers when and where it is needed – not at their desks but outside while inspecting trucks, containers and other cargo. A new passenger processing system is also ready for implementation over the coming months.

These improvements are having the desired impact. The most recent World Bank bi-annual trade logistics survey published this week ranked South Africa as the highest performing upper-middle income country in the Logistics Performance Index. South Africa ranked 23rd overall, up from 28th in 2010, and well ahead of key trading partners including China, India, Brazil and a number of European countries. Further improvements by Customs will be supported by the revision of Customs legislation as contained in the new Customs Duty and Customs Control Bills which the Minister of Finance intends tabling later this year.

Government Pensions Administration Agency (GPAA)

The Government Pensions Administration Agency provides administration services to the Government Employees Pension Fund (GEPF) and the National Treasury. Its mandate is to give civil servants and pensioners peace of mind about their retirement benefits and during situations of need.

The GPAA has made significant strides since its formation in 2010:

- Drawing on the expertise of its sister entity SARS, GPAA has done away with the need for retirees to visit a Commissioner of Oaths to verify that they are still alive. Through collaboration with SARS and the Department of Home Affairs, the GPAA is now able to remind its retired members every year that they are still alive.
- GPAA has improved the service it offers the members of pension funds under its administration
- The number of calls to its call centre have dropped sharply

Public Investment Corporation (PIC)

Let me turn to the Public Investment Corporation (PIC). Not only did the PIC celebrate its centenary last year, it also celebrated the increase in assets under management to more than R1 trillion. The unaudited figure, as at 31 March 2012, was R1.17 trillion.

But it is not the zero's that matter, rather what the PIC does with the money entrusted to it. With the backing of its major client the Government Employees Pension Fund (GEPF), the PIC is a prominent voice in improving corporate governance practices in its investee companies.

After the launch of the GEPF's Developmental Investment Policy, the PIC will become an even more important player in the funding of developmental projects. The total funds allocated to these type of investments is 5 per cent of the GEPF's assets under management, about R50 billion.

South Africa cannot prosper in isolation. We should embrace other African countries in an effort to improve our continent.

Africa has over the past decade become a continent of vast investment opportunities. Seven of the world's ten fastest growing economies are in Africa. Over the past decade, the continent's economic output has tripled. For the next decade, Sub-Saharan Africa is projected to grow at an average of 5 per cent, which would make the continent only second to emerging Asia as the fastest growing region in the world.

It is for these reasons that of the 10 per cent of assets that the GEPF has mandated the PIC to invest outside of South Africa, half - or R50 billion - will be for investments in the rest of Africa.

Financial Intelligence Centre

The Financial Intelligence Centre (FIC) is mandated to play a unique role in ensuring the stability and integrity of our financial system. It coordinates South Africa’s framework to combat money laundering and the financing of terrorism; and it provides the financial intelligence that is increasingly coming to the fore in the investigation of priority crimes.

Compliance with the FIC Act is at the heart of the FIC’s work and serves as a foundation of financial integrity The FIC has worked closely with supervisory bodies over the past year and the launch of inspections has begun, laying the basis for compliance enforcement. Financial penalties will be issued to businesses and individuals that are found to be non-compliant.

These initiatives will lead to an increase in reporting of suspected criminal activity, increasing the ability of authorities to actively identify the proceeds of crime, and deter criminal activities.

In the last financial year more than 6.5 million cash threshold reports (CTRs) to the value of about R32.5 billion were reported to the FIC. The reports capture transactions that involve notes, coins and traveller’s cheques of R25 000 and above, and which must be communicated to the FIC by banks, motor vehicle dealers, casinos and so on. In addition, 53 506 suspicious transaction reports (STRs) were received from businesses. These reports can signal the presence of illegally generated funds, and signally improving partnership between the FIC and business, the number of reports is significantly increased from previous years.

Building the financial intelligence system is a long-term, complex effort, but the benefits are already tangible: the intelligence that the FIC provides contributes to the fight against crime and corruption and underpins the integrity of the financial sector, contributing to economic growth and job creation. Improved financial intelligence is a necessary corollary of economic development in a young democracy such as ours.

Financial Services Board

The mission of the FSB is to promote:

• Fair treatment of people who buy financial services and products;

• Financial soundness of financial institutions;

• Systemic stability of financial services industries; and

• Integrity of financial markets and institutions.

As the Minister of Finance said earlier, the twin peaks approach to financial sector regulation will transform the Financial Services Board into a dedicated regulator for financial services market conduct.

In particular, a market conduct regulator will focus on improving transparency and disclosure in the financial services industry, which is particularly well known for its opaque practices and high costs.

The treat customers fairly (TCT) initiative led by the FSB is a framework for the regulation and supervision of the market conduct practices of financial services firms. It seeks to ensure the fair treat of customers is embedded within the culture of regulated firms. Given the current challenges in the industry, the worst of which are poor disclosure and high costs, the TCF initiative is a key priority for the FSB as it transforms itself to become a market conduct regulator.

I take great pride in presenting the overview of the work of the Finance Family, a group of institutions that are competent and effective.

I thank you.