
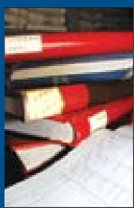


South African Revenue Service

Annual Report

2007 - 2008

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SOUTH AFRICAN REVENUE SERVICE **ANNUAL REPORT 2007 - 2008**

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South African Revenue Service


View of Table Mountain from Robben Island during an OECD Forum Meeting excursion in January 2008

Photo: Daniel Grey

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Message from the Minister

Trevor A. Manuel, MP, Minister of Finance

The financial year 2007/08 being subject to review in this Annual Report marks a temporary slowdown to a cycle of buoyant activity during which the domestic economy recorded unprecedented levels of growth at an average of 5% over four successive fiscal years. Our economic and social progress, favourably benefiting from continued economic growth over successive quarters, confirms the correctness of our long-term fiscal policy stance and it's dictates on prudent public resource management. By maintaining the necessary balance between expenditure growth and reducing long term debt obligations, we were able to appropriate more resources to finance our social development and infrastructure programmes.

However, the 2008 Budget cautioned that financial market turbulence and the sharp economic slowdown in the United States would have a negative impact on global growth and growth prospects domestically.

In the current context our ability to retain our growth momentum – even at levels more moderate above 4% of GDP over the medium term – and to continuously commit ourselves to budget for expenditure growth without compromising the fiscus, would be impossible without a sustainable revenue source from the South African Revenue Service (SARS). The ability of SARS to deliver on and surpass revenue targets year-on-year creates an essential, consistent foundation upon which we lay the mortar and bricks of our future social and economic aspirations. This foundation continues to solidify and expand in structure and is able to respond to higher demands on revenue yield within varying economic climates.

SARS' performance to date makes a compelling case for the need for successful public sector transformation within our developmental context. This must include – as it does in the case of SARS' organisational performance – setting service delivery standards and cultivating a culture of compliance and citizenship responsibility amongst a broad constituency of individual and corporate taxpayers. For the 2007/08 financial year, revenue collection grew by 16% from the previous financial year, culminating in a revenue outcome of R572,9 billion. This figure is R16,3 billion above the original printed estimate of R556,6 billion and R1,8 billion above the Revised Printed Estimate in the 2008 National Budget.

The revenue outcome as at 31 March 2008 strengthened our fiscal position with additional resources from a surplus of 0.6% of GDP to a budget surplus of 0.9% to GDP. Revenue performance remained robust even as the signs of global uncertainty began to emerge during the last quarter of 2007 through the US sub-prime mortgage crisis.

During the past financial year, SARS has made further progress in simplifying the process of submitting tax returns for both individuals and companies. Secondly, SARS has made it much simpler for small businesses to operate and to comply with our tax codes, contributing to both better economic performance and improved tax compliance. Throughout these administrative reforms, the principle of a service culture has been enhanced and is now well entrenched.

In view of current global uncertainty for the immediate term, it is critically important for this country and for SARS to continue the growth trajectory in revenue collection, continue to expand the tax base, improve levels of tax compliance and further introduce more innovation in organizational reform. SARS' efforts to respond to these challenges are outlined in detail in this Annual Report.

As the Minister charged with the executive responsibility for this public institution, I want to congratulate SARS on its phenomenal achievements during 2007/08.

It bodes well for SARS' future challenge to collect more than R1 trillion in revenue over the next three years!


SARS
RICAN
SERVICE
At Your Service

Pravin Gordhan, Commissioner

The tenth anniversary year of the South African Revenue Service was momentous - we topped the half trillion rand mark in revenue collections over 10 years, implemented our modernisation programme with the introduction of an enhanced income tax assessment process, concluded a highly successful Small Business Tax Amnesty and contributed to a 30% growth in the company tax register.

Revenue collection

The revenue collection performance in which SARS exceeded its revised estimate for the fourth consecutive year was particularly encouraging given the volatile tendency of the economy especially in the last quarter of the year.

Key revenue collection contributors during 2007/08 were:

- **Personal Income Tax:** This continues to provide the largest portion of total collections (29.59%), accounting for R169,539 billion, which exceeded the original estimate by R13,004 billion. Continued growth in employment, higher compensation on the back of rising interest rates, along with continued gains in compliance (9% increase in tax registrations by individuals) were key factors in the performance of this category of taxation;
- **Corporate Income Tax:** A 30% growth in corporate tax registrations helped boost corporate income tax collections to R141,636 billion, exceeding the original printed estimate by R2 billion, and accounting for 24.72% of total revenue. Continued economic growth, especially in the first three quarters of the year, and an increase of 18% gross operating surplus (compared to 15% in 2006/07) provided further profitability especially in financial services, manufacturing, wholesale and retail trade, transport, storage and communications, and the minerals and petroleum sectors;
- **Value Added Tax:** Rising interest rates resulting in a decline in real gross domestic expenditure from 9.2% in 2006 to 6.0% in 2007 impacted on overall VAT collections of R150,443 billion. This was R4,625 billion lower than the original printed estimate. Despite this lower-than-expected revenue, VAT continued to account for the second highest portion of total revenue (26.26%); and
- **Customs Duty:** In parallel with VAT, collections from customs duty were also below the original printed estimate as lower domestic demand and a weaker currency slowed imports.

Modernisation programme

In order to keep pace with surging operational demands flowing from seven years economic growth and rising compliance, which has seen the tax register grow by an average of 9.6% year-on-year for the past 10 years, SARS introduced its modernisation programme during 2007.

This programme, which will stretch over the next five to seven years, is aimed at transforming both the tax and customs administration through automation and other operational efficiency gains. This will release internal resources from repetitive, low-value tasks in order to concentrate on improving service, education and enforcement in line with our compliance model.

The first phase of the modernisation programme, launched in 2007/08, focused on the income tax assessment process and saw significant improvements for taxpayers and practitioners with 34% of returns processed within 48 hours compared to only 1.6% a year earlier. It also saw a phenomenal increase in electronic filing as a preferred channel for submission of returns. More than one million eFiled returns were submitted compared to only 35,000 in 2006/07.

On the customs side, a Green Paper on Customs Modernisation was developed and, following approval by Cabinet, translated into a draft Customs Bill. This draft Bill sets a new strategic direction for border control and trade facilitation in line with international demands. SARS was also appointed the lead agency in preparing a national integrated border management strategy adopted by Cabinet in 2008. This year we awarded a tender for the procurement, installation and commissioning of a mobile X-ray container scanner at Durban Container Terminal. The scanner is being operated on a pilot basis for a period of six months to ensure smooth and efficient processes and traffic management. This event coincides with the deployment of the first intake of new military-trained Customs Border Control Unit staff and a new detector dog unit.

Internal transformation

None of the achievements of SARS over its 10 year history would have been possible without the energy, passion, talent and contribution of SARS staff, who continue to provide a shining example of commitment to the principles of Batho Pele.

Underpinning our modernisation drive is thus a commitment to further empowering and developing our people to improve professionalism and dedication to our service of the nation. Internally, the 2007/08 year was declared "Year of the People" and saw the introduction of a range of initiatives towards this fundamental objective.

Conclusion

Celebrating the 10th anniversary of the South African Revenue Service in October 2007 provided a natural milestone on which to reflect on the gains of the past decade. Yet, perhaps more significantly, it was also an opportunity to assess the work still to be done in funding South Africa's developmental objectives.

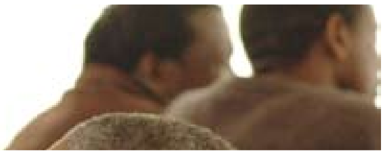
It is these challenges that continue to inspire and motivate each member of the SARS family it has been my honour to be part of for the past decade. I wish to thank, in particular, my leadership team for their support, loyalty and enthusiasm with which they have engaged in their tasks.

I would also like to thank Minister of Finance Trevor Manuel, Deputy Minister Jabu Moleketi and their staff, along with the various parliamentary and other committees and consultative bodies for the encouragement and support they have provided to SARS and me over the past 10 years.

The biggest gratitude, of course, must go to all the people of this country who, through their tax and customs contributions, provide South Africa with the financial independence to pursue its all-important vision of a better life for all.

Together, we are making a difference!

Pravin Gordhan



Part One
Overview

SARS South African Revenue Service

Mandate

The South African Revenue Service (SARS) was established by the South African Revenue Service (SARS) Act (No. 34 of 1997) as an organ of state within the public administration, but as an institution outside the public service. It is responsible for the collection of all tax revenue for national government. This mandate is derived from the SARS Act legislation which SARS administers. Some of the legislation that SARS administers according the SARS Act includes:

- Union and Southern Rhodesia Death Duties Act (1933)
- Transfer Duty Act (1949)
- Estate Duty Act (1955)
- Income Tax Act (1962)
- Customs and Excise Act (1964)
- Stamp Duties Act (1968)
- Value-Added Tax Act (1991)
- Section 39 of the Taxation Laws Amendment Act (1994)
- Sections 56 and 57 of the Income Tax Act (1995)
- Tax on Retirement Funds Act (1996)
- Uncertificated Securities Tax Act (1998)
- Demutualisation Levy Act (1998)
- Skills Development Levies Act (1999)
- Unemployment Insurance Contributions Act (2002)
- Any regulation, proclamation, government notice or rule issued in terms of the abovementioned legislation or any agreement entered in to in terms of this legislation or the Constitution

In its operations and functions SARS must also take cognisance of, among others:

- Basic Conditions of Employment Act (1997)
- Labour Relations Act (1995)
- Employment Equity Act (1998)
- Public Finance Management Act (1999)
- Promotion of Access to Information Act (2000)
- Promotion of Administrative Justice Act (2000)

Mission

To optimise revenue yield, to facilitate trade and to enlist new tax contributors by promoting awareness of the obligation to comply with tax and customs laws, and to provide a quality, responsive service to the public.

Vision

SARS is an innovative revenue and customs agency that enhances economic growth and social development, and that supports the country's integration into the global economy in a way that benefits all South Africans.

Strategic Objectives

SARS focused on giving effect to the following seven strategic objectives :

1. Optimising revenue and compliance

Optimising revenue collection by improving compliance and managing risk by entrenching a culture of compliance.

2. Better taxpayer and trader experience

Ensuring a better taxpayer and trader experience through promoting awareness and understanding of tax obligations among taxpayers and traders and to make it easier for them to comply by simplifying procedures and processes and improving our service.

3. Compliance and reducing risk

Improving enforcement by penalising non-compliance and reducing the opportunities for tax evasion. The goal is to ensure that every taxpayer and trader fully meets their legal obligations.

4. Human capacity

Continuing staff development and promoting a culture of integrity and professionalism throughout the organisation.

5. Trade facilitation and border security

Enhancing trade facilitation and border control through improved trade supply chain management.

6. Operational efficiency

Ensuring greater efficiency by using staff effectively, upgrading and automating our core tax systems and improving our processes.

7. Good governance

Ensuring good governance and administration in compliance with the regulatory framework.

Our Values

SARS has zero-tolerance for corruption. We optimise our human and material resources and leverage diversity to deliver quality service to all those engaged in legitimate economic activity in and with South Africa. Our relationships, business processes and conduct are based on the following values:

- Mutual respect and trust;
- Equity and fairness;
- Integrity and honesty; and
- Transparency and openness.

Business Intent

SARS is enjoined to protect and grow the country's revenue base so that government can increase resources available for poverty eradication, infrastructure development and tax relief to individuals.

Government has been able to grant significant tax relief, thus contributing to rising household consumption expenditure, boosted economic development, targeted fixed investment growth and the promotion of small enterprise development. These results, including improved tax morality and thus compliance, have had an immeasurably positive impact on the economy. Compliance is fostered through education of and communication to South African citizens and residents about fiscal citizenship and rigorous compliance risk management.

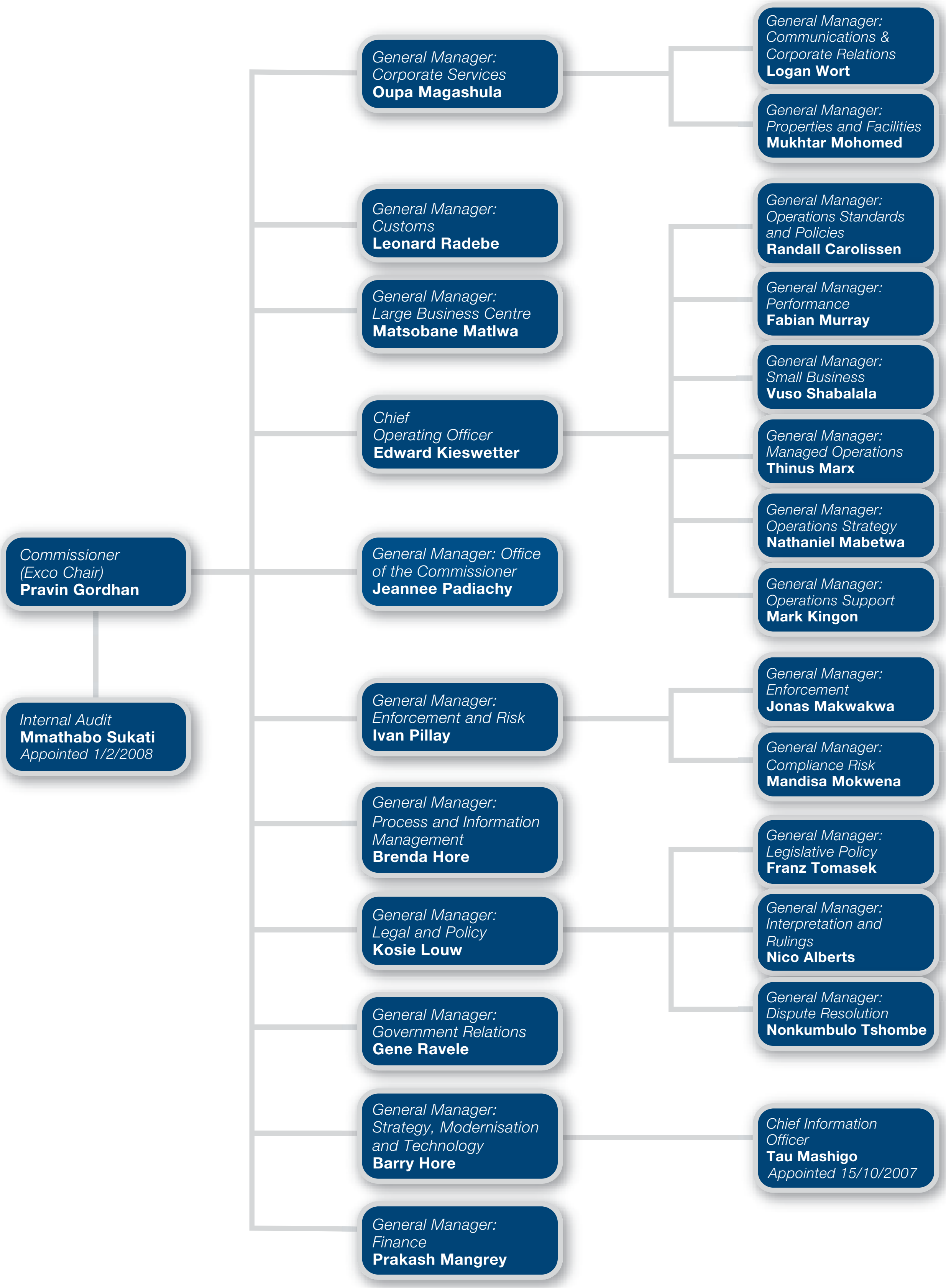
At the policy and legislative areas of the tax and customs landscape, SARS plays an important role. It develops and drafts tax laws, interpretation notes, rulings, guides and resolves tax and customs disputes through Alternative Dispute Resolution or litigation.

Although SARS endeavours to facilitate trade by expediting the movement, release and clearance of legitimately traded goods, it is mindful of the need to balance trade facilitation and regulatory intervention. To this end, SARS has strengthened relations with regional customs administrations and continues to play an important role in the ongoing fight against illegal drugs, contraband and other forms of criminality e.g., customs made a record 337 seizures of drugs with an estimated street value of almost R891 million.

People

SARS is recognised nationally and internationally as a public service organisation that is flexible, innovative, fair and forward-looking. These are the attributes of our people who perform the wide range of activities carried out by SARS from collecting tax to controlling the entry and exit of people and goods across our borders. In recognition of our people, we made 2007/08 the "Year of the People" and as such, undertook several significant initiatives to maintain and enhance our human capital.

SARS Organisational Chart



Key Corporate Documents

Annual Report

The annual report is our primary report to Parliament and forms part of a suite of key corporate documents. In line with the government's commitment to open, transparent and the accountable public administration, we publish our documents to provide assurance to our other stakeholders. We endeavour to demonstrate that public resources are ethically, equitably, efficiently and effectively deployed.

Strategic Plan

The strategic plan sets out the broad approach and specific interventions that we pursue during a three year planning cycle. It is informed by our understanding of the macroeconomic environment, our commitment to government priorities, alignment with international and regional trends as well as an in-depth review of our ability to absorb additional growth and increased scope.

We have committed to designing and implementing a comprehensive modernisation agenda to transform the tax and customs administration. The goal is to improve service, increase outreach and education, increase enforcement, automate and streamline systems and processes, establish standard procedures and enhance SARS' capability to provide a better service.

Service Charter

The SARS service charter is intended to ensure that public expectations of service delivery are matched by achievable and measurable performance standards. We believe that the primary impact on our business, by creating and publishing appropriate service delivery measures, will positively influence the compliance climate in South Africa and will also enable SARS to benchmark itself against other leading revenue and customs agencies around the world.

Part Two
Operations

Revenue and Register

Performance Highlights

Collected R572,9 billion (and exceeded the revised February 2008 budget estimate by R1,8 billion)

- Corporate Income Tax – R141,6 billion (R1,0 billion below estimate)
- VAT – R150,4 billion (R3,4 billion above estimate)
- Personal Income Tax – R169,5 billion (R0,2 billion above estimate)
- Secondary Tax on Companies – R20,6 billion (R0,4 billion above estimate)
- Customs Duty – R26,5 billion (R0,1 billion below estimate)

In 2007/08, revenue collections exceeded the revised February 2008 budget estimate of R571,1 billion by R1,8 billion (0.3%) and continued an extended period of strong growth in collections. This was achieved in an economic environment characterised by:

- Moderating economic growth from 5.4% to 5.1% in 2007/08, particularly due to slower year-on-year growth in manufacturing and tertiary sectors;
- Improved growth in the agricultural sector due to increased livestock production;
- Growth in the construction sector owing to infrastructure redevelopments and upgrades;
- Moderation in household expenditure contrasted by increased capital spending; and
- Uncertainties arising from energy shortages, rising food and fuel prices, compounded by pressure from interest rate increases.

The most significant component of the surplus collection was Value-Added Tax (VAT), where collections exceeded the revised forecast by R3,4 billion (2.3%), partly as a result of higher-than-expected growth in VAT collected from imported goods. Secondary tax on companies (STC) was R0,4 billion (1.9%) above the revised forecast, consistent with the strong growth in gross operating surplus and higher dividends declared by companies.

The following initiatives by SARS contributed significantly to the overall organisational performance in 2007/08:

- Continued attention to address companies and collect underpayment of provisional income tax payments (application of Paragraph 19(3) of the Fourth Schedule to the Income Tax Act, 1962);
- Focused attention by offices to confirm with taxpayers the amounts they intended to pay and, where necessary, revise the amounts upward in line with the actual payments due;
- Innovative analytical approaches to segment the tax base and develop differentiated approaches with different taxpayers for the collection of various tax types;
- Specific operational effort and interaction with high-value importers to minimise the risk of default on customs payments due;
- Meticulous detailed follow-up of outstanding debt where taxpayers promised to make payment, but a probability of late payment existed; and
- Focused overall operational management to ensure that all risks to revenue were identified and managed.

Revenue and Register

Introduction

Over the past four years the South African economy grew at a robust pace averaging 5% per year. Expanding employment and sustained increases in public spending on social and economic infrastructure have contributed to a rising standard of living, additional disposable income, and improved welfare for millions of South Africans.

Economic buoyancy was underpinned by strong domestic demand and tax relief of R12,4 billion during the 2007/08 tax year. Year-on-year growth in real GDP slowed down to 2.1% in the period January to March 2008 (*versus* a growth of 5.1% during the same period in 2007), while the full fiscal year growth amounted to 4.7%.

In 2007/08 the economy was moderately robust despite the average real exchange value of the rand which decreased by 10.2% during the period March 2007 to March 2008. During the same period, there was an increase of 200 basis points in the repurchase rate by the Reserve Bank's Monetary Policy Committee amid uncertainties with regard to the inflation outlook. Although the economic environment was positive, there were further contributory factors that added to the moderated growth:

- Increased crude oil prices (67.0% in dollar terms and 81.3% in Rand terms); and
- Electricity supply instability during the January to March 2008 period.

A decline in consumer spending is clearly depicted by the slowdown in the growth in real gross domestic expenditure - it increased by only 6.0% in 2007 compared to an increase of 9.2% in 2006. Overall employment increased during 2007 and growth in compensation of employees also increased on the back of average wage settlements of 7.5% in 2007, in comparison to 6.5% in 2006.

Share prices on the JSE Limited (JSE) rose during 2007/08, and buoyant trading was reflected in the marketable securities taxes collected. The total market capitalisation of the JSE increased by 23% to an all-time high of R6,2 trillion in October 2007 before receding to R6,0 trillion in February 2008, while the dividend yield increased from 2.1% in June 2007 to 2.5% in February 2008.

Imports grew by 21.3% and exports by 24.9% during 2007. Whilst rising imports increased VAT and import duties collected, from an economic perspective, this had a less than favourable impact on the current account.

Broad-based economic growth has contributed to a rapid growth in tax revenue, supporting a sound fiscal position and enabling progressive increases in expenditure. The latest estimates provide for a 2007/08 national government surplus of 0.9% of gross domestic product (GDP), compared to the originally budgeted surplus of 0.6%.

Increased economic growth and tax revenue enabled greater capital expenditure by the public sector, targeted tax relief and capital allocations in key areas, as well as a sound fiscal position.

The fiscal outcome provided substantial room for government to pursue the objectives stated above while attaining a budget surplus of 0.9% of GDP and allowing a reduction in the cost-of-debt-to-GDP ratio to an all-time low of 2.6%.

The revenue forecasts are based on a set of assumptions of the performance of key macroeconomic indicators as well as administrative factors and actual collection trends. In 2007/08 the actual performance of these indicators turned out to be better than the initial assumptions, as reflected in higher-than-expected performance in GDP growth, underpinned by domestic expenditure, fixed capital formation, exports and imports.

Revenue and Register

Table 2.1.1: Selected macroeconomic indicators

	2007/08 (MTBPS 2006)	2007/08 (Budget 2007)	2007/08 (MTBPS 2007)	2007/08 (Budget 2008)	Actual
Calendar	**2007**	**2007**	**2007**	**2007**	**2007**
Percentage change unless otherwise indicated					
Final household consumption	4.4	5.7	6.6	7.0	7.0
Final government consumption	4.5	4.5	6.5	5.2	5.0
Gross fixed capital formation	9.0	10.7	15.4	15.3	14.8
Gross domestic expenditure	4.3	5.1	5.5	6.4	6.0
Exports	6.5	7.3	8.4	7.1	8.3
Imports	5.7	7.9	9.8	11.0	10.4
Real GDP growth	4.4	4.8	4.9	5.0	5.1
GDP deflator	**6.6**	**5.8**	**8.5**	**8.6**	**8.9**
GDP at current prices (R billion)	**1,885.0**	**1,893.8**	**1,965.0**	**1,986.1**	**1,993.9**
CPIX (Metropolitan and urban, average for the year)	5.5	5.1	6.2	6.5	6.5
Current account balance (percentage of GDP)	(5.3)	(5.3)	(6.7)	(7.2)	(7.3)

	2007/08 (MTBPS 2006)	2007/08 (Budget 2007)	2007/08 (MTBPS 2007)	2007/08 (Budget 2008)	Actual
Fiscal	**2007/08**	**2007/08**	**2007/08**	**2007/08**	**2007/08**
GDP at current prices	1,928.3	1,938.9	2,019.1	2,045.5	2,055.2
Real GDP growth	4.3	4.8	4.7	4.7	4.7
GDP inflation	5.9	5.4	7.9	8.1	8.6
CPIX (metropolitan and urban)	5.1	4.9	6.5	7.4	7.5

Source: Budget Review 2007, 2008.
Medium Term Budget Policy Statement (October 2007).
South African Reserve Bank Quarterly Bulletin June 2008.

The remainder of the section is set out in three parts, namely:

- **Revenue performance in 2007/08**, where the collection of revenue for the year under review is analysed and selected comments are made on its performance as well as the extent to which it deviated from the set estimates;
- **Revenue performance trends for the period 2002/03 to 2007/08**, where brief discussions on trends in major taxes are provided; and
- **Tax relief and tax rates**, where a summary is provided, for the years 2002/03 to 2007/08, of the value of the tax relief granted to taxpayers, as well as a historical view of the tax rates applicable to the major tax types.

Revenue Performance in 2007/08

Tax Revenue

Tax Revenue is defined by the System of National Accounts as "a compulsory, unrequited payment to government". Net Revenue as disclosed in the Statement of Financial Performance on page 135 reflects all taxes, levies, duties and other monies collected by SARS less the SACU payments. To ensure clarity, it is prudent to disclose Tax Revenue as set out in the table below (the calculation on the achievement of SARS' Revenue target is based on this approach).

The Net Revenue for 2007/08 increased by R81,2 billion to R565,3 billion, from R484,1 billion in 2006/07. The Tax Revenue of R572,9 billion is arrived at by adding the SACU payments and deducting Unemployment Insurance Fund (UIF), Road Accident Fund (RAF), as well as provincial administration receipts, state fines and forfeitures.

Table 2.1.2: Tax revenue for the year ended 31 March 2008

	2007/08 R million	2006/07 R million
NET REVENUE FOR THE YEAR	**565,297**	**484,113**
Add:		
South African Customs Union Agreement	24,713	25,195
Quarterly payments made by National Treasury in Terms of the South African Customs Union Agreement		
Less:		
Unemployment Insurance Fund (UIF)	8,954	7,855
Road Accident Fund (RAF)	8,150	5,906
State fines and forfeitures	2	2
Provincial administration receipts	33	29
TAX REVENUE	**572,871**	**495,515**

Budget Revenue represents receipts of the National Revenue Fund and comprises Tax Revenue as defined above, plus departmental and other receipts and repayments less payments to Namibia, Botswana, Swaziland and Lesotho in terms of the Southern African Customs Union (SACU) agreement.

The revenue estimates are set three times in a fiscal cycle: in February during the Budget, in October in the Medium Term Budget Policy Statement (MTBPS) and in February during the Budget session. Presented below are the printed estimates (also referred to as Budget estimate in February 2007), MTBPS estimates and revised estimates (also referred to as Budget estimate in February 2008).

Table 2.1.3: Estimates per budget revision

Estimate description	Date announced	2006/07 Estimate R million	Date announced	2007/08 Estimate R million
Printed Estimate	February 2006	456,786	February 2007	556,562
Medium Term Budget Policy Statement (MTBPS) Estimate	October 2006	486,400	October 2007	566,063
Revised Estimate	February 2007	489,662	February 2008	571,063

Revenue and Register

Table 2.1.4: Detailed budget revenue performance for 2007/08 against estimates

Revenue performance 2007/08 Source of revenue R million	Budget estimate Feb 2007	Budget estimate Feb 2008	Actual Result	Increase / decrease on Feb 2007 estimate	Increase / decrease on Feb 2008 estimate
Taxes on income and profits	**312,150**	**332,270**	**332,058**	**19,908**	**-212**
Persons and Individuals	156,535	169,300	169,539	13,004	239
Companies	139,615	142,600	141,636	2,021	-964
Secondary tax on companies	16,000	20,200	20,585	4,585	385
Tax on retirement funds	-	160	285	285	125
Other	-	10	13	13	3
Value-added tax	**155,068**	**147,000**	**150,443**	**-4,625**	**3,443**
Customs duties	**27,084**	**26,600**	**26,470**	**-614**	**-130**
Fuel levy	**23,938**	**24,000**	**23,741**	**-197**	**-259**
Excise Duties	**17,792**	**18,000**	**18,218**	**426**	**218**
Skills Development Levy	**6,500**	**6,800**	**6,331**	**-169**	**-469**
Other taxes and duties	**14,030**	**16,393**	**15,610**	**1,580**	**-783**
TOTAL TAX REVENUE	**556,562**	**571,063**	**572,871**	**16,309**	**1,808**
Non-tax revenue	11,093	11,612	12,174	1,081	562
Less: SACU payments	23,053	24,713	24,713	1,660	-
TOTAL BUDGET REVENUE	**544,602**	**557,962**	**560,332**	**15,730**	**2,370**

Each broad category of tax had its own key economic indicators and other factors which affected the overall revenue performance.

A discussion on the performance of these categories is outlined below:

Taxes on income, profit and capital gains

Taxes on income, profit and capital gains amounted to R332,1 billion, which was R19,9 billion higher than the printed estimate and R212 million below the revised estimate.

Personal Income Tax (PIT)

Collections (including interest on overdue tax) exceeded the printed estimate and revised estimate by R13,0 billion and by R239 million, respectively. The surplus collections were mainly due to increased employment as well as an increase in compensation to employees.

Corporate Income Tax (CIT)

Collections (including interest on overdue tax) exceeded the printed estimate by R2,0 billion and were below the revised estimate by R964 million. The surplus collections against printed estimate were mainly due to continued strong economic growth and a more comprehensive approach to improve corporate compliance by SARS' Large Business Centre.

Revenue and Register

Growth in gross operating surpluses of business enterprises increased to 18.1% in the 2007 calendar year, against 15.0% in 2006 and the better performance occurred mainly in the following sectors:

- Financial services;
- Manufacturing;
- Wholesale and retail trade;
- Transport, storage and communication;
- Mining and quarrying; and
- Coal and petroleum products.

Table 2.1.5: CIT collections by SARS-defined sectors

R million	2005/06	2006/07	Growth	%	2007/08	Growth	%
Agriculture	2,362	3,392	1,030	43.6	1,414	-1,978	-58.3
Mining	5,551	13,170	7,619	137.3	13,220	50	0.4
Telecommunication	7,315	9,366	2,051	28.0	9,284	-82	-0.9
Financial Services	22,699	29,549	6,850	30.2	41,315	11,766	39.8
Banks	5,513	8,695	3,182	57.7	10,241	1,546	17.8
Insurance	9,209	8,610	-599	-6.5	13,068	4,458	51.8
Other Financial Services	7,977	12,244	4,267	53.5	18,006	5,762	47.1
Manufacturing	27,794	35,421	7,627	27.4	38,591	3,170	8.9
Other Manufacturing	22,401	27,950	5,549	24.8	30,740	2,790	10.0
Petroleum	5,393	7,471	2,078	38.5	7,851	380	5.1
Wholesale & Retail	9,081	12,151	3,070	33.8	12,620	469	3.9
Business Services	4,112	6,403	2,291	55.7	12,857	6,454	100.8
Medical & Health	848	1,065	217	25.6	1,835	770	72.3
Transport	3,863	4,094	231	6.0	3,760	-334	-8.2
Construction	663	1,049	386	58.2	3,039	1,990	189.7
Catering & Accommodation	1,093	1,604	511	46.8	1,311	-293	-18.3
Recreation & Cultural	1,273	2,334	1,061	83.3	1,805	-529	-22.7
Other	672	514	-158	-23.5	585	71	13.8
Total	**87,326**	**120,112**	**32,786**	**37.5**	**141,636**	**21,524**	**17.9**

The efforts of SARS officials to ensure that provisional corporate tax payments reflected the latest profit positions (application of Paragraph 19(3) of the Fourth Schedule to the Income Tax Act, 1962) yielded R14,9 billion. This also involved better and proactive relationship management between SARS and some companies. In addition, specific tracking and active follow-up of large tax payments ensured the timeous payment of taxes due.

Secondary Tax on Companies (STC)

Collections exceeded the printed estimate and revised estimate by R4,6 billion and R385 million, respectively. Corporations declared sizeable increases in dividends. The past year also saw a further step in the phasing out of STC towards a final withholding tax on dividends.

Revenue and Register

Tax on Retirement Funds (RFT)

RFT was abolished on 1 March 2007 and the collections during the year related to liabilities in respect of previous periods. Collections exceeded the printed estimate and revised estimate by R285 million and R125 million, respectively.

Value-Added Tax (VAT)

VAT collections were R4,6 billion below the printed estimate and R3,4 billion above the revised estimate. The slower growth in collections was mainly owing to the decline in real gross domestic expenditure from 9.2% in 2006 to 6.0% in 2007, which also led to a 21.3% increase in imports during the 2007 calendar year (*versus* 32.5% in 2006). Growth was evident in real final household expenditure, although at a lower rate as it declined from 8.2% in 2006 to 7.0% in 2007. Growth in fixed capital formation increased from 13.8% in 2006 to 14.8% in 2007 as expenditure on infrastructure increased.

Customs Duty

Customs duty collections were R614 million below the printed estimate and R130 million below the revised estimate. Despite strong domestic demand (especially for machinery and equipment) and despite the weakening of the rand during January to March 2008 thereby increasing the cost of imported goods. Therefore, the shortfall in customs duty collections was due mainly to a decline in the duty rates.

Fuel Levy

Fuel levy collections were below the printed and revised estimates by R197 million and R259 million, respectively, mainly owing to a decline in the rate at which petrol consumption increased from 2.2% in 2006/07 to 1.1% in 2007/08, the latter being mainly the result of negative growth in the January to March 2008 quarter of -0.9%. The fuel levy as disclosed above comprises fuel levy collections, recoupment of levies from the Road Accident Fund (RAF) and diesel refunds.

Excise Duties

Excise duty collections were R426 million and R218 million above the printed estimate and revised estimate, respectively, mainly owing to higher-than-expected collections on beer, wine and revenue from neighbouring countries.

Skills Development Levy (SDL)

Skills Development Levy collections were R169 million and R469 million below the printed and revised estimates respectively, mainly owing to the full effect of the abovementioned growth in the remuneration of employees not filtering through to the SDL (a number of employers, such as government departments, are exempt).

Other taxes

Revenue collection in respect of other taxes amounted to R15,6 billion, which was R1,6 billion above the printed estimate and R783 million below the revised estimate. This was mainly owing to worse-than-expected collections from transfer duties and stamp duties.

Revenue performance trends for the period 2002/03 to 2007/08

Major tax administration reforms have improved efficiencies in the functioning of the tax system and yielded equity gains through a broadened tax base. The contribution of taxes within the collection portfolio has changed over the period as reflected in Table 2.1.6. The table provides a breakdown of the nominal amounts collected during the period; this in comparison to Table 2.1.7 which sets out the percentage contribution of the various taxes to total taxes collected.

Table 2.1.6: Breakdown of revenue collected

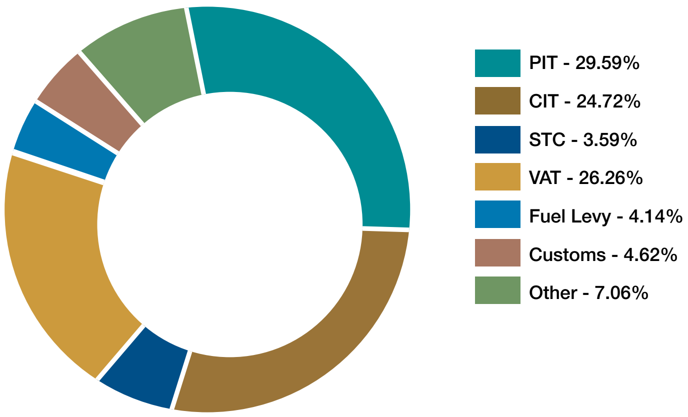
Year R millions	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total Tax Revenue	GDP	Tax as % of GDP
2002/03	94,924	56,326	6,326	70,150	15,334	9,331	29,819	282,210	1,198,455	23.5%
2003/04	99,220	61,712	6,133	80,682	16,652	8,479	29,630	302,508	1,288,979	23.5%
2004/05	111,697	71,629	7,487	98,158	19,190	12,888	33,931	354,980	1,427,442	24.9%
2005/06	126,416	87,326	12,278	114,352	20,507	18,303	38,152	417,334	1,584,744	26.3%
2006/07	141,397	120,112	15,291	134,463	21,845	23,697	38,710	495,515	1,806,987	27.4%
2007/08	**169,539**	**141,636**	**20,585**	**150,443**	**23,741**	**26,470**	**40,457**	**572,871**	**2,045,533**	**28.0%**

Table 2.1.7: Percentage contribution to tax revenue

Year	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total Tax Revenue
2002/03	33.64	19.96	2.24	24.86	5.43	3.31	10.57	100.00
2003/04	32.80	20.40	2.03	26.67	5.50	2.80	9.79	100.00
2004/05	31.47	20.18	2.11	27.65	5.41	3.63	9.56	100.00
2005/06	30.29	20.92	2.94	27.40	4.91	4.39	9.14	100.00
2006/07	28.54	24.24	3.09	27.14	4.41	4.78	7.81	100.00
2007/08	**29.59**	**24.72**	**3.59**	**26.26**	**4.14**	**4.62**	**7.06**	**100.00**

Figure 2.1.1 below provides a graphical breakdown of the 2007/08 different tax type contributions to total tax revenue collections.

Figure 2.1.1: Contribution to Tax Revenue 2007/08



Revenue and Register

Personal Income Tax (PIT)

Personal income tax comprises all interest on overdue taxes, provisional and assessed taxes as well as PAYE paid by individuals (net of refunds).

Table 2.1.8: PIT 2002/03 to 2007/08

Year	PIT R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	94,924	4.3	33.6	7.9
2003/04	99,220	4.5	32.8	7.7
2004/05	111,697	12.6	31.5	7.8
2005/06	126,416	13.2	30.3	8.0
2006/07	141,397	11.9	28.5	7.8
2007/08	**169,539**	**19.9**	**29.6**	**8.3**

PIT contributions to total tax revenue declined from 33.6% in 2002/03 to 29.6%, reaching a low of 28.5% in 2006/07 – an overall decrease of 4.0% – mainly owing to substantial tax relief. Aided by more efficient tax administration the year-on-year growth in collections has increased substantially from the 2004/05 year onwards mainly due to lower relief being granted to individuals. Tax relief in the 2002/03 - 2003/04 period amounted to R28,3 billion or 14.6% of PIT collected while the relief in the 2004/05 - 2007/08 period amounted to R32,2 billion or 5.9%. Tax-to-GDP ratio increased from 7.8% in 2006/07 to 8.3% owing to:

- Lower value of nominal relief in 2007/08;
- Increase in employment numbers; and
- Increase in remuneration levels.

Corporate Income Tax (CIT)

Corporate income tax comprises all interest on overdue taxes, provisional and assessed taxes paid by companies (net of refunds).

Table 2.1.9: CIT 2002/03 to 2007/08

Year	CIT R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	56,326	31.1	20.0	4.7
2003/04	61,712	9.6	20.4	4.8
2004/05	71,629	16.1	20.2	5.0
2005/06	87,326	21.9	20.9	5.5
2006/07	120,112	37.5	24.2	6.6
2007/08	**141,636**	**17.9**	**24.7**	**6.9**

During 2002/03, CIT collections grew significantly due to robust growth in corporate earnings, underpinned by ongoing cost cutting, improved commodity prices and a depreciating rand that supported the profit margins of export-oriented companies. This trend was supported by improved enforcement and compliance processes by SARS such as:

- Adjustments to ensure provisional tax payments were more closely related to taxable profits;
- Improved audits;
- Broadening of the tax base to include foreign source income;
- Improved enforcement and compliance in the banking sector; and
- The enhanced debt collection capability provided by the outbound call centre.

Revenue and Register

The rate at which CIT collections grew declined in 2003/04, mainly as a result of slower economic growth. Collections increased substantially from 2004/05 onwards as a result of strengthening economic growth, a stable exchange rate and prevailing low interest rates which started increasing only during the 2007/08 year.

The rapid growth in CIT collections resulted in an increase in the CIT/GDP ratio from 4.8% in 2003/04 to 6.9% in 2007/08, and a contribution of 24.7% to total tax collections in 2007/08 – the latter being considerably higher than the 20.0% recorded in 2002/03.

Secondary Tax on Companies (STC)

Secondary tax on companies refers to the tax paid on profits distributed by companies.

Table 2.1.10: STC 2002/03 to 2007/08

Year	STC R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	6,326	-11.7	2.2	0.5
2003/04	6,133	-3.1	2.0	0.5
2004/05	7,487	22.1	2.1	0.5
2005/06	12,278	64.0	2.9	0.8
2006/07	15,291	24.5	3.1	0.8
2007/08	**20,585**	**34.6**	**3.6**	**1.0**

STC collections declined from 2002/03 to 2003/04, mainly owing to companies retaining earnings rather than declaring dividends. Subsequent to 2003/04, corporate profits increased significantly on the back of improved economic conditions, resulting in companies revising dividend policies and increasing distribution of corporate earnings, especially in the resource and financial sectors. STC contributed 3.6% to total tax revenue in 2007/08, increasing its contribution to GDP to 1.0% after the stable trend of 0.5% of GDP in the 2002/03 to 2004/05 period.

Value-Added Tax (VAT)

Value-Added Tax is a tax levied on the supply of goods and services by registered vendors as well as on imported goods and services. In principle, VAT refunds are made to a vendor if the VAT paid by the vendor to its suppliers (termed input tax) is greater than the VAT levied (termed output tax) by the vendor on goods and services supplied to its customers.

Table 2.1.11: Total VAT 2002/03 to 2007/08

Year	VAT R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	70,150	14.9	24.9	5.9
2003/04	80,682	15.0	26.7	6.3
2004/05	98,158	21.7	27.7	6.9
2005/06	114,352	16.5	27.4	7.2
2006/07	134,463	17.6	27.1	7.4
2007/08	**150,443**	**11.9**	**26.3**	**7.4**

The decline in consumer spending, the increase in imports and the extent of fixed capital formation all contributed to a lower growth in VAT collections in the 2007/08 fiscal year (11.9% versus the 17.6% in the prior year). This was the main reason for the decline from 27.1% to 26.3% in VAT as percentage of total tax revenue. Despite the aforementioned decline in growth, VAT as percentage of GDP remained at 7.4%.

Revenue and Register

Fuel levy

Fuel levy refers to the levy paid on petrol and diesel.

Table 2.1.12: Fuel levy 2002/03 to 2007/08

Year	Fuel levy R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	15,334	2.8	5.4	1.3
2003/04	16,652	8.6	5.5	1.3
2004/05	19,190	15.2	5.4	1.3
2005/06	20,507	6.9	4.9	1.3
2006/07	21,845	6.5	4.4	1.2
2007/08	**23,741**	**8.7**	**4.1**	**1.2**

Fuel levy collections as a percentage of total tax revenue collections decreased steadily over the review period to 4.1%, while its ratio to GDP declined slightly to 1.2% during 2006/07 where it remained for 2007/08. Fuel levy collections include debt recovered from the Road Accident Fund as well as diesel refunds, which explains the difference with the fuel levy as disclosed in the statement of financial performance.

Customs duty

Customs duty refers to all duties paid on the importation of goods.

Table 2.1.13: Customs duty 2002/03 to 2007/08

Year	Customs R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	9,331	8.1	3.3	0.8
2003/04	8,479	-9.1	2.8	0.7
2004/05	12,888	52.0	3.6	0.9
2005/06	18,303	42.0	4.4	1.2
2006/07	23,697	29.5	4.8	1.3
2007/08	**26,470**	**11.7**	**4.6**	**1.3**

After a steady decline over the period to 2003/04, customs duty as a percentage of tax revenue increased to a high of 4.8% in 2006/07 before falling back to 4.6% in 2007/08. As a percentage of GDP, customs duty increased from 0.8% in 2002/03 to 1.3% in 2006/07 where it stabilised in 2007/08.

Tax Relief and Rates

The benefits of tax reforms have become tangible for taxpayers in the form of personal income tax relief that reduced the relative contribution of PIT from a high of 42.9% of total tax revenue in 1999/00 to 29.5% in 2007/08. Total tax revenue as a percentage of GDP increased from 22.9% in 1994/95 to 28.0% in 2007/08.

In the past six years, more than R73 billion in tax relief has been granted to the South African public. Individual taxpayers have enjoyed tax relief of over R60 billion, while corporations have been given relief of almost R7 billion. Table 2.1.14 below sets out the tax relief over this period.

Table 2.1.14: Summary effects of tax proposals 2002/03 to 2007/08

Year R million	DIRECT				INDIRECT				Total Relief
	PIT	CIT	Other	Total	Excise	Fuel Levy	Other	Total	
2002/03	-14,855	-335	-204	-15,394	663	-	-434	229	-15,165
2003/04	-13,427	-2,060	-	-15,487	907	642	-1,119	430	-15,057
2004/05	-4,062	-	-	-4,062	1,453	909	-600	1,762	-2,300
2005/06	-7,110	-2,000	-1,477	-10,587	1,310	950	-1,054	1,206	-9,381
2006/07	-12,125	-2,400	-440	-14,965	1,370	-	-5,532	-4,162	-19,127
2007/08	**-8,870**	**0**	**-5,785**	**-14,655**	**1,395**	**950**	**-90**	**2,255**	**-12,400**

Table 2.1.15: Maximum marginal tax rates

From - Until	PIT*	CIT	STC	VAT	RFT
01/04/02-28/02/03	40%	30%	12.5%	14%	25%
01/03/03-31/03/03	40%	30%	12.5%	14%	**18%**
01/04/03-31/03/04	40%	30%	12.5%	14%	18%
01/04/04-31/03/05	40%	30%	12.5%	14%	18%
01/04/05-28/02/06	40%	**29%**	12.5%	14%	18%
01/03/06-31/03/06	40%	29%	12.5%	14%	**9%**
01/04/06-28/02/07	40%	29%	12.5%	14%	9%
01/03/07-30/09/07	40%	29%	12.5%	14%	**0%**
01/10/07-31/03/08	**40%**	**29%**	**10%**	**14%**	**0%**

* An individual's tax year starts on 1 March and ends at the end of February the following year.

Revenue and Register

Personal Income Tax Rates

In the 2007 Budget Speech, relief for individuals during the 2007/08 tax year was announced. The relief was provided in the form of increases in both the primary and secondary rebates and the upward adjustments across the income brackets.

Table 2.1.16: Tax rates for individuals in 2007/08

TAX RATES FOR INDIVIDUALS 2007/08							
TAXABLE INCOME			RATES OF TAX				
		R	R				R
0	-	112,500			18%	of each R 1	
112,500	-	180,000	20,250	+	25%	of the amount above	112,500
180,000	-	250,000	37,125	+	30%	of the amount above	180,000
250,000	-	350,000	58,125	+	35%	of the amount above	250,000
350,000	-	450,000	93,125	+	38%	of the amount above	350,000
450,000	-	and above	131,125	+	40%	of the amount above	450,000
REBATES OF TAX							
Primary							**7,740**
Age 65 and over (additional to primary rebate)							4,680
TAX THRESHOLD							
Below the age of 65							**43,000**
Age 65 and over							69,000

Table 2.1.17: Tax rates for individuals in 2006/07

TAX RATES FOR INDIVIDUALS 2006/07							
TAXABLE INCOME			RATES OF TAX				
		R	R				R
0	-	100,000			18%	of each R 1	
100,000	-	160,000	18,000	+	25%	of the amount above	100,000
160,000	-	220,000	33,000	+	30%	of the amount above	160,000
220,000	-	300 000	51,000	+	35%	of the amount above	220,000
300,000	-	400,000	79,000	+	38%	of the amount above	300,000
400,000	-	and above	117,000	+	40%	of the amount above	400,000
REBATES OF TAX							
Primary							**7,200**
Age 65 and over (additional to primary rebate)							4,500
TAX THRESHOLD							
Below the age of 65							**40,000**
Age 65 and over							65,000

Conclusion

SARS is acutely aware that its role in collecting revenue is of utmost importance to government's ability to fund its development goals. It will continue to further improve operational efficiencies and effectiveness to enable it to deliver consistently on revenue targets. It will continue to strive for optimal revenue collection by educating citizens about their tax obligations, promoting compliance through better service, and effective and fair enforcement measures. The current modernisation of SARS is equally important in that the drive to greater automation, enhanced risk analysis and overall improvement in taxpayer service are designed to raise the level of compliance and detect non-compliance earlier and more accurately. The redeployment of personnel from low to higher value activities will undoubtedly strengthen SARS' capability to reduce revenue leakage opportunities.

Tax Register

The tax register grew by 12%. This can be attributed to the following features:

- Economic growth and higher employment levels; and
- Outreach and dedicated campaigns.

The most significant gain in the year under review is the 30% growth in the company register, with 22% attributed to small businesses and 8% to economical factors. PAYE and VAT grew by 9% and 10% respectively, which is reflective of favourable economic conditions that prevailed at this time.

Table 2.1.18: Taxpayer Register

	March-2006	March-2007	March-2008	Growth	% Growth
Income Tax*	5,876,112	6,357,421	7,173,554	816,133	13%
Companies	*1,054,969*	*1,218,905*	*1,584,002*	*365,097*	*30%*
Individuals	*4,476,261*	*4,764,105*	*5,204,805*	*440,700*	*9%*
Trusts	*344,882*	*374,411*	*384,747*	*10,336*	*3%*
PAYE	330,194	349,077	379,675	30,598	9%
VAT	633,703	677,153	745,487	68,334	10%
Total	**6,840,009**	**7,383,651**	**8,298,716**	**915,065**	**12%**

*** Please note** that the Income Tax cases in the table above **exclude** suspense cases. In prior publications the Income Tax cases **included** suspense cases.

The activities during the Small Business Tax Amnesty process highlighted a need to intensify educational and outreach activities in a targeted and focused manner. This can be achieved by targeting government departments as well as listed and unlisted companies, with SARS Head Office playing a more proactive and interactive role.

Revenue and Register

Cost efficiency

SARS has improved the cost-to-collection ratio in 2007/08. We collected Tax Revenue of R572,9 billion at a cost of 0,98 cents per rand generated excluding Capital Expenditure, compared with a cost of 1,04 cents in 2006/07. The improvement is partly owing to the growth in revenue collections and SARS continuing to improve operational efficiencies through upgrading and redesigning processes and systems. Performance management has been enhanced and more frequent operational reviews are conducted, enabling SARS to track performance and to respond appropriately. These changes are designed to ensure that SARS performs optimally to meet the challenges of rising volumes and demands on its resources.

Figure 2.1.2: Cost as a percentage of Tax Revenue

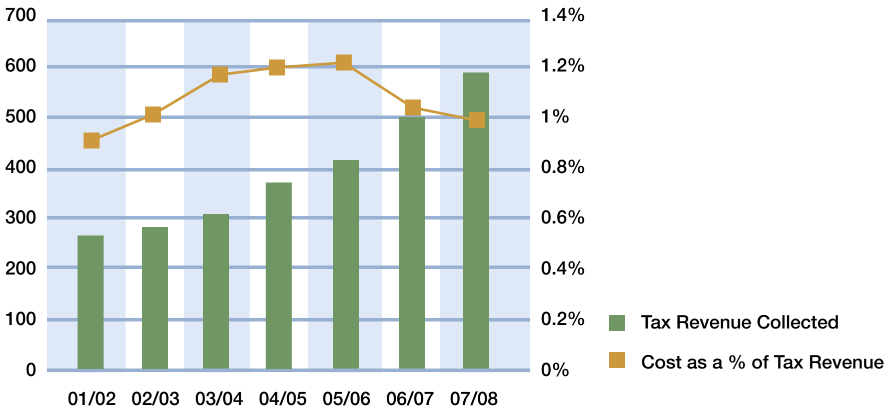


Table 2.1.19: Cost as a percentage of Tax Revenue

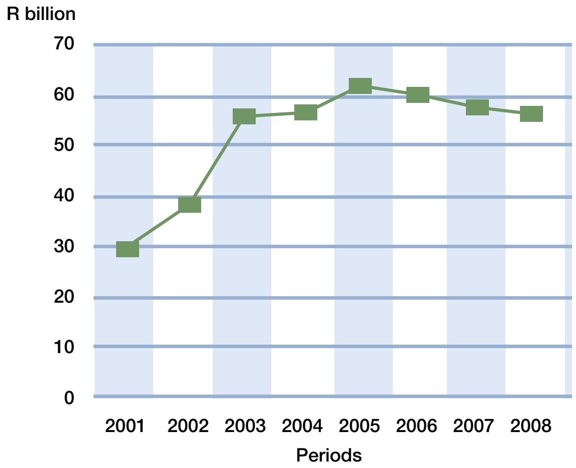
Details			2005/06	2006/07	2007/08
Tax Revenue	**A**	**Rm**	**417,334**	**495,515**	**572,871**
% Increase Year-on-year			17.60%	18.7%	15.60%
Net Revenue	**B**	**Rm**	**409,934**	**484,113**	**565,297**
% Increase Year-on-year			15.90%	18.1%	16.80%
Operational Cost including depreciation	**C**	**Rm**	**5,135**	**5,156**	**5,608**
% Increase Year-on-year			19.10%	0.4%	8.80%
Capex	**D**	**Rm**	**332**	**322**	**438**
Cost including capex	**E**	**Rm**	**5,467**	**5,478**	**6,046**
% Increase Year-on-year			26.79%	0.20%	10.38%
% Cost to Tax Revenue	[C/A]		1.23%	1.04%	0.98%
% Cost including Capex to Tax Revenue	[E/A]		1.31%	1.11%	1.06%
% Cost to Net Revenue	[C/B]		1.25%	1.07%	0.99%
% Cost including Capex to Net Revenue	[E/B]		1.33%	1.13%	1.07%

Debt Management

SARS manages the debt book through the collection of debt due, as well as the management of uncollectible debt through write-offs, suspension of debt and adjustments of accounts.

Debt management also mitigates the risk of debt becoming uncollectible as it ages. It includes monitoring of deferred payment arrangements, debit orders, cheques referred to drawer and agent appointments. Debt of R15,639 billion was collected, reducing the debt book for the third consecutive year, this time by 1.25%. This was achieved through better analysis and a special focus on specific types of debtors.

Figure 2.2.1: Due debt book value on core taxes from 2001 – 2008 (R billion)



Debt Management

Debt-to-revenue ratio

The due debt amount includes non-core taxes, customs debt, STC, SDL, UIF debt for 2007 and 2008. The SARS debt book also includes debt under dispute.

Table 2.2.1: Debt-to-revenue ratio (2004/05 – 2007/08)

Item	2004/05 R billion	2005/06 R billion	2006/07 R billion	2007/08 R billion
Due debt	62	60	64	63
Total revenue collected per the Statement of Financial Performance (page 135)	367	424	509	590
Debt: Revenue (%)	16.89	14.15	12.57	10.68

Debt Management

Debt collection

The performance of debt collections for the current year is 4% below target. The decrease of R2,109 billion (12%) in money collected compared to 2006/07 is attributed to the exclusion of collection from provisional tax and retirement funds. The next table depicts debt collection over the past four years.

Table 2.2.2: Debt collection (2004/05 to 2007/08) (R million)

Item	2004/05 R million	2005/06 R million	2006/07 R million	2007/08 R million
Amount collected	R 21,931	R 20,523	R 17,747	R 15,638
Annual Target	R 22,707	R 23,291	R 17,039	R 16,300
% Change	-3	-12	4	-4

Account adjustments

67,350 taxpayer accounts to the value of R17,4 billion were adjusted during the financial year.

Write-offs, suspension of debt and adjustments

Regulation under Section 91A of the Income Tax Act were published and the following write-offs took place during the period under review (on 13 April 2007):

- 214 permanent write-offs amounting to R1,51 billion (revenue);
- 678 temporary write-offs amounting to R2,44 billion (revenue and customs); and
- One compromise offer amounting to R3,7 million.

Debt equalisation

Part of optimising revenue collection is the need to off-set amounts owed to SARS through debt equalisation. The SARS debt equalisation strategy ensures that refund screening cuts across all tax products. If it is found that a taxpayer has an outstanding balance on any of the tax products, the amount owed through one tax product will be applied to the outstanding balance in other tax products.

Despite it being a manual intervention, an increase in debt equalisation across all tax products during the year under review is shown in the table below. A 174% increase was experienced in Income Tax debt equalisation and a 7% increase in VAT debt equalisation.

This is a result of the fact that these products are historically the refund generators and accordingly the easiest to equalise.

Table 2.2.3: Debt Equalisation

Debt Equalisation	2005/2006	2006/2007	2007/2008
Income Tax	4,569	8,065	22,101
Value-added tax	107,020	116,547	124,768
Pay as You Earn	6,401	9,335	9,590
Other	3,407	2,019	3,748

Taxpayer Services

SARS employees assisting taxpayers during the 2007 Filing Season

Service delivery and compliance are connected – an improvement in one leads to an improvement in the other. As part of the public administration and government's commitment to public service excellence, SARS continues to model the principles and practices of the Batho Pele programme. SARS provides appropriate services to stakeholders and continues to make efficiency, channel access, stakeholder contact and core assessment improvements.

SARS recognises that a better taxpayer and trader experience is the result of a multi-dimensional, integrated and stakeholder focused service delivery strategy. Through education, outreach and marketing, SARS has actively communicated with stakeholders to change their understanding and perceptions regarding their tax obligations and their use of different service channels.

SARS has segmented its tax base so as to offer specialised services to specific segments e.g., the Large Business Centre and Practitioner's Unit. It has incorporated alternative dispute resolution mechanisms to ensure that the principles of administrative justice and the right to efficient public service is respected. In ensuring a better taxpayer and trader experience, our achievements for the year under review include the performance highlights noted below.

Taxpayer Services

Performance Highlights

- 292,611 taxpayers trained; 11,204 in-house workshops; 189,024 outreach interventions;
- 4,280 workshops presented to small businesses across the country;
- Practitioners register grew to 21,359;
- 2,000,000 eFilers for all tax types;
- 3,753,814 taxpayers visiting branch offices;
- Call centre handled 5,955,730 calls; and
- 32% of returns were processed within two days.

Processing of returns

Changes to the submission of returns introduced during the 2006/07 Filing Season had a major impact on the general approach to tax administration and the behaviour of taxpayers in general. The thrust of the changes pertain to the simplification of the filing process, the reduction of the compliance cost and the enhancement of service delivery whilst improving the risk management process.

Taxpayer Services

Other fundamental changes that were introduced included a move away from the issuing of cheques for refunds to electronic payments and an improved process of verifying IRP 5 information. During 2007, a scanning solution was introduced representing a giant leap in the processing of documents within SARS, with a possibility of improving service to taxpayers and a move towards focusing SARS resources on more value-adding activities.

The scanning solution was successfully implemented in one region. The plan was to implement three other scanning centres within the next two years. Although the current solution is focused on the scanning of returns, it is envisaged that this process will include correspondence and any other documentation that relates to SARS business. The ultimate plan is to move to a paperless operating environment as soon as possible.

Time studies and capacity models have been created for all the key processes, and this has enhanced the management of operations.

Scanning

The scanning solution was introduced for the first time during the 2007/08 tax year. The focus was on scanning income tax returns for the year under review. The next step, however, will be to expand this activity to other areas of operations to include correspondence and documentation. There are a number of benefits that have been realised as a result of the scanning process:

- 3.8 million individual tax returns were processed automatically;
- 2.4 million returns were received electronically or scanned electronically; and
- Nearly two million taxpayers received their assessments quicker that in previous years, especially those who submitted electronically (15 days averaged TAT compared to 41 days for manual submission).

The new assessment process, which increased the number of electronic submissions, has enabled us to exceed targets set for processing returns during peak and non-peak periods. This internal focus was supplemented by our national outreach effort which assisted branch offices to reach and assist taxpayers.

Processed returns during non-peak period (34 working days %)

Target 70% | Actual 83%

Owing to the later submission of return dates, the non-peak period was longer than usual. This period was utilised to finalise as much inventory as possible from previous years. Slow inflow during this period and the availability of resources assisted in achieving high percentage turnaround times for the year under review.

Processed returns during peak period (90 working days %)

Target 80% | Actual 96%

The introduction of automation into the processing of returns has assisted operations to address the increased volumes with fewer staff, whilst improving our service and turnaround times on returns. This resulted in the effective processing of 34% of returns within two days and 96% of returns within 90 days.

Although automation of the return processing led to processing time savings, in terms of the consolidated process (i.e., filing, assessment, refund/payment) only a 5% (676,704) reduction in the processing workload was achieved. This was driven by a number of factors namely:

- Returns were referred to taxpayers to obtain more information; and
- Returns were referred to an additional stage within the Assessment process to ensure the integrity of the outcome.

This lead to the delay in finalising some of these assessments. The new income tax assessment process places greater focus on mitigating risk, thereby improving the quality of assessments. The quality of returns captured was a reflection of the taxpayers' accuracy when completing returns.

Taxpayer Services

Table 2.3.1 below highlights the processing of the various tax types.

Table 2.3.1: Total Returns Processed

Tax Categories	2005/06	2006/07	2007/08	Variance	Increase/ Decrease %
Income Tax (Companies, Individuals, Trusts)	4,891,044	4 938 135	4,189,767	-748,368	-15%
Companies	600,869	636,270	442,391	-193,879	-30%
Individuals	3,986,651	4,075,580	3,525,585	-549,995	-13%
Trusts	303,524	226,285	221,791	-4,494	-2%
PAYE	3,739,225	3,995,580	3,977,234	-18,346	0%
VAT	3,501,943	3,704,194	3,794,204	90,010	2%
Provisional Returns	2,718,733	2,528,597	3,093,827	-2,528,597	-100%
Total	**14,850,945**	**15,166,506**	**11,961,205**	**-3,205,301**	**-21%**

Filing of returns

Target 70% | Actual 77%

During the 2007/08 financial year, SARS issued 6,162,494 tax returns for individuals. A total of 4,721,055 tax returns were received of which SARS captured 572,724 electronically at the SARS branches. In addition, more than one million taxpayers filed their returns electronically.

Table 2.3.2: Filed Returns 2007/08

Filing of Returns	2007/08
Returns Issued	6,162,494
Returns Received	4,721,055
Returns Captured by Channel:	**4,830,592**
Returns eFiled	1,086,312
Returns BFE	572,724
Returns data captured – Bulk Data Capture/Online	1,847,556
Returns Scanned	1,324,000

Processing of payments

Table 2.3.3 indicates a reduction in the number of payments received manually. This is indicative of SARS' migration towards electronic payment, which eases the burden of payments processing, and the overall processing stability. It enables better accuracy of tax accounts and thus impacts on the measurement of performance against the revenue target.

Table 2.3.3: Payments Received and Processed

	2006/07			2007/08		
	Received	Processed	% Within TAT	Received	Processed	% Within TAT
Income Tax	1,702,417	1,636,168	96%	1,522,163	1,505,389	99%
Employees Tax	2,746,549	2,630,601	96%	2,632,616	2,514,625	96%
Value-Added Tax	1,851,137	1,815,974	98%	1,800,861	1,773,828	98%
Total	**6,300,103**	**6,082,743**	**97%**	**5,955,640**	**5,793,842**	**97%**

Taxpayer Services

Managing refunds

The processing of refunds has a direct service impact and this is often used as a mirror of SARS' service delivery. SARS has improved this turnaround time from 83% during 2006/07 to 85% in 2007/08. Achievement of the SARS turnaround time (TAT) standard is only possible where the refund does not attract any of the audit risk parameters. Cases that are not routed to audit are processed immediately.

Table 2.3.4: Turnaround times on Refunds

	2006/07	Processed Within TAT	Processed Within TAT %	2007/08	Processed Within TAT	Processed Within TAT %
Income Tax	295,548	240,203	81%	93,043	54,716	59%
Value-Added Tax	706,567	587,510	83%	685,970	607,321	89%
Total	**1,002,115**	**827,713**	**83%**	**779,013**	**662,037**	**85%**

Quality

The re-engineered income tax process resulted in many efficiency improvements within operations. It further offered the opportunity to improve on the quality dimension of income tax processing. Processing data coming through electronic channels have very little human interaction and generally capturing has much less transcription errors.

To improve the quality of physically captured data the data capturing channel was reconfigured to provide for 100% double capture, with a third party verification. This ensured a greater accuracy when transposing data from paper to digital.

Revised assessments

Target 8% | Actual 6%

Although SARS strives towards the first-time-right principle as far as practically possible, where human intervention is required in a process, there is a margin of error. In the revised assessment process, the error may be owing to incorrectly completed returns by the practitioner or taxpayer, or capturing errors by SARS. Table 2.3.5 below shows a steady increase in the percentage of returns subject to a revised assessment over the past three tax years.

Table 2.3.5: Revised Assessment

Tax Categories	2005/2006			2006/2007			2007/2008		
	Original	Revised	Revised %	Original	Revised	Revised %	Original	Revised	Revised %
Income Tax	4,891,044	337,891	7%	4,938,135	439,900	9%	4,189,767	410,007	10%
Companies	600,869	41,691	7%	636,270	64,178	10%	442,391	67,855	15%
Individuals	3,986,651	287,056	7%	4,075,580	352,454	9%	3,525,585	330,327	9%
Trusts	303,524	9,144	3%	226,285	23,268	10%	221,791	11,825	5%
Employees Tax	3,739,225	176,563	4.72%	3,995,580	186,464	4.67%	3,977,234	197,892	4.98%
Value-Added Tax	3,501,943	97,885	2.80%	3,704,194	106,021	2.68%	3,794,204	109,193	2.88%
Total	**12,132,212**	**612,339**	**5.05%**	**12,637,909**	**732,385**	**5.80%**	**11,961,205**	**717,092**	**6.00%**

Accounts maintenance

Accounts maintenance indicates any action taken on an account in order to rectify the client's portfolio. This can be done on request from the client or owing to intervention from SARS. We have experienced an increase of 50% in requests to review interest and penalties as received during the previous year.

Processing of payments, submission of returns and allocations of payments to different periods all play a role in this regard. As more and more taxpayers migrate towards eFiling channel, it is anticipated that there will be a decrease in requests to waive interest and penalties as accounts management improves.

Table 2.3.6: Accounts Maintenance

Accounts Maintenance Activities	2005/06	2006/07	2007/08
Correspondence	1,054,008	1,206,116	853,246
SMR Transfer	2,013	2,251	1,528
Returned Refunds	48,208	32,928	18,403
Copy of a Refund	12,055	12,065	5,467
Interest and Penalty	34,219	229,176	342,830
Change of Remittance date	1,216	229,176	342,830
Allocated Payments to SMR	789	547	44
Over/Under declaration of liability	22,027	30,982	37,863

Inventory – income tax

Target 9% | Actual 17%

The closing inventory of 17% exceeded the target of 9%, which was predominantly driven by two main factors. Firstly, 400,000 returns were not processed due to mismatched IRP5 information. The finalisation of these cases is reliant on taxpayers providing valid supporting documentation. The inflow of the required supporting documentation has been slow, and therefore impacted on the finalisation of these cases. Secondly, the problem was related to multiple-system integrations which distorted the physical location of returns.

Table 2.3.7: Income Tax Returns Inventory

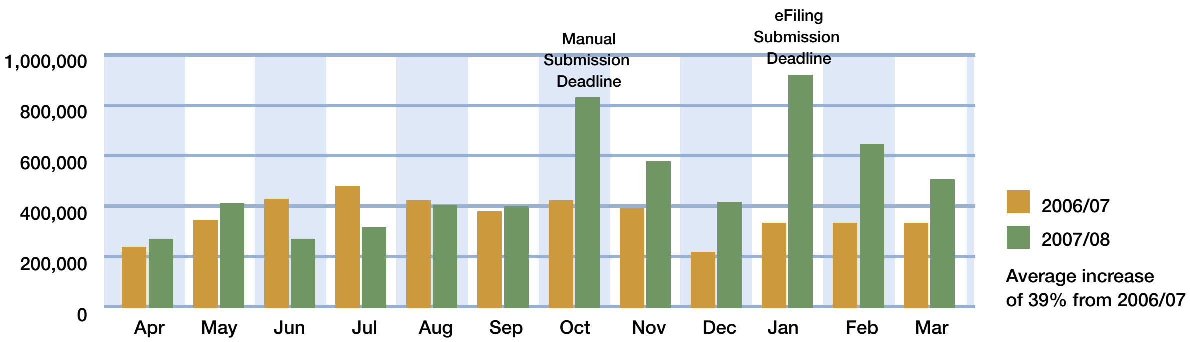
	Returns Received	Inventory	% Achievement	Target	Variance
2007/08	4,582,475	790,515	17%	9%	+8%
2006/07	4,927,770	416,578	9%	9%	0%
2005/06	4,920,167	470,583	10%	9%	+1%
2004/05	4,516,472	420,654	9%	9%	0%

Call centres

The volume of calls handled by the SARS call centre continued to rise in 2007/08, indicating a growing awareness of this effective interface with SARS.

In the year under review, the call centre handled 5,955,730 calls, an increase of 39% from the previous year. The call centre answered 85% of all incoming calls; the remainder were abandoned. Owing to increased volumes and introduction of the new assessment process, only 49% of these calls were answered within the target of 20 seconds. Agents in each of the tax types were trained to assist taxpayers with eFiling-related queries, therefore, reducing frustration usually experienced by taxpayer regarding normal tax and eFiling technical query.

Figure 2.3.1: Number of taxpayers calling the contact centre



Taxpayer Services

Calls answered within 20 seconds (60%)

Target 60% | Actual 49%

There was a 39% increase in the number of calls received. Only 49% of the total calls were answered within the set target of 20 seconds. The 60% target did not anticipate the exponential volume increase mentioned above. SARS faces a challenge to ensure adequate capacity to achieve the 20 seconds standard.

First time query resolution rate – call centre

Target 70% | Actual 77%

There was a 7% increase in the number of first-contact resolution calls. Enhanced system visibility enabled the improvement in the first time query resolution process.

Call abandonment rate

Target 15% | Actual 15%

The call abandonment target of 15% was achieved. However, this target was higher than the previous year's target of 6% primarily owing to a disproportionate growth between staff and call volume – there were insufficient staff given call the volume increase. This capacity gap was identified and steps taken e.g. appointment of an additional 110 staff, but the measurable benefit of this will only be reflected in the next year's achievement of a 9% target.

Practitioners call centre

SARS introduced a dedicated channel for practitioners. This call centre was equipped with multi-skilled agents who are able to assist practitioners with queries across all tax types. A dedicated fax and e-mail channel was also introduced to deal with bulk queries from practitioners. These innovations allowed SARS greater flexibility in deploying staff during peak periods by responding to practitioner queries after office hours, where relevant, thereby improving service to taxpayers.

Small Business Tax Amnesty call centre

A dedicated Small Business Tax Amnesty call centre was established. This channel facilitated the process for small businesses to apply for tax amnesty.

Call centre initiatives

The call centre undertook a number of initiatives to increase its operational efficiency and first-contact resolution levels:

- eFiling calls were taken over from Interfile;
- Soft skills training for staff was conducted to improve customer centricity;
- Expansion of the practitioners' call centre owing to the increasing demand to provide services on specialised issues; and
- Appointment of an additional 110 agents during January 2008 in preparation for the new Filing Season process.

Branches

SARS' 46 branch offices cater for walk-in taxpayers who prefer face-to-face engagement with SARS. An assessment of current taxpayer behaviour indicates that this will continue to be an important service channel. For example, the 3,753,814 taxpayers visited branch offices this year. Branch office staff has thus been trained to offer a range of services:

- Queries relating to all tax types;
- Cash hall facility to facilitate payments of taxes and non-core taxes such as transfer duty and stamp duty, however this will be phased out over time as the collection of cash is not one of our core functions;
- Dedicated small business help desks;
- Dedicated assistance for practitioners in some branch offices;
- Self-help kiosks to log on to the Internet to engage with SARS electronically; and
- A complaints desk for lodging complaints.

The focus of the branches has shifted to become more proactive. Much time is spent on information sharing with the taxpayers as well as educating them. Branch offices are more flexible and proactive in responding to the need of the taxpayer e.g., extended office hours during the Filing Season and amnesty.

Taxpayer Services

Average queuing time – service (Minutes)

Target 6.3 | Actual 5.13

A queue management system has been piloted in KwaZulu-Natal and four other branch offices. Because the system is not standardised across the country, a uniform SARS level (corporate average) measurement is not available for the year under review. The current statistics are an average taken from KwaZulu-Natal where the queue management system was piloted. Based on this, there is clearly an improvement in queuing time.

First time query resolution (%) – Branches

Target 98% | Actual 98.6%

SARS aims to resolve taxpayer query at the first point of contact, the SARS branch office, and thereby reducing the referral rate. Frontline staff has been empowered to optimise first time resolution rates.

Mobile Tax Offices (Pilot)

The level of tax compliance in the country can be positively influenced by expanding the SARS footprint in South Africa. This is supported by the fact that the growth of the register has mainly come from areas not previously covered by the branch network.

In addition SARS is piloting the concept of a mobile tax office to improve access of rural communities. The office consists of a van fitted with capability to deliver tax services currently on an offline basis. The strategy is to develop this facility into a full service channel that accesses the core system. Due to the success of the pilot, SARS plans to roll out more of these Mobile Tax Offices in the next financial year.

Electronic channels

The use of electronic channels has grown during the year under review and is anticipated to continue to grow. Taxpayers registered for eFiling can now engage with SARS online for submission of returns and payments in respect of the following taxes:

- Value-Added Tax (VAT);
- Income Tax;
- Skills Development Levy (SDL);
- Secondary Tax on Companies (STC);
- Pay-As-You-Earn (PAYE);
- Provisional Tax;
- Unemployment Insurance Fund (UIF);
- Transfer Duty and Stamp Duty.

Registration

Total registration of eFilers on all taxes

The figure below illustrates a breakdown of the registration of eFilers according to tax type.

Figure 2.3.2: eFiling Register for all taxes

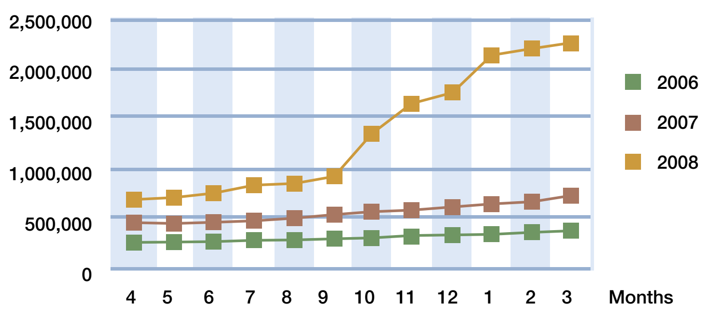
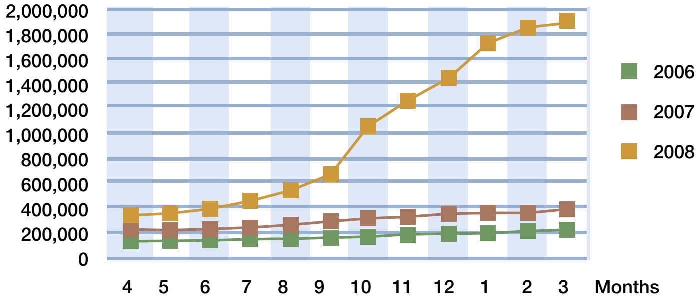


Figure 2.3.2 shows the growth of eFiling taxpayers on all taxes (including Income tax, secondary tax on companies, provisional tax, PAYE and VAT) in comparison to previous years. In 2006, the number of taxpayers registering to use the electronic method to file returns was stable. However, registrations grew during the 2007 Filing Season, during the 2007/08 financial year, to more than 2,000,000 for all tax types.

Taxpayer Services

Income tax eFiling registrations

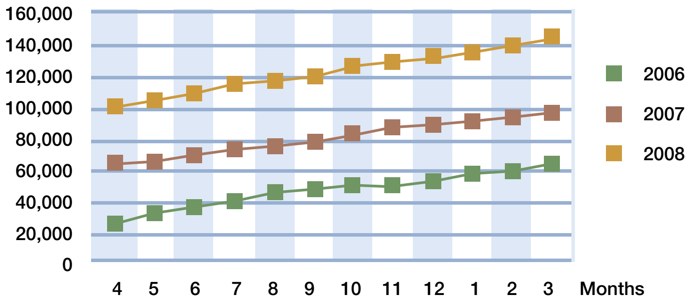
Figure 2.3.3: eFiling on IT Register



The registration of eFilers in respect of Income Tax has shown considerable growth over the last year. There are currently 1,899,937 registrations. This increase is owing to the vigorous launch of Filing Season in 2007, where eFiling was marketed as the preferred method to file returns. Income tax registration numbers are inclusive of IRP6s (provisional tax), secondary tax on companies (STC), trusts (IT12 TR), exempt institutions (IT12 EI), companies and close corporations (IT14) as well as personal income tax returns (IT12S and IT12C).

Pay-As-You-Earn (PAYE) eFiling registrations

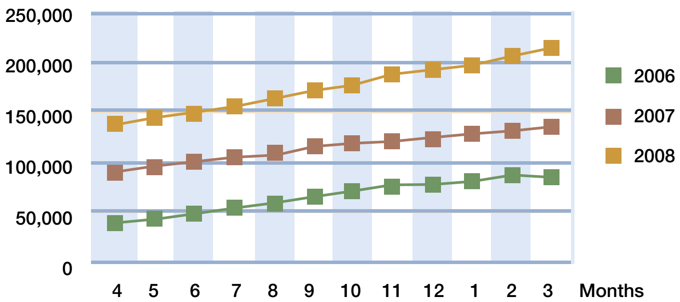
Figure 2.3.4: eFiling on PAYE Register



Since 2006, eFiling for PAYE has increased significantly. Registered eFilers for PAYE grew in 2007 from 66,000 to 98,000, while the 2008 year saw this increase to 145,000. These figures include PAYE, Skills Development Levy (SDL) and Unemployment Insurance (UIF) contributions.

Value-Added Tax (VAT) eFiling registrations

Figure 2.3.5: eFiling VAT Register



The VAT eFiling register for 2007 increased from 89,000 to 137,000 while in 2008 this increased to 215,000.

Taxpayer Services

Contributors to the growth in eFiling

The increased utilisation of eFiling in the 2007/08 financial year can be attributed to the following operational system enhancements:

- Quick registration which allows taxpayers earlier registration because no hard-copy supporting documentation is required. Previously, taxpayers were required to fax supporting documentation to be registered for eFiling; and
- Allowing the filing of objections electronically as well as creating a new process to request corrections on assessments.

The increase in the number of returns submitted via eFiling (see Table 2.3.8) is encouraging and can be directly attributed to the drive during the 2007 filing season to encourage the use of eFiling. The benefit of non provisional taxpayers having to effect payment at the end of January 2008 without any additional interest being charged also contributed to the increased use of this channel.

Table 2.3.8: Returns issued and submitted via eFiling

Taxes	2006	2007
IT12 returns issued	48,957	195,721
IT12 returns received	54,952	987,578
IT56 returns issued	5,684	13,075
IT56A returns issued	616	1,626
IRP6 issued	663,933	764,603
IRP6 received	362,878	453,550
PAYE returns issued	1,093,453	1,675,780
PAYE returns received	816,806	1,180,368
VAT returns issued	855,152	1,310,242
VAT returns received	551,893	690,089
VAT Diesel returns received	29,088	39,345

eFiling Collections

Table 2.3.9 below indicates consistent growth over the last three year with more than 105% growth in 2007/08. This channel now accounts for more than R212 billion of the SARS collections. The majority of payments relate to VAT, however over the last year there has also been substantial growth in income tax payments.

Table 2.3.9: eFiling Collections

	Revenue R million	Customs R million	Total R million	Growth	% Growth
2005 / 2006	54,642	0	54,642		
2006 / 2007	103,669	0	103,669	49,027	89.7%
2007 / 2008	180,487	32,172	212,659	108,990	105.1%

Table 2.3.10: Monetary Composition

	Income Tax	Paye-As-You-Earn (PAYE) including UIF and SDL	Value-Added Tax (VAT)	Customs	Total
2005 / 2006	6,427	17,724	30,491	0	54,642
2006 / 2007	19,144	30,795	53,730	0	103,669
2007 / 2008	46,564	54,338	79,585	32,172	212,659

Taxpayer Services

Table 2.3.11: Percentage Composition

	Income Tax	Paye-As-You-Earn (PAYE) including UIF and SDL	Value-Added Tax (VAT)	Customs	Total
2005/06	11.8%	32.4%	55.8%	0.0%	100%
2006/07	18.5%	29.7%	51.8%	0.0%	100%
2007/08	21.9%	25.6%	37.4%	15.1%	100%

Practitioners

Practitioners play a crucial role in the tax system in that they are a pivotal link between the taxpayer and SARS. Practitioners are a *de facto* extension of SARS' administration. For example, provisional analysis suggests that practitioners represent approximately three million taxpayers. Practitioners represent 1,162,903 taxpayers on eFiling alone. This certainly makes them a key stakeholder in SARS' business. SARS is committed to build the knowledge and skill of practitioners; their role in ensuring compliance with tax and customs obligations, adherence to administrative procedures and communication to taxpayers and traders of compliance benefits.

SARS continues to build and sustain relationships with industry associations, and tax and customs practitioners. The use of trusted intermediaries to achieve a leveraged compliance outcome makes positive use of the relationships that taxpayers and traders have with their intermediaries.

The SARS practitioners unit was established in the 2006/07 year. This unit is mandated to establish a more constructive and proactive way of engaging practitioners. It is responsible for managing the registration of practitioners and exploring and implementing enhanced service offerings. It is also a multilateral communication channel between SARS and practitioners.

The following was achieved in the year under review:

- The compulsory registration legislation enacted in Section 67A of the Income Tax Act required all practitioners to register with SARS by 30 June 2005. Because of this, the practitioners register grew from 17,490 to 21,359 – a growth of 22%. This growth suggests that practitioners are noticing the tangible benefits of registration (e.g. increased access to enhanced service offerings like the dedicated practitioner's call centre and practitioners help desks at major offices). A benefit for SARS is a reduction in the number of individual queries;
- At the beginning of the financial year approximately 10% of practitioners used eFiling. At the end of the year, this increased to 52% (11,057). Dedicated eFiling service offerings were launched to empower practitioners to ensure take-up of eFiling functionality, including eFiling training sessions, eFiling promotional sessions, two eFiling guides for practitioners and creating a dedicated capacity in the Practitioners call centre to deal with eFiling queries. Of the returns submitted by practitioners through eFiling, 32% were processed within 48 hours.
- Eighteen newsletters were sent to practitioners in order to keep them informed. As developments that needed to be communicated arose (e.g. monitoring call types at the call centre, complaints from practitioners, internal newsflashes, etc.) updates were sent to practitioners;
- More than 80% of practitioners gave a "highly valuable" rating for four user guides prepared specifically for them. These guides help to reduce unnecessary queries and improve the quality of submissions from practitioners;
- A second annual survey was sent to registered practitioners to better understand their needs and their experience of SARS. This was augmented by one-on-one discussions with practitioners, focus group meetings, and practitioners' feedback regarding the 2008/09 form design; and
- A model dedicated desk and practitioners' queue was developed and piloted at the Carlton Centre office. Separate queues for practitioners are also being piloted in 18 other offices.

Large Business Centre (LBC)


SARS Large Business Office at Megawatt Park

Performance Highlights

- LBC Eastern Cape office launched;
- Revenue collections of R202,6 billion;
- Enhanced risk engine for profiling of taxpayers across core tax types;
- 37,722 returns processed;
- High Net Worth Individual unit established;
- R14,9 billion from Para 19(3) of the 4th schedule to the Income Tax Act interventions;
- Error rate of less than 0.5%; and
- 2,307 audits completed yielding an extra R6.8 billion in assessments.

Large Business Centre

SARS endeavours to enable and deliver an integrated range of solutions designed to sustain a world class corporate tax and customs system in respect of large businesses and high net worth individuals in South Africa. The Large Business Centre (LBC) was created for this purpose.

A critical challenge for the LBC is to ensure that it is appropriately resourced to effectively deliver on its mandate. It also needs to accelerate the migration of outstanding taxpayer files to the LBC to allow for improved delivery of the LBC one-stop-shop commitment as well as the need for further refinement to the LBC's risk identification and audit procedures.

The LBC undertook a number of benchmarking visits to large business centres operated by other tax administrations, including Her Majesty's Revenue and Customs in the United Kingdom and the Australian Tax Office. These benchmarking visits highlighted possible operational enhancements which are being factored into the LBC operating model. The LBC works towards meaningfully engaging taxpayers as well as their tax advisers so as to reduce the costs of compliance for both taxpayer and SARS.

The LBC was able to again contribute to another successful year of SARS revenue collection. For the year ended 31 March 2008 the LBC managed to collect in excess of R203 billion, representing over 35% of total revenue collected.

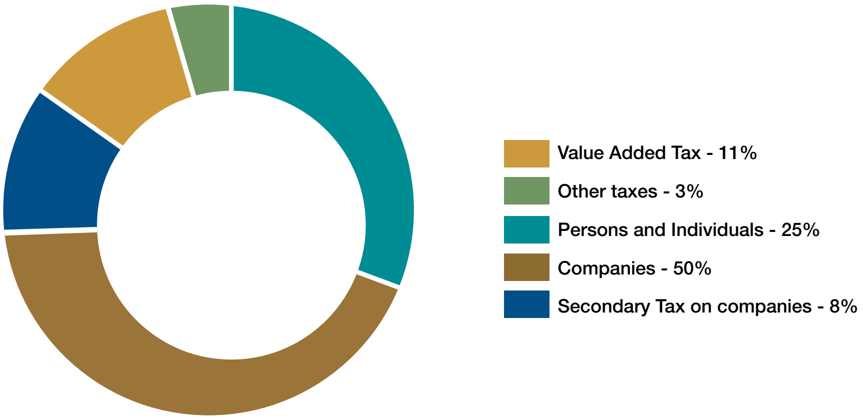
The LBC's strategic focus for 2007/08 year continued to build on its value proposition in line with SARS' overall strategic objectives. In this regard, the key strategic focus areas for the LBC included optimising revenue collection, enhancing core

Large Business Centre (LBC)

operations and building capabilities, improving customer service and improved compliance and risk reduction.

The companies tax contributed 50% of the total revenue while value added tax contributed 11% as indicated below.

Figure 2.3.6: LBC Revenue per tax type

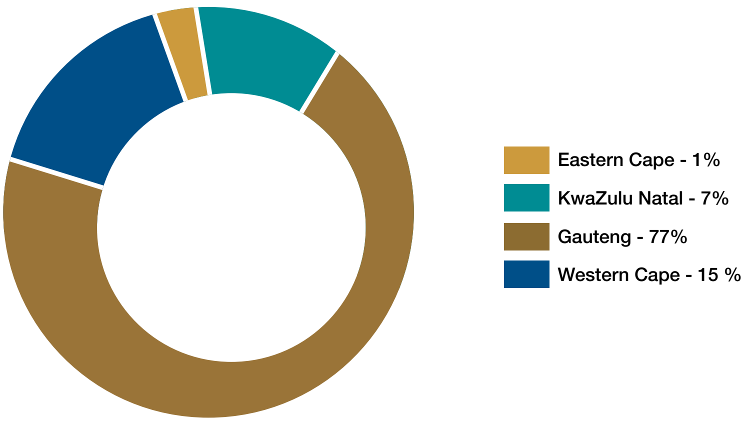


Optimise revenue collection

During the year under review the LBC was able to again exceed its revenue target by continuing to enhance its revenue management programme. This included undertaking further detailed analysis of LBC taxpayers in order to improve our revenue forecasting and cash flow management. Improved revenue tracking procedures were also put in place to better monitor overall revenue in- and outflows to/from large businesses. LBC Gauteng office contributed the greater portion to the overall LBC revenue collections of 77% compared to 15% of Western Cape and 7% of the Kwazulu Natal office (see figure 2.3.7).

The largest contributing sectors within the LBC Gauteng office were Financial Services contributing 22% of CIT provisional revenue, followed by 15% from the Mining Sector. Financial Services and the Mining Sector were the highest contributors for PAYE at 16% and 13% respectively. The major VAT contributors were the Communications Sector at 16% followed closely by the Primary Sector at 14%.

Figure 2.3.7: LBC Revenue per region



The application of the provisions of paragraph 19(3) of the Fourth Schedule of the Income Tax Act (Para 19(3)) continued to be an important tool in ensuring that income tax payments made by large businesses were made on a timely basis. During the three years ending 31 March 2008, collections from Para 19(3) interventions totalled in excess of R50 billion.

During the period under review, the application of Para 19(3) resulted in the receipt of R14,9 billion of revenue which otherwise would have been deferred for up to six months. Of this amount, 55% was attributable to 10 top taxpayers.

Large Business Centre (LBC)

Figure 2.3.8: Paragraph 19(3) Collections

Whilst the LBC's Para 19(3) interventions have been effective in countering the deferral of payments by taxpayers, many taxpayers continue to require repeated interventions year after year. For example, of the 158 companies which had Para 19(3) invoked against them in the year ended March 2007, 72 of these companies also had Para 19(3) invoked in the year ended March 2006. Furthermore, of these 72 companies, 25 of them also had Para 19(3) invoked during the year ended March 2005. The table below illustrates the distribution of taxpayers across the LBC's industry sectors requiring repeat Para 19(3) interventions in consecutive years.

Table 2.3.12: Distribution of taxpayers across the LBC's industry sectors requiring repeat Para 19(3) interventions

Year ending	2007	2007, 2006	2007, 2006, 2005	2007, 2006, 2005, 2004
Communication	26	17	7	2
Construction	11	5	3	3
Financial	20	9	3	1
General	7	1	0	0
Manufacturing	52	21	6	2
Mining	11	5	3	3
Primary	16	8	1	0
Retail	15	6	2	2
Grand Total	**158**	**72**	**25**	**13**

Enhancing core operations and building capabilities

During the period under review the LBC continued to focus on improving its operational efficiency with respect to the processing and assessment of tax returns. Of the 31,515 tax returns outstanding at 1 April 2007, 17,591 (56%) returns were collected during the year. An amount of 40,789 returns were processed during the year, with an average error rate of 0.50%. Efforts also continued to encourage taxpayers to utilise eFiling for the submission of their returns, where possible, resulting in an additional 1,464 new eFiling registrants among LBC taxpayers. Currently, approximately 50% of LBC taxpayers make use of eFiling.

The LBC continued to focus on building the capabilities of its people so that the expected level of professionalism is consistently delivered. Continuous training and development is provided to staff to ensure that they are appropriately skilled in the performance of their duties. The LBC employed 428 people at the end of the financial year.

Improving customer service

In order to improve our accessibility to large businesses, the LBC Eastern Cape office located in Port Elizabeth was opened on 15 October 2007, thereby completing the establishment of the last of the four LBC offices.

A key component of the LBC's value proposition is to build productive relationships with its stakeholders, through which its taxpayers are encouraged to adopt a position of voluntary compliance. In terms of these relationships, the LBC commits to providing its taxpayers with world class service in line with the SARS service charter. During the period under review the LBC

Large Business Centre (LBC)

received a total of 16,263 service queries, of which 16,116 (99,8%) were resolved within SARS Service Charter time frames. A programme of obtaining feedback from taxpayers on the performance of the LBC against its value proposition (the LBC enhanced relationship initiative) was also conducted through taxpayers' surveys as well as a series of visits to taxpayers by LBC senior management. As part of the LBC enhanced relationship initiative, 42 companies were visited during the period under review. The feedback received, from the surveys and senior management visits, has provided useful information which is assisting the LBC improve its service offerings.

The migration of taxpayer files to the LBC continued steadily during the year with 49% of applicable Value-Added-Tax (VAT) files, 38% of Pay-As-You-Earn (PAYE) files and 97% of income tax files having been successfully migrated to the LBC as at 31 March 2008. It is envisaged that at least 80% of required VAT and PAYE files will be migrated to the LBC by 31 March 2009, with full migration expected to be completed by 30 September 2009.

Improved compliance and risk reduction

The LBC continued its pursuit of improved compliance during the period under review. A total of 2,307 audits were completed during the year resulting in revised assessments totalling more than R6,8 billion including in excess of R550 million of interest and penalties.

The LBC continued its analysis of taxpayer behaviour in identifying potential risk areas. This included a review of the management of extensions granted by the LBC for the submission of income tax returns. This review has highlighted the need for tighter controls with regards to extensions and stricter monitoring of extensions has accordingly been introduced within the LBC. Further enhancements were made to the LBC risk engine for the purposes of the risk profiling of LBC taxpayers. In particular, specific attention was given to the impact of significant mergers and acquisitions, including the tax effects of certain black economic empowerment transactions, structured finance arrangements and the tax implications of continuing increases in cross border trading activity.

Generally, the LBC has been able to gain a reputation of posing a fair, but formidable challenge to the advisers to large businesses. Feedback from taxpayers indicates that there is now believed to be a greater risk of detection than in 2004 when the LBC was established. However, this does not mean that taxpayers have stopped trying to find ways to minimise their tax liabilities. In particular, transfer pricing compliance remains a concern, particularly in the manufacturing sector as does structured finance transactions, given the current high interest rate environment which makes tax driven financing arrangements more attractive. VAT compliance also still needs further improvement as very few taxpayers are found to be fully VAT compliant when audited. Many taxpayers are also still making errors regarding the application of Capital Gains Tax (CGT) provisions, citing the fact that it was a new tax for years more than 5 years post its introduction.

Interactions with taxpayers during the past year have revealed that taxpayers are now generally less willing to participate in aggressive tax avoidance schemes. In addition, many clients of banks who have previously participated in aggressive structured finance arrangements have been required to settle the tax cost of these arrangements, since the agreements underlying these arrangements invariably include a kick-back clause so that any tax liabilities are passed on the client by the bank (i.e. the promoter of the arrangement) when successfully challenged by SARS. In the case of one settlement, this resulted in over 50 clients of a bank having to incur tax liabilities totalling in excess of R700 million. Given the increased risk of detection, many taxpayers are voluntarily coming forward to settle their disputes under the alternative dispute resolution (ADR) procedures. This is expected to continue during the coming year.

Compliance amongst large business is often regarded as high since large businesses are generally aware of their compliance obligations and they usually ensure that they meet their compliance obligations within the strict letter of the law. However, the most material compliance issues, relating to large business, are often linked to disclosure and payment (see Paragraph 19(3) discussion above). Wherever the law is ambiguous or unclear, large businesses, and their advisers, often still adopt the interpretation which best fits their own purposes even where they are aware that the resulting outcome was never intended by the legislature. Taxpayers often argue that they fully disclose all that they are required to in terms of the information requested

Large Business Centre (LBC)

in tax returns. This approach has the effect of making tax avoidance arrangements difficult to immediately detect and therefore enhanced risk identification procedures are required. The large corporate compliance landscape is a dynamic one where the LBC's consistent enforcement and facilitative interventions continue to promote higher levels of tax compliance. While we have witnessed improved compliance levels more can be done to enhance prevailing compliance levels, essential to levelling the economic playing field. In certain cases this will include legislative amendments.

As we move into more challenging times, global and domestic companies will face increased pressure to reduce or defer their tax cost. Our proactive approach in terms of engaging taxpayers, understanding their business context, being responsive to their compliance levels and building our skills base will ensure that we are able to shift compliance and sustain it at high levels.

High net-worth individuals (HNWI)

A total of 607 taxpayer files, comprising 231 HNWI taxpayers, 103 trusts and 273 associated entities were reviewed. Attention has been paid to compliance assessment work for these files. To this end a number of risk reviews have been conducted and schemes highlighted that eroded the tax base and resulted in lower effective rates of tax. These will be incorporated into the audit plan for the next year.

A number of benchmarking visits to progressive tax administrations (Australia and United Kingdom) were undertaken. Such visits have highlighted the need to focus on the following:

- Revisit criteria for inclusion within the unit;
- Differentiate between high wealth and high income individuals;
- Increase resourcing; and
- Build a robust risk profiling capability.

Conclusion

Large businesses generally do comply with their tax obligations particularly with regard to procedural matters in respect of registrations, filing and payments. However, there are still those who push the boundaries by continuously filing late and deferring payments. Since non-compliance in the large business segment poses substantial revenue risks, the LBC closely monitors large business activities, in particular where transactions involving tax havens occur or when tax payments fall due. For example, the LBC monitors tax payments against expected economic outcomes and contacts taxpayers promptly when significant variances occur. Non-compliance within the large business segment typically is at its worst with regard to disclosure. In spite of the fact that large businesses generally have access to tax expertise, many large businesses regularly make errors. They also regularly take contentious positions particularly in areas such as tax structuring, valuations, international tax and transfer pricing.

The LBC acknowledges that large businesses generally strive to keep their tax compliance costs as low as possible. However, where there is evidence of a taxpayer continuously failing to file tax declarations on time, failing to settle their tax liabilities on time as well as invariably partaking in aggressive tax planning arrangements, they will be contacted to discuss the observed behaviour. This early contact will be intended to alert senior management within large businesses of our concerns regarding their tax risk behaviour. In addition, senior management from the LBC will be embarking on a programme to meet with senior representatives from the top 100 taxpayers to discuss significant events affecting the taxpayer that may have tax implications, to explain the taxpayers tax risk profile, as well as to listen to any concerns that taxpayers have regarding their interactions with us from both a service and compliance perspective.

Through enhanced relationships and more effective compliance risk management the LBC will seek to focus its resources where most needed on the basis of risks identified.

Small Business

Small Business

SARS employees engaging with taxpayers

Making the regulatory environment friendlier to small businesses and thus enabling their development is a government priority. The Growth Employment And Redistribution (GEAR) strategy (1996 to 2000), the 2005 Integrated Small Business Development Strategy and the Accelerated and Shared Growth Initiative for South Africa (ASGISA) released in 2006 all evidenced government's intention to help small business develop.

From a tax perspective government must find a balance between easing the regulatory burden, equitable tax collection, education, taxpayer service, creating a compliance culture and enforcement. The sector is usually known for inadequate record keeping and weak financial controls. In recognition of this, the Minister of Finance (2006) introduced a tax amnesty for small businesses to bring them into the formal tax system. It applied to Income tax, employees' tax, VAT, withholding tax on royalties, Secondary Tax on Companies (STC), Unemployment Insurance Fund contributions (UIF) and Skills Development Levy (SDL). Individuals, unlisted companies, close corporations, trusts and cooperatives could qualify for the amnesty given certain requirements. Almost 350 000 applications were received, which included 12% new registrations.

The SARS small business office took over the management of the amnesty processing unit in the last month of the year under review, in order to transition the applicants into a newly devised compliance programme designed to sustain and improve compliance levels.

The small business office in conjunction with taxpayer education and regional operations conducted a number of Imbizo's and participated in expos as part of this compliance programme where taxpayers were updated on the amnesty progress and assisted with the completion of various tax forms including returns.

Small Business

Tax products

The National Small Enterprise Act (No. 102 of 1996) defines a “small enterprise” as a separate and distinct business entity managed by one owner or more. Micro enterprises have annual turnovers of less than R200,000. Very small enterprises have turnovers of R500,000 to R6 million (depending on the sector). Small enterprises have turnovers of R3 million to R32 million (depending on the sector).

In the case of the SARS, any business entity, whether incorporated or not, with an annual turnover of less than R14 million is considered to be a small business. Vendors on the VAT system having turnover not exceeding R14 million numbered 667,519; these, in turn, corresponded to 654,574 income tax cases (an income taxpayer can register more than one VAT entity), 458,100 of which were companies and 196,474 individuals, and other persons.

Existing offerings that are specifically aimed at small businesses include:

- **Small business corporations** tax regime which offers a graduated company income tax rate structure and accelerated deduction of the cost of plant or machinery;
- **Small retailers VAT package (SRVP)** is an alternative VAT regime for VAT vendors with taxable supplies / annual turnover not exceeding R1 million (exclusive of VAT), with simplified calculations and record keeping;
- **Cash basis of accounting** is allowed for unincorporated vendors whose taxable supplies do not exceed R2,5 million in a particular tax year. This allows relief in terms of their cash flow and record keeping;
- **Category F vendors** – in order to lower the cost of compliance for VAT vendors with an annual turnover under R1,2 million these vendors are only required to submit VAT returns every fourth month, as opposed to every second month;
- **Capital Gains Tax** – relief is provided to natural persons running small businesses, who, instead of providing for their retirement via a normal retirement vehicle, have reinvested most or all of their resources into their businesses;
- **Skills Development Levy (SDL)** - employers whose wage bill is less than R500 000 per year are not required to register as an employer for SDL purposes; and
- **Customs** - where SARS requests security from customs clients, the percentage of security required is calculated using a formula that allows for a 40% reduction in the case of a small business corporation.

In order to better understand the segment and in preparation for a new simplified tax regime for very small businesses, three surveys were conducted in cooperation with the National Treasury:

- **Compliance cost study**
  This study was conducted among tax practitioners to identify and measure the tax compliance costs for small businesses in South Africa and to develop recommendations to both reduce unnecessary tax compliance costs and to encourage formalisation;
- **Informal SMME tax compliance survey**
  This survey revealed that the majority of informal businesses (not registered with SARS) are in Gauteng, the Western Cape and KwaZulu-Natal. Most are sole proprietors and only 3% have 10 or more employees. Only 13% have a dedicated personal computer and 26% have access to computers in some form; and
- **Formal SMME tax compliance survey**
  This survey revealed that entities with the lowest turnover, registered with SARS for at least one product, made the most number of visits to SARS. 60% of these small businesses employed 10 or less employees.

PBO's

Public Benefit Organisations (PBO's) - Tax Exemptions

Approved public benefit organisations enjoy the benefit of spending public funds on a tax-free basis. It is imperative that SARS ensures that public benefit organisations utilise their funds solely for approved objectives, without any personal (taxable) gain being enjoyed by the organisations or persons representing it. The tax exemption unit was created to administer income tax affairs of these public benefit organisations. The unit currently has around 27,000 institutions on register.

During the past year, this unit made a concerted effort to develop a good working relationship with the Department of Social Development and its non-governmental organisations (NGO) directorate. Aside from regular meetings with these stakeholders, we also delivered presentations at seven of their workshops for NGOs. A further three presentations were also delivered to other public benefit organisations workshops at their request. In addition, we delivered thirteen presentations to potential amnesty applicants throughout the country.

The activities improved our service efficiencies in-so-far as public benefit organisations are concerned, by making SARS more accessible to them.

Operational Efficiency

Process and information management

Process and information management supports the achievement of strategic objectives through a range of process and information management service offerings. These are provided by enterprise architecture and quality, process solutions, activity based management and measurement and information management units. SARS depends on these quality processes and information to make informed decisions throughout business operations and management.

During the reporting period the range of support has included:

- Design and implementation of all process and information requirements for the assessment 2007/08 Filing Season. This entailed detailed process designs, business requirement specifications (BRS), standard operating procedures (SOP) and information management data analysis and reporting activities enabled the service programme to deliver on its modernisation objectives through contextualisation of SARS service offerings, data analytics, high level designs, specifications and a contact centre model;
- Establishment of a central service offering for information requirements and management reporting from a single source. This enabled detailed data analysis and data analytics in support of business and modernisation initiatives;
- Creation of the capability to deliver activity based management, measurement design and process performance management;
- Commencement of the journey of building knowledge management, data mining and process maturity assessment competence;
- Enhancements to human resource support services by designing and integrating automated processes;
- Increases to usability of process and information designs through an integrated architecture; and
- Completion of 37 initiatives aimed at improving effectiveness of business operations and management capabilities.

Continuous improvement is part of the business culture of all world class institutions. A process improvement methodology has been developed, deployed and sustained. Key achievements in this area include:

- The implementation of the new VAT registration process;
- The design of a revised complaints management process; and
- The development of a quality assurance and control process.

Continuous improvement activities further support the modernisation programme, through the implementation, monitoring and optimisation of systems, policies and standard operating procedures.

Capacity and production planning

The investment made into creating capacity and production plans has begun to bear fruit. This has enhanced SARS' ability to manage capacity and improve productivity in some areas of the business. It is intended to further institutionalise the planning discipline and will therefore further improve the overall management of operations. Production planning and tracking of each tax type is reviewed weekly, with management reports that facilitate operational decision making. Conducting scientific time studies and establishing capacity models for all tax types in the various business areas countrywide was the biggest challenge and the main key performance indicator for the year.

Capacity models were developed per tax type. Through the use of capacity models, the following deliverables were achieved:

- Setting and communicating performance scorecards based on capacity models for all business areas within operations;
- National staffing report based on the required vs. current staff compliment for all regions and all business areas; and
- Contribution to activity-based costing model in terms of supplying work structure breakdown per function, standard times and staffing per activity (current and required).

Operational Efficiency

In addition to the above achievements, the following tasks were also instituted:

- Small Business Tax Amnesty project (investigation, process/time study and recommended proposal);
- Training workshop on work and performance measurement for regional managers and team leaders; and
- Contribution to initiating and studying the control group for 2007 IT Bulk Data Capture (BDC) with other departments task team members.

Business systems

Legislation changes to tax directive systems

In October 2007, amendments to the relevant legislation necessitated enhancements to the Income Tax system. These amendments increased the tax-free portion of any person's retirement benefit lump-sum from R120,000 to R300,000. Not only did SARS enhance internal systems to accommodate this legislative change, but our external electronic interface agents had to follow suit to ensure that all systems are aligned. As a result, enhancements to the Income Tax system were implemented in October 2007.

ATP (automated tax processor)

The ATP system was introduced as part of the 2007 Filing Season to assess errors prior to the processing of the income tax returns received by assessment centres. Specific validations were undertaken to ensure that assessors obtain quality data before the assessment could be finalised. Errors such as IRP5 validation failures were some of those detected before assessing could commence. This proactively dealt with return anomalies firsthand and minimised manual interventions. Through this process, the assessment turnaround time was reduced from approximately three to two months.

Work-in-progress (WIP)

In conjunction with ATP, the Work-in-Progress (WIP) system was modified in respect of income tax returns. Tax returns, when submitted, are now scanned for the information to be transmitted through to the WIP system, which allows assessors to track progress on the system. This added feature greatly enhanced the capabilities of call centres nationwide, as agents are now able to promptly address clients' queries without referral to the relevant assessment centre.

Policy and standards

The policy and procedure function interpret and translate tax laws, international treaties and other legislation into operations policy and standard operating procedures. This is achieved within and aligned to a quality management policy framework taking into account operational risk.

Using primarily the Australian Tax Office model, the SARS operations policy and procedure framework was redesigned to draw a distinction between policy and standard operating procedures (SOP), improve on turnaround times and provide for detailed work instructions. Policy and SOP templates were developed to achieve standardisation and to improve on the user friendliness and ease of engagement. These enhancements were aligned with process development and optimisation to ensure that major developments within modernisation are effectively operationalised. The framework is being extended to include other tax types, customs inclusive. This methodology is increasingly being adopted by divisions in SARS outside of operations, and a program has been initiated to extend it to the whole of SARS. The document management system has been standardised on a simple platform within a single repository to, inter alia, ensure version control and monitor uptake of policies.

Approximately 325 policies and procedures were published excluding notices and letters, input into the drafting of policies, procedures, training guides and training interventions where required.

Compliance

Illicit goods

Compliance

The improvement of compliance behaviour by penalising non-compliance and reducing opportunities for tax evasion, is critical. The goal is to maximise compliance levels of taxpayers segments and to ensure that every taxpayer and trader fully meets their legal obligations.

Performance Highlights

- Conducted 69,118 audits;
- Obtained a 73% success rate on investigative audits conducted;
- R4,7 billion assessed revenue;
  – Assessments raised R3 billion – Debt collected R1,2 billion;
  – Reduce refunds R1,1 billion;
  – Reduced Assessed losses R551 million;
- Attained 514 guilty verdicts in criminal prosecutions;
- Reduced the revenue debt book by 1.27%;
- Debt collection - R15,6 billion;
- Collected 3,6 million outstanding returns;
- Reduced due outstanding return cases by 9%;
- Reduction of Estate cases by 12.97%;
- Confiscated 8,900 kilograms of abalone to the value of R30 million;
- Confiscated 1,400 master cases of illegal tobacco to the value of R20 million; and
- Seized vehicles used in the commission of crime to the value of R2,6 million.

Compliance

Compliance strategies

SARS endeavours to control tax compliance by discouraging non-compliant behaviour (i.e., failure to register, submit returns, pay taxes and non-or under declaration of income) of entities operating in the licit and illicit economies through administrative, audit and investigative interventions.

SARS has taken a significant step this year to identify the different levels of tax compliance in the South African society and to address non compliance at a strategic level. An internal enforcement programme to align various sets of information available within SARS as well as published information from other agencies to quantify levels of compliance within sections of societies and various sectors of industries, has therefore been initiated.

This programme is aimed at segmenting the society using various criteria e.g. nature of economic activities, size of operations, type of companies, etc. This year SARS has made significant progress in this regard and has produced a preliminary compliance evaluation report, quantifying compliance levels at individual and industry segment levels. An enforcement programme, aimed at the improvement of compliance, has been developed and will enable SARS to evaluate the effectiveness of the enforcement programme through continuous compliance evaluation.

The SARS strategy to control compliance levels differentiates between each section of society and employs interventions in accordance with the risk associated with a section. The strategy incorporates three types of actions:

- Wide coverage of the tax base (width);
- In-depth investigations into higher risk entities (depth); and
- Gaining leverage from this engagement (leverage).

Intentional non compliance is investigated with the view to criminally convict an entity or obtain a civil judgment against it.

This strategy necessitates that SARS ensures that its people have the requisite suite of knowledge, skill and experience to keep abreast of developments. To this end, SARS has recruited one hundred and thirty graduate trainees to build a sustainable recruitment stream and also provided training in the following areas:

- There was a concerted effort to build the PAYE audit capacity within enforcement. Training material was developed and 92 current PAYE auditors received refresher training while 63 entry level PAYE auditors were trained on all aspects of PAYE. The courses will continue into the 2008/09 financial year as part of normal business and in support of the modernisation of the PAYE process;
- The capability of SARS auditors in this area was increased and 124 auditors and risk profilers were trained on audit processes, procedures and risk profiling of trusts;
- Fifteen specialists, focusing on computer assisted audit techniques, and four forensic auditors were appointed. The use of computer assisted audit techniques were revived through training of 63 auditors on the use of data conversion and analysis tools (SESAM tools); and
- Our strategy also required that we streamline, consolidate and integrate our institutional arrangements by adopting a model which enabled the division to maintain steady state operations and focus on strategic initiatives to obtain continuous improvements.

Audit

SARS auditors

Audits can be broadly categorised as investigative audits and assurance (control) audits.

Investigative audits are selected on the basis of a specific risk and are used to:

- Investigate allegations of intentional non compliance;
- Ensure punitive actions are taken against offenders;
- Bring confidence to compliant taxpayers; and
- Build a SARS brand that shows Enforcement will identify and deal with intentional non-compliance appropriately.

Assurance audits aim to verify and improve compliance in the known taxpayer base through general risk selection and random selection. Random case selection ensures all taxpayers have an equal chance of being engaged.

Enforcement conducted 69,118 audits of which 6,103 were investigative cases. A success rate of 73% was achieved. The audit function now has a complete complement of interventions ranging from telephone audits to complex investigative audits. Telephone audits were introduced during this financial year while inspections were introduced in the previous financial year. In step with the operational strategy, work that had been in progress for over six months had been reduced by more than 50% over the past two years, resulting in more visibility and flexibility in choosing areas of intervention. The effectiveness of audits can now be measured in terms of compliance improvement in focused areas.

The coverage for the 2007/08 financial year was at 0.97% (2007: 1.07%) against a tax base of 7,1 million taxpayers (2007: 6,4 million), which represents 69,118 audits (2007: 69,270). The total number of audits conducted in this financial year is marginally lower than in 2007 (152 audits). The reduction in the audit coverage is attributed to a 10% growth of 668,819 taxpayer entities in the tax base.

Audit

Table 2.4.1: Year on year comparative audit coverage

Tax type	Actual Coverage 2006/07	% Coverage Actual 2006/07	Actual Coverage 2007/08	% Coverage Actual 2007/08	% Change 2007/08 compared to 2006/07
PIT	26,267	0.57	32,675	0.66	0.09
CIT	13,453	1.49	16,759	1.60	0.11
VAT	24,603	3.94	15,633	2.10	-1.84
PAYE	4,947	1.51	3,985	1.05	-0.46
Customs	-	-	66	-	-
Total	**69,270**	**1.07**	**69,118**	**0.97**	**-0.10**

Table 2.4.2: Audit coverage per tax type as compared with target

Tax type	Target 2007/08	% Coverage Target 2007/08	Actual 2007/08	% Coverage Actual 2007/08	% Change Actual vs. Target 2007/08
PIT	25,006	0.50	32,675	0.66	0.16
CIT	21,914	2.09	16,759	1.60	-0.49
VAT	14,597	1.96	15,633	2.10	0.14
PAYE	4,365	1.15	3,985	1.05	-0.10
Customs	120	-	66	-	-
Total	**66,002**	**0.93**	**69,118**	**0.97**	**0.04**

Altogether 60% of cases audited represent field audits and 40% desk audits. Field audits are conducted when auditors engage with taxpayers outside SARS premises and comprise investigative, complex assurance and inspection cases.

The number of assurance audits increased owing to the introduction of telephone audits. The telephone audits represent 14% of the total number of cases completed which supported the new assessment process. A significant number of inspection cases were completed during the financial year; these inspections were conducted in accordance with a SARS wide visibility campaign with regards to small businesses.

The audits conducted indicated non-compliance was mainly as a result of:

- Incorrect application of the general deduction formula in the Income Tax Act;
- Incorrect application of the gross income definition in the Income Tax Act;
- PAYE assessments relating to fringe benefits and labour brokers;
- VAT assessments relating to under and non declaration of VAT; and
- VAT assessments relating to claiming of input VAT.

Criminal Investigations

Cigarette seizures

SARS conducts criminal investigations every year with a view to institute criminal proceedings through the National Prosecuting Authority's (NPA) Special Tax Unit (STU) with whom we have a key interdependence. Our investigations are conducted in terms of a memorandum of understanding entered into between SARS and the South African Police Service.

A total number of 2,098 cases were investigated (including 412 medium and complex cases) and handed over to the criminal justice system for prosecution and 514 guilty verdicts were obtained during the year. These included 42 individuals found guilty on 225 charges of fraud and one individual on 3 counts of theft. There has been a marked improvement in managing the supply chain of the criminal justice system. This has been achieved through greater alignment with the National Prosecuting Authority (NPA), which resulted in a reduction in the back log of criminal investigation cases in the system and improved prosecuting capability (30% improvement prosecution capability). Table 2.4.3 below highlights our success over the past two years.

Table 2.4.3: Criminal Investigations

Description	2006/07	2007/08	% Change
Criminal cases completed by SARS	1,909	2,098	9.90
Criminal cases successfully prosecuted by the STU	447	514	14.99

The STU achieved convictions in 89% of the cases that were prosecuted during the financial year.

Table 2.4.4: Court sanctions

Description	National totals 2006/07	National totals 2007/08	% Change
Total no. of entities convicted	486	597	23
Fines	R2,100,000	R10,309,510	391
Direct Imprisonment (years)	46	118	157
Suspended period of imprisonment (years)	473	609	29
Correctional Supervision (months)	1,024	127	-88
Community Service (hours)	3,026	6,752	123

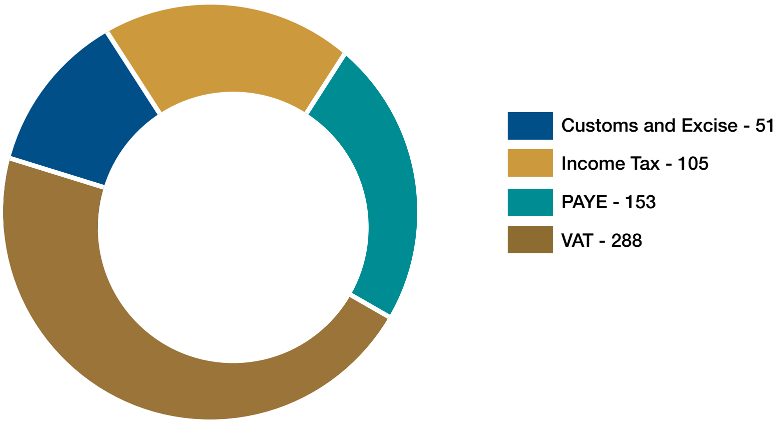
Criminal Investigations

The majority of the contraventions were committed in the following sectors:

- Agencies and other services;
- Business Services;
- Construction;
- Food, Drink and Tobacco; and
- Retail and wholesale trade.

The 597 convictions consist largely of statutory contraventions of the Value-Added Tax, Income Tax and the Customs and Excise Acts, with a small but growing number of common law fraud and theft cases were also finalized.

Figure 2.4.1: Convictions per tax type



The relationship with the STU continues to improve, with bi-monthly meetings taking place aimed at reviewing performance and identifying problems in the operations process. The fact that the STU managed to finalise more than 500 medium and complex cases during the financial year is indicative of an improvement in the management of the whole value chain.

Outstanding Returns and Estates

Outstanding Returns

The outstanding return book (excluding returns not due) decreased for the second consecutive year, this time from 5,765,000 to 5,381,000. Focused campaigns yielded positive results and contributed to the overall reduction of outstanding returns. Data analysis has enabled SARS to identify repeat offenders and more serious offenders (across tax types). These offenders will be dealt with stringently in the 2008/09 financial year. Legal action has been instituted against more than 81,000 taxpayers to ensure the recovery of outstanding returns. This has resulted in:

- More than 29,000 taxpayers complying after the summons was issued; and
- More than 177,000 returns were received prior to the court date.

Table 2.4.5: Outstanding Return Due book per tax type

Tax type	2006/07	2007/08	% Change
Income Tax	3,703,790	2,774,816	-25.08
PAYE	917,880	1,129,835	23.09
VAT	1,144,265	1,476,433	29.03
Total	**5,765,935**	**5,381,084**	**-6.67**

The serial offenders' initiative (taxpayers with outstanding returns in IT, VAT and PAYE) was launched nationally to criminally prosecute simultaneously all identified serial offenders whose addresses have been confirmed, for failure to submit IT, VAT, PAYE, SDL and UIF returns. A serial offender was identified as a taxpayer with outstanding returns in all three tax types – IT, VAT and PAYE. A total of 28,174 taxpayers were identified, representing 478,301 outstanding returns.

Achievements of the project include:

- 18,200 notices of intention to summons were issued;
- 523 summonses were issued;
- Reduction of 31.18% outstanding returns in this project; and
- During the course of the project extensive media coverage was achieved.

The residential area project focused on ten municipal areas in five provinces. Achievements include:

- 29,506 notices of intention to summons were issued;
- 8,586 summonses were issued;
- 56,490 cases were resolved; and
- Reduction of 33.69% outstanding returns on this project.

Estates

In terms of the Administration of Estates and Insolvency Acts, the Estates subsection is required to inspect an estate and if necessary assess it in respect of taxes due to the fiscus. These inspections relate to both pre-and post death/insolvency income. The estates function has been streamlined to handle the current inflow of estate cases. This includes managing the inflow, alignment with other state agencies, establishing stronger audit and debt management capability and the implementation of better case management and accountability systems. The function succeeded in reducing the estate cases on book for the third consecutive year by 15%.

Table 2.4.6: Estate case reduction (2006/07 to 2007/08)

Total outstanding returns	Opening Balance	Closing Balance	% Change
2006/07	124,170	106,000	-15
2007/08	106,000	92,329	-13

Estates will investigate the insolvency processes and the mechanisms that are available in the Insolvency, Companies and Close Corporations Acts in an attempt to intervene much earlier in liquidations and sequestrations.

Compliance Initiatives

Initiatives

Apart from normal width and depth interventions, the division has time-bound interventions, focused on specific segments and sub-segments. These encompassing interventions are referred to as initiatives or campaigns and they include the width, depth and leveraging part of the strategy in a concentrated manner.

Campaigns further assisted in increasing the level of compliance in the Mpumalanga region by reducing the incidence of VAT refund fraud. The unit further assisted by facilitating the sending out of notices of intent to summons, summonsing, and executing warrants of arrest for outstanding returns.

Table 2.4.7: Successes on activities related to outstanding returns and Vat refund fraud

	Results
Notices of intent to summons served	168
Summonses served	17
Warrants of arrest executed	13
Writs of execution executed	5
Successful prosecutions (related to returns without payment)	32
Vat refund fraud related cases referred to criminal investigations	27

Quality Management

As part of improved quality control for Enforcement and Compliance Risk, the framework for development, implementation and maintenance of a management and quality system has been developed and implemented. The system will assist the division to continually improve the way of doing business and ensure that inefficiencies are proactively identified and mitigated.

Deregistration

A special project was implemented to finalise the backlog of cases, distinguishing between two categories namely cases older than five years and those less than five years. Two investigations took place to determine how the backlog should be addressed speedily and how inflow should be managed in the long term.

The short term solution successfully reduced the ring-fenced cases by 741,128 cases and the debt book in this category by R1,2 billion. The long term solution has been tested and proposed for implementation in the new financial year.

Retirement Fund Tax (RFT)

In his budget speech in February 2007, the Minister of Finance announced that the Retirement Fund Tax (RFT) will be abolished with effect from 1 March 2007. To coordinate a responsible closure of this tax, a winding-down project was initiated.

Communication with the Retirement Funds has commenced in order to ensure monies owed are paid. The deregistration process has commenced.

There has been a strong emphasis on educating South Africans about their rights and duties as free citizens in South Africa's new democratic dispensation. In the light of success of rights-based education and advocacy, we need to continue to reach all eligible, present and future, taxpayers about their fiscal responsibilities and in particular, their tax obligations.

In the year under review, The Taxpayer Education Unit (TPE) has deepened its focus on tax education and on enhancing fiscal citizenship so as to broaden the tax base; promote efficiency and service and enhance enforcement.

The strategies used were intended to have the optimum reach into all communities and tax segments as well as deal with issues of concern to stakeholders.

Open-air bus used during Filing Season 2007

Taxpayer Education and Outreach

These activities contribute to the building of a culture of fiscal citizenship among current and future generations of taxpayers and the overall culture of compliance within South African society. One result from this will be a growing of our tax register because people (juristic and natural) will "do the right thing". From this, our tax base will be sustainable. Empowered citizens with knowledge about tax will result in a reduced need for technical assistance from SARS officials and tax practitioners.

During the 2007/08 tax year, SARS began to implement a series of radical changes to its technology, methods and forms. These changes require rapid comprehension, adoption and compliance by SARS staff and taxpayers alike. The changes affected all taxpayers in a direct and dramatic way and posed a challenge for the organisation to ensure that all taxpayers were able to move along with the modernisation agenda.

A Taxpayer Education Unit was established in order to deliver taxpayer programmes that increase taxpayers' knowledge effectively and efficiently towards voluntary compliance. This is accomplished chiefly by two means: firstly by direct educational intervention and; secondly through the production of educational media and support materials.

During this reporting period, much of taxpayer education's effort has been directed towards facilitating these changes to SARS programmes and ensuring that taxpayers understand them and comply fully. We also sought to expand the range of existing education workshop offerings to all regions.

Taxpayer Education and Outreach

Workshops

A total of 4,280 education workshops were held in 2007/08. The target for the year under review was set at 3,000 workshops to be held nationally. The target has been surpassed by more than 1,250 workshops. Substantial engagement took place with taxpayers through workshops conducted at demarcated halls, employer workplace as well as at SARS offices. Basic workshop topics covered registration and record-keeping requirements for small business and introduction to taxes. Intermediate workshops are also held and special workshops are designed for specific sectors.

Taxpayers Reached

During these workshops, a total of 292,611 taxpayers were trained in a range of tax products and issues. We projected a growth of 126,000 taxpayers as our target for the tax year. Historically, in 2005/06 there were just over 30,000 participants, this number increased to 115,777 in 2006/07 and in 2007/08 we reached 292,611. This shows sustained growth greater than 100% year on year. This increase can be attributed to increased training activities taking place at the various branches throughout the country.

Filing Season

During Filing Season, Taxpayer Education assumed responsibility for the coordination of both outreach and education activities. A total of 189,024 outreach interventions were organized throughout the country during the Filing Season along with 11,204 in-house workshops organized in the various branches.

Filing season has as in the past focused on the completion of tax returns, the new processes introduced during 2007/08 posed much bigger challenges than before. The focus also shifted to eFiling which together with efforts form other business areas within SARS contributed to 1,086,312 returns filed via this channel.

Education was done by means of:

- In-house workshops that assisted taxpayers in completing their returns in a group;
- Outreach and points of presence at various malls and other public areas afford SARS greater visibility and interaction with the public especially around the new process and offering assistance with the completion of returns;
- Industrial Theatre to inform and assist especially SITE taxpayers with a national roadshow visiting large site employers like mines in all regions;
- "MY TAX" programme on e.TV educated viewers on the completion of tax returns with special focus on common errors made by taxpayers who have already filed their returns;
- Radio programmes presented by SARS personnel on regional and local radio stations in the specific languages of the regions concerned; and
- A series of workshops specifically targeted at practitioners and hosted across the nation in order to service the vast numbers of taxpayers whose tax affairs are administered by practitioners. Reaching these practitioners is an effective way of ensuring error reduction and greater compliance for a large number of taxpayers.

Small Business Amnesty

SARS employees managing taxpayer queues during the Small Business Tax Amnesty Campaign

Small Business Amnesty

In the 2006 Budget, the Minister of Finance introduced a tax amnesty for small businesses who had historically been marginalised in South Africa. The amnesty aimed to bring these entities into the formal tax system and applied to the majority of tax types. To qualify for the small business tax amnesty, the entity must be an individual, unlisted company, close corporation, trust or a co-operative.

The following were the main requirements:

- the individual or entity must have carried on a business;
- the gross income (turnover) of the business (or businesses if the individual or entity carried on more than one business) during the 2006 year of assessment was not more than R10 million;
- in the case of a company or close corporation all the shares or members' interests were held directly by individuals throughout the 2006 year of assessment; and
- in the case of a trust, all the beneficiaries of that trust throughout the 2006 year of assessment must have been natural persons.

The application process was intended to close on 31 May 2007 but it was extended to 30 June 2007.

Small Business Amnesty

Figure 2.4.2: Applications per region

Of the 356,426 applications, 44,997 (13%) were new registrations.

Figure 2.4.3: New Registrations

Small Business workshops

A total of 4,280 workshops were presented to small businesses across the country and over 30,000 small business owners at the place of business which mainly focused on the application process and the completion of the application form. This will be followed up with sessions in the 2008/09 tax year with sessions aimed at empowering them to remain compliant. Education packs for these interventions have also been compiled. A number of key events were hosted including meetings with the taxi industry and other small business representatives as part of the Small Business Tax Amnesty (SBTA) and follow-up imbizo's around the country.

Specific Enforcement activities

Special enforcement campaigns contributed to the improvement of the number of amnesty. Applications, and the results of the campaign prior to the closing date for amnesty yielded the following successes:

Table 2.4.8: Small Business Amnesty related activities:

Small Business Amnesty related activities	Results
Warrants of arrest executed	207
Summonses served	988
Writs of execution executed	31
Total value of writs of execution	R70,4 million
Judgments obtained and served	6
Total value of judgments	R1,4 million

Enforcement

Based on a pilot non-compliance tracking system, which enabled the development of a sector differentiated compliance model and matrix, an enforcement programme was launched. This programme identifies areas of focus for enforcement. Industry and sector profiles, with clear trends and patterns for appropriate mitigation, have been identified.

One result is a clearer identification of cases to be audited. This initiative was also complemented by specialised campaigns to bring into the tax register's ambit entities such as small businesses.

An internal programme to align various sets of information available within SARS as well as published information from other agencies to quantify levels of compliance within sections of societies and various sectors of industries, has been initiated.

The introduction of the new Personal Income Tax (PIT) assessment process saw a corresponding introduction of the new risk model for individuals. The model enhances the audit function's ability to allocate resources according to risks identified.

The enhancement of the risk engine resulted in the identification of 48,965 refund cases for audit purposes; 11,000 refund audits were conducted with a success rate of 33% in comparison to 15% in the previous year.

In addition, the risk engine system enhancements identified the following:

- Approximately 600,000 returns with errors were referred back to individuals;
- Approximately 400,000 returns did not match information from 3rd parties;
- Approximately 150,000 returns were flagged for further investigation;
- Approximately 150,000 refunds could not be refunded due to bank details not supplied or where bank details could not be verified;
- 44,010 cases referred to operations for administrative checks; and
- 48,965 cases referred to enforcement for audit.

Anti-corruption and Security

In January 2008, the Anti-Corruption and Security (ACAS) Unit was created to improve the security of SARS resources. The function enables SARS to approach security in an integrated, holistic and comprehensive way that incorporates reactive and proactive measures. The unit is responsible for personnel security, physical security, information security, internal investigations and internal prosecutions.

Fraudulent refunds have been investigated during the year. This relates to electronic fraud, paper trail fraud, impersonation of SARS officials, tax consultants and stolen refund cheques. The work done by ACAS in this regard resulted in the following:

- Dismissal of two employees;
- Conviction of:
  - 10 persons in respect of advance fee (419) fraud;
  - One person for VAT fraud;
  - Two persons for fraud relating to abuse of SARS' name;
  - Nine persons for fraud involving SARS systems; and
  - 15 persons charged for fraud, currently awaiting trial.

Enforcement

Illicit economy

In collaboration with law enforcement agencies and recognising the role that SARS has to play within the larger state-system to address crime, the illicit economy has become a priority focus area for SARS. A specialised capability has been created to focus on the illicit economy from a tax, customs and excise perspective. Initiatives have resulted in the confiscation over the past year of more than 8,900 kilograms of smuggled abalone valued at approximately R30 million, 1,400 master cases of smuggled and counterfeit tobacco valued at more than R20 million and financial investigations against smugglers and dealers of illicit drugs which included the seizure of one kilogram of cocaine. Two trucks, a trailer and a luxury vehicle used in the committing of crimes associated with illicit substances have also been seized.

Abalone

- One of the highlights of the year involves the seizure of 2,400 kilograms of dried abalone valued at R7,4 million at Oliver Tambo International Airport (ORTIA). Three individuals were charged under the Customs and Excise Act and the Marine and Living Resources Acts;
- 2,528 kilograms of abalone destined for the East valued at approximately R8 million, as well as a truck valued at approximately R30,000 was seized at ORTIA;
- The identification of an illegal abalone plant in Pietermaritzburg resulted in the seizure of 4,000 kilograms of abalone valued at approximately R14 million by the DSO and SAPS;
- Inspections were conducted at seven different premises in Gauteng as identified to have been associated with the smuggling of abalone. While the inspections did not produce significant seizures, more suspects involved were identified and additional information concerning their financial and business-affairs were gleaned through the exercise. The fact that the suspects moved their operations and cancelled their telephone-lines soon after the inspections also suggests that the inspections have significantly disrupted and increased the cost-factor of their activities; and
- In collaboration with Marine Coastal Management 460 kilograms of shark fins, 350 kilograms of lobsters and documents were discovered and detained.

Tobacco

- As a result of a joint monitoring exercise with the SAPS two premises were identified, searched and illegal tobacco products to the value of R20 million were seized. A total of 939 master cases of cigarettes were seized from a single premises and an additional 555 master cases were detained. A truck and trailer valued at approximately R2 million were also seized; and
- Spot-checks were done on identified tobacco traders and 25 cartons of counterfeit cigarettes were seized.

Enforcement

Illicit substances

- SARS identified a drug courier at Cape Town International Airport, resulting in the seizure of one kilogram of cocaine, which was handed to the DSO;
- SAPS are in the process of investigating charges of drug-dealing against an individual. In collaboration with the SAPS, SARS seized a luxury motor-vehicle valued at approximately R400,000 that was used in contravention of the Customs and Excise Act;
- SARS participated with SAPS in raids of suspected drugs manufacturers where equipment used to manufacture illicit drugs was seized;
- After a routine search of a vehicle at Beitbridge, customs officers discovered 1,162 kilograms of Methaqualone to the value of R10 million, which is used in the manufacture of mandrax tablets. Financial investigations of associated individuals and companies are continuing; and
- Financial investigations also commenced against individuals identified after a routine inspection by customs at ORTIA resulted in the seizure of approximately 60 kilograms of cocaine, estimated to be worth approximately R30 million.

Conclusion

SARS embarked upon a number of programmes with the aim of stabilizing operations and building capability and making continuous improvements. These included:

- Stabilising the enforcement and compliance risk organisational structures by;
  – Reducing the number of staff in acting positions;
  – Focussing on recruitment by ensuring inflow of talent by appointing graduates and management trainees; and
  – Standardising and reducing the number of job descriptions.
- Focussing on training and development aligned to the SARS-wide career model development programmes;
- Improving the setting of Key Performance Areas and Key Performance Indicators;
- Introducing broader business reviews which are wider than the review of Key Performance Indicators;
- Implementing a model which enables the division to maintain steady state operations and focus on strategic initiatives to obtain continuous improvements;
- Introducing a systemic approach to the business by establishing a Quality Management System (QMS) with the inclusion of training quality auditors, end-of-line inspections and the development of a baseline for standardised policies and procedures; and
- Establishing governance committees with regards to managing penalties and objections.

Customs

Pass out parade of the Customs Border Control Unit

Customs

Trade Facilitation and Border Control

SARS Customs is the division within SARS responsible for the administration of international trade. Its strategic mission is to secure South Africa's socio-economic and developmental interests at ports of entry and to link up the business community with the global trade market by facilitating legitimate trade. SARS Customs is the first-line of control at the country's borders to secure the South African economy and society by administering the movement of goods into, from and through South Africa. We undertake this mission by facilitating trade, combating smuggling and fraud and securing our borders all within the existing international, regional and national policy and regulatory framework.

Performance Highlights

- The Agreement between Mozambique and South Africa on the establishment of the one-stop border post was signed by the Heads of State on 17 September 2007;
- Since the implementation of the Memorandum of Understanding (MOU) on Textile Quotes on 1 January 2007, imports from China have declined by approximately 29%;
- The Customs Border Control Unit (CBCU) Detector Dog Unit started operating in August 2007 and they immediately achieved successes during this month;
- There is a 31% increase in cigarettes seizures from 2006/07;
- The 771 successful post clearance audits conducted netted more than R397,5 million;

Trade Facilitation and Border Control

- The Agreement on Customs and Tax Administration Co-operation with India and Brazil signed on the occasion of the 2nd IBSA Summit held in Pretoria, South Africa;
- South Africa concluded a Customs Mutual Administrative Assistance Agreement with India in February 2008; and
- On-site technical scanner operation and image review training has commenced at the port of Durban.

We have strengthened our institutional and human capacity to facilitate trade and secure our borders by providing appropriate paramilitary training to our Customs Border Control Officers (CBCU). An additional 1 261 Customs and Excise Officers were trained in various operational and "soft" courses. For the first time, three Customs Officers received Masters Degrees, specialising in Customs Law and Administration, from the University of Canberra. To increase the utilisation of the benefits offered by various trade agreements South Africa has with other countries and to promote awareness and compliance, SARS has embarked on an initiative to educate traders. Our client education interventions have contributed to a more impactful outreach to stakeholders. For example, during the year under review we educated traders on the benefits of submitting declarations electronically and this resulted in a streamlining of our import process. The benefit of a more streamlined process has been processing declarations faster; improving trade facilitation and decreasing the manual process.

In line with the new strategic policy framework but also in an effort to address the needs of government, the SARS Commissioner launched the Customs modernisation programme. Noteworthy interventions include:

- Intelligent monitoring of international trade supply chains;
- Improving the visibility and effectiveness of Customs controls at the border;
- Improving trader management;
- Developing a skilled and disciplined workforce; and
- Develop implementation strategies for Customs-to-Customs pilot projects.

By adopting a differentiated operating model, whereby we target our services to the different segments of our stakeholder base, optimise and reduce effort on our operating processes, and enlarge our footprint, we now have greater visibility. During the year under review South Africa imported goods to the value of R592,4 billion which is a 16% increase from 2006/07 and exported products to the value of R517,1 billion which is a 7% increase from 2006/07. South Africa's foreign trade on imports consists primarily of crude petroleum oils and original equipment for cars and trade on exports is primarily gold and platinum.

Trade Facilitation

Customs seek to provide traders with quicker and simpler ways to conduct business. Accredited importers and exporters are offered fast and secure electronic lodgement and processing of import and export goods declarations via the Electronic Data Interchange (EDI) facility. This vastly improves response times for low-risk shipments. In the year under review, 86% of all import declarations and 54% of all export declarations were received via EDI as reflected in table 2.5.1.

Efforts to promote EDI usage will continue. In the coming year, we will undertake a national initiative to promote EDI amongst traders, survey trader requirements and develop an EDI risk identification and management strategy. Processing times for import EDI declarations have improved on 2006/07 processing times by 4% and for exports by 3%, despite a 12% increase in import declarations and 31% on export declarations.

Clients initially submit a declaration to customs and either due the respective rebate schemes or change in rate of duty they will pass a voucher of correction to amend the original declaration and also submit a refund claim. The claims are scrutinized thoroughly by the customs branch office and head office before payments are issued. Customs nationally processed 21,569 refund claims to a value of R1,840,452,194 service charter minimum targets were surpassed with 100% of all claims having been processed within the 30 day measure against a target of 90%.

Border Security

The SARS Detector Dog Unit started operating in August 2007

Table 2.5.1: Percentage achievement of turnaround times for trade processes

Deliverables	Target 2007/08	Achievement
Transactions cleared within target (Imports) International – 4 hrs	96%	100%
- International 24 Hrs	96%	100%
- SACU 24 Hrs	96%	100%
Transactions cleared within target Export - International & SACU - 4 Hrs	96%	99%
Export - International & SACU - 24 Hrs	96%	99%
Turnaround time on Customs refunds	90% within 30 days	102% in 30 days
Electronic transactions processed - Imports International	90%	86%
Exports International	50%	54%
Exports SACU	15%	23%

Customs has implemented the CBCU which is mandated to conduct enforcement interventions to detect and curtail smuggling and gather information as per the Customs and Excise Act (No. 91 of 1964). The primary functions of the CBCU include:

- Controlling the import, export, trans-shipment and supply chain processes;
- Identifying consignments that pose a risk; and
- Disrupting corrupt and illegal activities in these fields.

The CBCU Detector Dog Unit started operating in August 2007 and immediately achieved successes during this month. The expansion of the Detector Dog Unit capacity was achieved according to the plans. The finalisation of the detector dog capacity in Gauteng was achieved with a double operational team of static and reaction unit dog capacity. Members are appointed not as reaction team unit, but all members in the unit are aware that they may at any given time as per operational need be deployed at other ports of entry outside of Gauteng.

The expansion of the unit was achieved with the establishment of the Kwa-Zulu Natal unit whose members are currently undergoing training. The dogs are trained in detection of narcotics, explosives and endangered species, with possible expansion of the detections to cover currency and audio and visual discs.

CBCU Pilot project commenced at ORTIA from the beginning of March 2008. This happened after a successful Military and Customs Content training that took place from the beginning of October 2007 to the end of February 2008 as per project plan. 121 members underwent training and 113 of those members are currently deployed in a pilot at ORTIA. The formal graduation ceremony was held in Naboomspruit. The Commissioner and his Military counterpart presided over the ceremony and they signed the Memorandum of Cooperation. The Commissioner, the Chief Commander and the Commander were given their respective ranks at the ceremony. The graduates also received their ranks and certificates for the completion of the course.

Border Security

CBCU Detector Dog Unit Seizures

The CBCU detector dog unit which was operational from August 2007 achieved the following seizures (as reflected in table 2.5.2) during the last eight months. Most of the cannabis seizures were detected at the ORTIA mail centre in parcels or envelopes en route to the United Kingdom.

Table 2.5.2: Detector Dog Unit Seizures 2007/08

Type of Seizure	No. of Seizures	Value (R)
Cannabis	13	671,000
Cocaine	3	3,2 million
Dry & Wet Abalone	1	1,2 million
Ivory	1	1,300
Endangered Species	2	157,000
Contraband & Counterfeit	16	4,6 million
Other Contrabands	6	22,000
Other Counterfeits	3	279,000

National Anti-Smuggling Teams (AST) Unit Seizures

Anti-Smuggling Teams nationally are guided by a framework of standards that focus activities on the illicit economy and visibility. During the year under review a large number of disruption exercises (including walkabouts) were conducted that contributed to the following results:

Table 2.5.3: Anti-Smuggling Narcotics Seizures

	2006/07	2007/08
Types of Narcotic	**No. Seizures**	**No. Seizures**
Heroin	3	3
Cannabis	136	270
Mandrax	4	5
Cocaine	15	28
Ecstasy	2	5
Other Drugs	221	26
Total	**381**	**337**

50% of the counterfeit seizures were conducted at ORTIA and Cape Town International Airport. The table 2.5.4 gives a breakdown of the types of counterfeit goods seized.

Table 2.5.4: Anti Smuggling Counterfeit Goods Seizures

	2006/07		2007/08	
Type of Seizure	No. Seizures	Value (R million)	No. Seizures	Value (R million)
CD and DVD	165	18,4	89	5,5
Clothing	475	65,3	302	105
Footwear	147	38,2	77	28
Other	767	231,6	615	194,7
Total	**1 554**	**353,5**	**1 083**	**333,2**

There was a 31% increase in cigarettes seizures from 2006/07. 42% of the contraband seizures were at Beit Bridge border post; Cape Town harbour and ORTIA. Table 2.5.5 gives a breakdown of counterfeit and contraband cigarettes seized.

Border Security

Table 2.5.5: Anti Smuggling Cigarettes Seizures (R million)

	2006/07		2007/08	
Type of Seizure	No. Seizures	Value (R million)	No. Seizures	Value (R million)
Cigarettes (Counterfeit & Contraband)	1,963	250	2,846	172

Anti-smuggling teams also made a number of other seizures in the year under review. The breakdown of the types of goods and their value is given in table 2.5.6 below:

Table 2.5.6: Other Seizures for this year

	2006/07	2007/08		
Type of Seizure	No. Seizures	Value (R)	No. Seizures	Value (R)
Cash	84	5,6 million	140	32 million
CITES	198	4,2 million	73	5 million
Motor Vehicles	152	5,1 million	116	10 million
2nd Hand Clothing	234	0,139 million	151	2 million

China Memorandum of Understanding (MOU)

Since the implementation of the MOU on 1 January 2007, imports from China have declined by approximately 29%, indicating that the objectives of the agreement are being met i.e., a decrease in imports from China mitigates the adverse impact of global trade on "vulnerable" sectors of the South African economy. In particular, imports of apparel for the period January-December 2007 totalled R6,3 billion, which decreased by 8,7% from the previous year of R6,9 billion.

Table 2.5.7: China MOU Seizures 2007/08

Month	No. Seizures	Kg Seized	Units Seized
Apr-07	12	10	19,311
May-07	13	-	6,627
Jun-07	13	309	5,532
Jul-07	9	1,082	3,232
Aug-07	23	2,334.1	2,668
Sep-07	22	1,947	21,319
Oct-07	26	4,842	40,600
Nov-07	23	4,040	41,091
Dec-07	8	4,037.4	1,155
Jan-08	9	316	13,827
Feb-08	22	567.62	66,298
Mar-08	26	25	61,723
Total	**206**	**19,510.12**	**283,383**

Joint inspections with the International Trade Administration Commission of South Africa (ITAC) have also been initiated to ensure compliance and to increase risk coverage. To date seven importers' premises were visited. A joint prosecution is currently under way (ITAC/Customs/Enforcement, Criminal Investigations/ SAPS/NPA). Customs has also achieved its target of 25% and 15% of the compliance success ratio for international and SACU imports, respectively and the exports international success ratio of 20%.

Border Security

Table 2.5.8: Cargo Intervention Stop Success Ratio

Deliverables		Target 2007/08	Achievement
Imports	International	25%	25%
	SACU	15%	15%
Exports	International	20%	47%
	SACU	10%	6%

The figures below give a breakdown of the leading import and export products in terms of value.

Figure 2.5.1: Leading import products in terms of Rand Value

Figure 2.5.2: Leading export products in terms of Rand Value

Table 2.5.9: Processing of bills of entry for direct imports and exports

	Imports	Exports	Imports	Exports
	2006/07	**2007/08**	**2006/07**	**2007/08**
Total bills of entry processed	1,969,833	2,232,632	985,660	1,419,378
No. stopped	74,958	64,483	32,228	38,982
No. examined	49,752	40,615	20,602	19,882

The direct bills of entry processed for imports increased from 1 969 833 in 2006/07 to 2 232 632 in 2007/2008, therefore a growth of 12%. Direct bills of entry processed for exports, also increased from 985 660 in 2006/07 to 1 419 378 in 2007/2008, a growth of 31%.

Border Security

The growth of 31% in exports above can be ascribed to more transactions entered into but with smaller quantities exported.

The number of import goods declarations stopped includes desk and physical examination stops. Customs also detain goods on behalf of other government departments and the examinations/release of such cargo are completed by the respective department.

Table 2.5.10: Processing of bills of entry for SACU Imports and Exports

	Imports		Exports	
	2006/07	2007/08	2006/07	2007/08
Total bills of entry processed	223,020	204,058	1,822,274	1,716,561
No. stopped	22,756	12,282	115,364	54,932
No. examined	19,842	10,366	92,436	48,388

The bills of entry processed for imports from SACU countries decreased by 9% and the number stopped decreased by 46%. The bills of entry processed for exports to SACU countries decreased by 6%. The decrease in the number of consignments stopped, in addition to the decrease in transactions, is largely ascribed to the amended targets set for land border posts and the nature of cargo processed. It will also alleviate added-on compliance costs.

Table 2.5.11: Percentage of examinations for Imports and Exports

Deliverables		Target 2007/08	Achievement
Imports	International	10%	9%
	SACU	3%	6%
Exports	International	4%	4%
	SACU	3%	4%

Containerised Cargo

The majority of import and export consignments are transported in containers and Table 2.5.12 below reflects the main seaports which handle containerised cargo.

Table 2.5.12: Containerised cargo at South African ports – 2005/06 to 2007/08

Port	Year 2005/06				Year 2006/07				Year 2007/08			
	Full	Empty	Total	% of Total	Full	Empty	Total	% of Total	Full	Empty	Total	% of Total
Total	**2,265,533**	**845,588**	**3,111,121**	**100**	**2,530,721**	**1,021,477**	**3,552,198**	**100**	**2,734,180**	**999,985**	**3,734,165**	**100**
DBN	1,479,692	476,111	1,955,803	62.86	1,715,352	619,647	2,334,999	65.73	1,900,184	611,520	2,511,704	67.26
PE	266,870	103,979	370,849	11.92	273,542	134,062	407,278	11.47	288,761	127,118	415,879	11.14
CTN	481,318	255,625	736,943	23.69	511,211	253,542	764,753	21.53	519,169	240,312	759,481	20.34
ELN	33,525	9,020	42,545	1.37	28,076	13,760	41,836	1.18	22,645	19,503	42,148	1.13
RIC	4,128	853	4,981	0.16	2,866	466	3,332	0.09	3,421	1,532	4,953	0.13

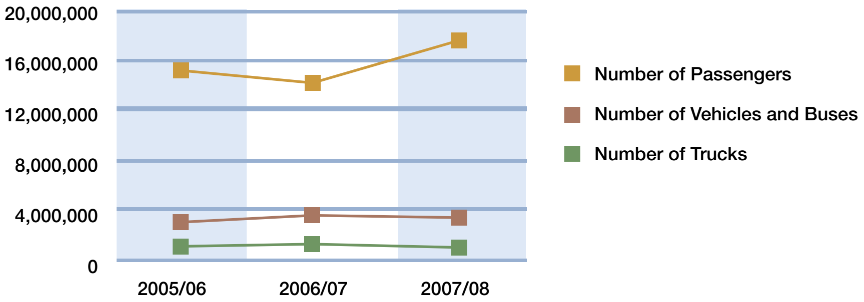
The port of Durban handled just over 67% of the total cargo processed through South Africa. It should be noted that about a third of the containers processed are declared as empty and the associated risk of smuggling and/or non-declaration will be mitigated by the enhancement of scanners and CBCU/AST activities.

Border Security

Passenger Administration

There has been a steady increase in the movement of vehicles, carrying both passengers and cargo, through land ports of entry.

Figure 2.5.3: International and Intra SACU Passenger Volumes



For the year under review the number of passengers passing through our ports of entry has increased by 33.5%.

Table 2.5.13: Percentage achievement of passenger examination and success rate

	Deliverables	Target 2007/08	Achievement
Inbound – Passengers & vehicles (Stop Success Ratio) International	Success rate	10%	25%
Inbound – Passengers & vehicles (Stop Success Ratio) SACU Land Ports	Success rate	5%	1%
Outbound – Passengers (Stop Success Ratio) Oliver Tambo International Airport (ORTIA)	Success rate	5%	1%

Customs Cargo and Container Scanning Initiative (CSI)

In line with the SARS' modernisation programme and to better facilitate trade, the CBCU introduced a cargo scanner system. This system incorporates worldwide developments of detecting illegal imports. The system streamlines the supply chain management so as to protect South Africa from illegal imports and contraband. It thus highlights the need to further reduce the cost of compliance (e.g., red tape procedures) through the use of state of the art latest technology.

To date, over 500 high risk containers have been inspected by SARS. Under the conditions of the agreement SARS may expand its CSI capability to other seaports in South Africa once scanners are installed at such ports.

23 Staff, comprising eight experienced anti-smuggling officers and 15 graduates from the CBCU, have been trained in the use and operation of the scanner equipment.

A comprehensive training itinerary included:

- Transnet Port Terminal induction;
- Occupational, health and safety;
- Radiation safety;
- Customs operational scanner process; and
- Technical scanner operations and image recognition.

SARS has now completed the setup and commissioning of the mobile X-ray scanner. On-site technical scanner operation and image review training has commenced at the Port of Durban.

Border Security

Post Clearance Inspections (PCI)

The Post Clearance Inspection division monitors the compliance of traders, importers and exporters by providing a comprehensive report on the activities of the client base operating at each port. The division has been positioned to focus on closing the revenue gap caused by under declaration and to provide assurance control of trade arrangements. To improve and standardise enforcement processes in the customs arena and to enhance the coordination of all enforcement cases centrally, the Integrated Customs Risk Analysis Solution (ICRAS) – Case Management and Tracking (CM&T) tool was developed. During the year under review, this tool was rolled out to the major seaports and airports within Customs. The 760 successful audits conducted netted more than R610,774,989.

Table 2.5.14: Revenue collected as a result of successful post clearance audits

	2006/07	2007/08
No. of audits conducted	2,058	2,461
No. of successful audits	676	760
Total Collections	R325,877,515	R610,744,989
Value Added Tax contribution	39.4% of the collections	24% of the collections
Customs Duty contribution	32% of the collections	30% of the collections
Penalties contribution	11.8% of the collections	7% of the collections

Table 2.5.15: Post Clearance Inspection Success Rates

	Target	Achievement
PCI audit success ratio – risk based	50%	34%
Regulatory	25%	29%

Risk Based Audits are conducted on traders who have been profiled by our Intelligence Unit indicating potential revenue leakages due to the following reasons:

- Duty on goods suspended (goods placed into bonded warehouses);
- Rebated items (raw material/product imported under a permit received used mainly for manufacturing purposes and consequently exported);
- Incorrect declaration; and
- Valuations (over and under valuation).

Regulatory Control audits were done on traders who are registered with Customs as rebate users and warehouses to which Customs rules and regulations are to be adhered to and require a level of post audit intervention. Of the 1,685 cases completed, a result yield of 29% was achieved.

Table 2.5.16: Success rates of Monetary Inspections in the different categories of audits conducted

Tariff	34%
Voucher of Correction	33%
Valuations	35%
Schedule 3	26%
Schedule 4	28%
Bonded Warehouse	32%

Interventions excluded from the above include Rules of Origin, other compulsory inspections, duty clearances certificate inspections, refund, air passenger tax inspections, accredited client and interventions aimed at Motor Industry Development Programme (MIDP)-related clients, which totalled over 5,000 audits conducted by the post-clearance teams.

Regional & International Partnerships

Officials from the Canadian Border Services Agency (CBSA) meeting with their SARS Customs counterparts

Internal Administrative Appeal (IAA)

The IAA and ADR processes for decisions taken in terms of the Customs and Excise Act were implemented on 4 June 2007. The right of appeal in Customs matters originates from the Kyoto Convention and, in South Africa, the right to lawful, reasonable and procedurally fair administrative action is provided for in the Constitution and the Promotion of Administrative Justice Act.

The purpose of the IAA and ADR guidelines is to formalise the appeal process for Customs and Excise matters with a view to:

- Bringing SARS in line with international best practice;
- Eliminating problems experienced in the past;
- Making provision for specific committees and the appeals to be dealt with by each committee; and
- Aligning the dispute resolution processes within SARS and also with the Constitution and Promotion of Administrative Justice Act; and providing both officers and stakeholders with guidelines as to exactly what process should be followed.

Customs Strategy

The Customs Green Paper sets out the future strategic direction of Customs based on the international, regional and national drivers that are fundamentally impacting on the environment in which SARS Customs operates. SARS Customs has to be responsive to these changes in order to contribute to the growth of our economy and trade and, in particular, South African trade. The progress within this review period to the Green Paper on Customs Modernisation has been the adoption of the Green Paper by Cabinet and publishing an invitation for comments.

Three key strategic policies developed in line with the functional principles emanating from the Green Paper:

- Customs Border Control - increasing visibility and improving enforcement interventions;
- Authorised Economic Operator - international standards and best practices for the management of legitimate trade which are facilitative and, therefore, apply control though approvals, audit and anti-smuggling; and
- Draft Operating Model - introduce new strategic outcomes for Customs, namely facilitating legitimate trade, protecting the economy and society and contributing to border security.

New World Customs Organisation (WCO) standards

In June 2005, the WCO Council adopted new global standards to regulate the movement of goods through international trade supply chains. South Africa, together with more than 100 other WCO countries, submitted letters of intent to implement these new standards. These are aimed at securing the international movement of goods, detecting high-risk goods and facilitating legitimate trade. The approach of the standards is to enable Customs-to-Customs cooperation through the real-time, electronic exchange of information between Customs administrations and Customs-to-Business cooperation. The international Authorized Economic Operator (AEO) standards are aimed at providing facilitation benefits to economic operators that comply as well as international mutual recognition of accredited operators. Implementation of these standards will require, amongst others, receiving all Customs data from traders and carriers electronically prior to the international movement of

Regional & International Partnerships

goods, deploying container scanners and implementing the WCO AEO programme.

The revised International Convention on the Simplification and Harmonisation of Customs Procedures (Kyoto Convention 1974, revised 1999) was developed to facilitate travel and trade while maintaining appropriate levels of regulatory control. 90% of the general annex has been incorporated into the relevant legislative instruments (i.e. the Customs Act, rules and policy). The Minister announced in the 2008 Budget Review that further amendments to the Customs and Excise Act may be required to ensure the successful implementation of the General Annex to the Convention.

Participation in the African programme

SARS played a key role in the establishment of the African Union (AU) Subcommittee of Customs Directors-General by hosting the first All Africa Customs Conference. The subcommittee advises the AU trade ministers on international trade administration issues and is focusing on regional economic integration and the impact of the proliferation of regional trade agreements on customs.

SADC North/South Corridor Transit Pilot

Trade facilitation contributes significantly towards the economic development of the SADC region. Of the fourteen members of SADC, seven countries are land locked and transit is costly as a result of multiple delays resulting from duplication, paper work and fulfilling regulations in different countries along the corridors. In February 2007 the Heads of Customs inaugurated a Pilot project designed to test and introduce the Regional Transit Management System aimed at harmonisation of procedures, regional Bond Guarantee, legislative frameworks, processes and systems along the North/South Corridors (Durban-Blantyre and Durban-Lubumbashi). The countries participating along these corridors are South Africa, Zimbabwe, Mozambique, Malawi, Zambia and the DRC. The project is implemented along Durban-Blantyre Corridor and extended in February 2008 to include Durban – Lubumbashi Corridor. Legally compliant traders between these countries will, under the new SADC Transit Management System, no longer be required to submit four separate sets of customs documents; lodge four separate bonds and comply with four different sets of customs procedures. Initial tests' findings from the Durban-Blantyre Corridor indicate that clearance procedures for shipments from South Africa to Malawi in transit through Zimbabwe and Mozambique have been substantially reduced between 18 and 20 days to an average of seven days.

SADC Customs Union

At a SADC Extraordinary Summit in October 2006, SADC Heads of State agreed on the establishment of a SADC Customs Union by 2010. Customs administrations in the region will have to administer this arrangement, including the agreed common external tariff, policies, processes and procedures. SARS forms part of the task team working towards this union at a technical and Ministerial level. SARS also participates in the activities of the SADC Heads of Customs Subcommittee and its advisory working groups which have been redefined in line with the SADC Customs Union Roadmap.

Conclusion

In the year under review, SARS achieved the customs objectives in main and exceeded targets in many areas, in particular revenue and compliance targets. This has provided a sound basis for further restructuring and strengthening of the function which will provide more focus on and capacity to implement effectively and efficiently the Customs strategy. SARS remains committed to strengthening control at ports of entry, ensuring that only lawful goods enter or leave South Africa, while illicit, unsafe and harmful goods are detected and confiscated. To that end, from an operational point of view we plan to:

- Enforce the electronic submission of all documents (including number of declarations); and
- Stabilise customs operations and enhance the capacity to conduct assurance audits in line with international standards to facilitate trade.

The CBCU will be rolled out at six ports within RSA. Current AST capacity will be absorbed within CBCU and PCI to promote a more seamless transition of skilled resources. Implementation of an additional CSI with Canada to curb illicit trade and improve border security will extend and underpin the present arrangements with the US.

Part Three
Legal and Policy

SARS South African Revenue Service

Legal and Policy

Performance Highlights

Legislation

- Completion of first draft Customs Bill - for intra- and inter- Governmental consultation;
- Introduction of the new reportable arrangements legislation;
- Assisted National Treasury in preparation of eight Bills introduced;
- Introduction of new Customs and Excise Internal Appeal and ADR rules; and
- Withholding tax on non-residents who dispose of property in SA came into operation on 1 September 2007.

Interpretation and Rulings

- Binding Class Rulings were introduced on 1 October 2007;
- A number of key guides have been published during the year under review, such as the Tax Exemption Guide for Public Benefit Organisations (Issue 2), Comprehensive Guide to Secondary Tax on Companies (Issue 2), Comprehensive Guide to Capital Gains Tax and Guide on the Taxation of Lump Sum Benefits.

Dispute Resolution

- Achieved an average success rate of 82% (averaged between Revenue and Customs Litigation);
- Finalised 72% of the opening balance of appeals via the Alternative Dispute Resolution channels; and
- Some ground breaking positive judgments out of both the High Court and the Supreme Court of Appeal.

As the administrator of tax and customs law, SARS endeavours to ensure that it contributes to the creation of an appropriate tax policy and legislative environment. In the year under review, SARS has played a significant role in contributing to the creation of an enabling tax and customs regulatory framework. Specifically, SARS has been involved in:

- Policy formulation and legislative drafting;
- Interpretation and rulings; and
- Dispute resolution.

SARS' involvement in the above areas has resulted in tax and customs policy and laws being increasingly balanced regarding the needs of government and those of stakeholders (for example, taxpayers, traders and practitioners).

SARS works closely with the National Treasury in the formulation and drafting of new legislation and, where appropriate, proposing amendments to existing legislation. SARS is also involved in the negotiation of tax treaties. These roles emanate directly from the SARS Act which states that SARS is to advise:

- The Minister of Finance on all revenue matters or the exercise of any power or the performance of any function by that Minister; and
- The Minister of Trade and Industry on matters concerning the control over the import, export, movement or use of certain goods.

This mandate has required SARS to take action to give effect to South Africa's macro and microeconomic and fiscal policies.

Our noteworthy interventions have been in the areas of: primary and secondary legislation; enabling and communicating the tax implications of the budget; the management of legal aspects of customs and excise; the negotiation of tax treaties and customs agreements in line with South African tax policy and legislative frameworks; and ensuring that South Africa has a visible presence within international tax and customs structures and processes.

Legislation

Primary legislation

SARS has contributed to a range of legislation and explanatory memoranda for a wide variety of Bills. Joint submissions with National Treasury have been made regarding commentary received by the Portfolio Committee on Finance (PCOF). We have informed the taxpaying public about legislative changes or amendments through a range of briefing notes and media statements throughout the year. Our inputs regarding primary tax and customs policy and legislation have been in the areas of pensions, skilled expatriates, anti-avoidance, administrative penalties, tax return filing, customs control and counterfeit goods, customs duties and excise duties on imported goods and legislative remedies. SARS has also prepared a draft Customs Bill for intra- and inter-Governmental review, which takes account of current domestic and international demands relating to border control and trade facilitation.

Secondary legislation

A wide range of secondary legislation has been drafted. This includes Regulations, Proclamations and Notices, which have cumulatively contributed to explaining tax and customs matters and thus better service delivery.

Customs and Excise Act Notices and Tariffs

A total of 31 Government Notices relating to Customs and Excise matters were published in the areas of: (a) Anti-dumping duties (2); (b) Safeguard duties (2); and (c) Rebates/Tariffs (17). Six substantial sets of rules were also published.

International

See discussion of international outcomes on page 113.

Members of parliamentary committees during their oversight visit to Lehae la SARS (SARS Head Office)

Interpretation and Rulings

This function facilitates the uniform and correct application of legislation by means of interpretation notes, general notes, retirement fund notes, high level rulings and guides. This ranges from basic guides to comprehensive guides. It allows for certainty and responsible enforcement of the tax laws in an objective and independent manner.

The Advance Tax Ruling system promotes clarity, consistency, and certainty in respect of the interpretation and application of the tax laws to which it applies. A Binding Ruling allows for both clarity and certainty on the Commissioner's interpretation and application of the tax laws on proposed transactions. If full and accurate disclosure of facts in connection with the proposed transaction is provided and the transaction is actually carried out as described in the application, the ruling will generally be binding upon the Commissioner.

Rulings

The Rulings issued steadily increased over the past year. The key statistics are:

Corporate Income Tax
20 high level rulings regarding processes of manufacture and interpretation relating to recreational clubs, loans to micro enterprises, and Public Benefit Organisations.
Personal Income Tax Policy
174 rulings issued in respect of subsistence allowances, labour broker and personal service companies, exemption of bursaries and scholarships, exemption of foreign employment, exemption of public entities for skills development levy purposes as well as retirement funds related queries.
Indirect Tax Policy
125 rulings issued regarding VAT, export rules, cut off dates of vendors' tax periods, ex-gratia payments regarding goods under warranty.

Interpretation

Various Interpretation Notes have been updated during the year and several new notes as well as existing notes that required extensive revisions were published in draft form for public comment, before finalising the SARS official interpretation on the respective topics. Numerous guides and brochures were published during the year.

Advance Tax Rulings (ATR)

The ATR system was implemented on 1 October 2006 and was extended to also include Binding Class Rulings which came into effect on 1 October 2007. Binding Class Rulings will set forth the Commissioner's opinion regarding the application or interpretation of the tax laws to a specific class of taxpayer in respect of a proposed transaction or arrangement.

Binding rulings can be classified into two types:

- New applications: These are first-time applications in respect of proposed transactions for which a fee is payable; and
- Confirmations of prior written statements. These are requests for confirmation of statements that were issued prior to the implementation of the ATR system.

Interpretation and Rulings

Applications are received in respect of various tax types and most applications cover several items. Statistics are furthermore kept on the major areas within the various tax types to keep track of any potential trends that may appear over a period in time. To date no specific trend has appeared. The following table summarizes our Rulings for the year under review. Noteworthy is that 78% of rulings issue related Income Tax, 15% to VAT and 7% combined.

Table 3.3.1: Summary of Rulings 2007/08

Summary of Rulings: 2007/08	Granted	Withdrawn and rejected	Pending
127 Private ruling applications received (15 Sanitised rulings published)	50	33	44
8 Class ruling applications received			8
48 Section 76I ruling applications (confirmation of previous written statements) received	22	16	10

Tax Shelters and Anti-Avoidance

The focus areas for analysis for the year under review were:

- Long-term hybrid funding structures;
- International aircraft leasing structures;
- Share buy-back scheme for the avoidance of Secondary Tax on Companies (STC); and
- Foreign Tax Credit schemes (FTC).

SARS operational units have been assisted in countering these structures and schemes, including assistance in settlement negotiations.

Reportable Arrangements (RAs)

Fifty four RAs were reported in terms of existing legislation and analysed. In common with the previous year, the majority of RAs related to standard preference share structures.

Revised reportable arrangements legislation was passed by Parliament late in 2006. Discussions were held with the Banking Association of South Africa (BASA) and the South African Institute of Chartered Accountants (SAICA) to resolve concerns that had been raised with respect to the revised legislation. The necessary steps were then taken to ensure that the revised legislation became effective from 1 April 2008.

Knowledge Sharing

The Legal and Policy Division aims to develop and maintain a sound tax knowledge base by issuing tax guides, interpretation notes and Binding Private Rulings for relevant stakeholders. This promotes the transfer of tax and customs information and relevant skills to various stakeholders. In the year under review, the division disseminated 23 guides on tax matters and 19 interpretation notes.

Dispute Resolution

SARS is obliged to ensure the durability and legal rationality of tax principles enunciated by the Tax and Higher Courts. If SARS is to manage these responsibilities strategically it must ensure that the best legal resources available are utilised for this purpose and that the workforce is appropriately knowledgeable and skilled. The tables below give a breakdown of the cases in respect of revenue and customs litigation.

Revenue Litigation

The tables below give a breakdown of the cases in respect of revenue:

Table 3.3.2: Breakdown of Revenue cases at the various courts

Tax Court	QTY
Withdrawn by taxpayer	21
Won	13
Conceded	67
Lost	4
Settled against SARS	2
Settled in favour of SARS	57
Referred to Branch: Re-assessment	8
Referred to Tax Board	1
Tax Court Totals	**173**
High Court	**QTY**
Conceded	1
Lost	0
Settled against SARS	0
Settled in favour of SARS	0
Won	2
Withdrawn by taxpayer	1
High Court Totals	**4**
Supreme Court of Appeal (SCA)	**QTY**
TP withdraw SCA Appeal	1
SARS withdraw SCA Appeal	0
SCA Appeal Won	6
SCA Appeal Lost	0
SCA Totals	**7**

Dispute Resolution

Customs Litigation

The tables below give a breakdown of the cases in respect of customs:

Table 3.3.3: Breakdown of Customs cases at the various courts

	Abide	Against	Settled in favour
Magistrate Court	1	1	2
High Court	94	4	10
Supreme Court of Appeal	1		4
Constitutional Court			1

SARS also seeks to provide taxpayers and traders with a fair and consistent dispute resolution process that respects their rights to redress. This is achieved by:

- The independence of the ADR and litigation processes from SARS' operational interaction with taxpayers and traders;
- The management of turnaround times of case processing achieved by implementing the rules to litigation as well as the first-in, first-out case management system;
- The provision of updates to taxpayers on their rights, through the medium of guides and manuals; and
- The adherence to administrative and constitutional principles.

The table below gives a breakdown of the appeals dealt with by ADR in the year under review.

Table 3.3.4: Appeals dealt with by ADR

Appeals dealt with by ADR	
Conceded	80
Settled in favour of SARS	38
Settled against SARS	96
Referred to Tax Board	2
Referred to Tax Court	38
Referred to Branch	17
Total of cases dealt with	**271**

Of the cases on appeal most are in respect of capital vs revenue, deductions and exemptions (income tax), as well as VAT matters.

Corporate Legal Advice

SARS also has a Corporate Legal Unit which provides in-house related legal support . Its objectives, in brief, are to:

- Provide SARS with corporate legal support and services for non-tax and non-customs and excise related legal matters;
- Manage litigation instituted by SARS and against SARS including liaising with relevant internal stakeholders and external legal representatives;
- Advise on actions required in order for SARS to comply with policy, legal and regulatory requirements; and
- Advise on implications of legal and regulatory requirements on tender processes.

During the period under review 254 cases, that is, drafting and/or vetting of contracts/leases/SLAs/MOUs, issuing of legal opinions, collection of staff debt, etc were dealt with by this Unit on behalf of SARS.

Conclusion

The Legal and Policy Division will continue to work closely with National Treasury and the Department of Trade and Industry to monitor, update and amend legislation relating to tax and customs matters, and to draft new legislation where needed. The Division will also act proactively to protect the South Africa's tax base and counter threats to revenue collection by taking legal action where necessary against tax evaders, and by detecting and deterring impermissible tax avoidance. It will also endeavour to:

- resolve tax disputes in an equitable and fair manner; and
- interpret tax laws fairly and consistently.