2013 - 2014
ANNUAL REPORT
SOUTH AFRICAN REVENUE SERVICE

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ABOUT SARS

MANDATE

In terms of the South African Revenue Service Act (No. 34 of 1997), SARS is mandated to:

- Collect all revenue due
- Ensure maximum compliance with tax and customs legislation
- Provide a customs service that will maximise revenue collection, protect our borders and facilitate trade

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 supports the country's integration into the global economy in a way that benefits all South Africans.

VALUES

SARS has zero tolerance for corruption. SARS optimises its human and material resources and leverages diversity to deliver a quality service to all those engaged in legitimate economic activity in and with South Africa. SARS' organisational relationships, business processes and conduct are based on the following values:

- Mutual respect and trust
- Equity and fairness
- Integrity and honesty
- Transparency and openness
- Courtesy and commitment

CORE OUTCOMES

- Increased customs compliance
- Increased tax compliance
- Increased ease and fairness of doing business with SARS
- Increased cost effectiveness, internal efficiency and institutional respectability

ORGANISATIONAL STRUCTURE

Commissioner
Acting: Ivan Pillay

Chief Officer: Human Resources
Elizabeth Kumalo

Chief Officer: Operations
Barry Hore

Chief Officer: Legal and Policy
Kosie Louw

Chief Officer: Tax and Customs Enforcement Investigations
Gene Ravele

Group Executive: Large Business Centre
Sunita Manik

Chief Officer: Finance
Acting: Bob Head

Chief Officer: Strategy Enablement and Comms
Acting: Peter Richer

Executive Committee

ABOUT THIS REPORT

In accordance with Government's approach to performance monitoring, we have chosen to align this report with the annual SARS Strategic Plan. We are therefore not only reporting on our activities during the year but also our progress in meeting the objectives and performance measures of the SARS Strategic Plan. This progress is measured against the four strategic outcomes. They are:

- Increased customs compliance
- Increased tax compliance
- Increased ease and fairness of doing business with SARS
- Increased cost effectiveness, internal efficiency and institutional respectability

Structuring the report in this way enables readers to better assess SARS' progress in achieving these key performance outcomes during the year under review. However, not all the programmes, initiatives and activities of SARS can be measured against a single strategic outcome. The activities of SARS often span all four of these outcomes and impact many areas of the organisation. A complete review of each of the four strategic outcomes would result in much replication and repetition. To avoid such replication and repetition we have chosen to address activities within the review of the strategic outcome they impact most.

PART ONE

PERFORMANCE AND ORGANISATIONAL HIGHLIGHTS

Part One reviews the key performance and organisational highlights of the 2013/14 financial year and relates them to SARS' four core outcomes.

PART TWO

PERFORMANCE INFORMATION

Part Two measures SARS' performance against the Strategic Plan of 2013/14.

PART THREE

GOVERNANCE, LEGAL AND RISK MANAGEMENT

Part Three describes SARS' governance and corporate structures as well as governing bodies and forums. It also details changes in the SARS legal framework and risk management.

PART FOUR

HUMAN RESOURCES

Part Four reviews SARS' human resources and highlights priorities, workforce planning and policy development.

PART FIVE

FINANCIALS

Part Five gives an account of SARS' financial wellness at the end of the financial year on 31 March 2014.

MESSAGE FROM THE MINISTER OF FINANCE

I present this review of the work of the South African Revenue Service (SARS) over the past fiscal year with particular emphasis on the institution's role in giving practical effect to the earliest aspirations of our liberation struggle: building a democracy that provides human dignity and support to the most vulnerable and marginalised among our citizens; a democracy that is able to determine and to finance its own development.

The ability to collect tax revenues from individual and corporate citizens to finance the provision of public services and socio-economic infrastructure has been one of the cornerstones of our democracy over the past 20 years.

Over the past two decades South Africa has built a progressive tax system founded on the principles of equity, efficiency, simplicity, transparency and certainty. These are enduring achievements for South Africa. The tax system is an essential part of the foundation of the country's public finances. Our tax policy framework, on the other hand, has proven resilient during the global economic turmoil that has tested South Africa's public finances, its economic policy framework and its regulatory environment over the past five years.

In spite of the challenging economic conditions, SARS' revenue collection again performed well during the 2013/14 fiscal year. By 31 March this year, SARS had collected R900 billion, R86.2 billion (10.6%) more than the 2012/13 fiscal year and R1 billion above the 2014 Budget estimate.

The 2013 Tax Season was highly successful and more than 6.6 million returns were submitted to SARS. This is a 2.8% increase on the previous year. More than 99% of these returns were submitted electronically using the eFiling service or a terminal at a SARS branch office.

I want to thank every registered taxpayer who submitted their returns, who paid their fair share of tax during this tax year and who did so on time.

SARS extended its electronic channels during the 2013/14 financial year to further enhance the service it provides to taxpayers and traders. As part of a first phase, SARS upgraded the Tax Clearance Certificate (TCC) system to enable clients to request TCCs online and also provided a new secure web platform that allows taxpayers to submit third-party supporting data electronically. The TCC system will be further modernised to enable clients to monitor the compliance status of a taxpayer on an ongoing basis. This will ensure better compliance, particularly amongst entities doing business with government.

A new Customs management system was introduced in August 2013 and has improved efficiency and productivity. The automated management system enabled customs to centralise the clearing of all import, export and cross-border declarations on a single processing engine. The automated processing of information and new workflow management processes replaced a wide range of manual, paper-based activities, previously required for the import and export of cargo transported by land, sea or air. More than 3.9 million customs declarations, valued at R2.1 trillion, and collected revenue of around R92 billion have already been processed.

For the period under review, SARS strengthened co-operation with other strategic partners in government and this work will continue. SARS provided technical and administrative assistance to the Department of Home Affairs (DHA) towards the establishment of a new Border Management Agency. SARS also worked closely with the DHA and the Companies and Intellectual Property Commission (CIPC) to verify its own tax records for Personal Income Tax and Company Income Tax. SARS identified 300 000 companies on the CIPC database that are not registered. In future, companies that register with the CIPC will be automatically registered with SARS. The electronic interfaces established between SARS, the CIPC and the DHA will support government's plans to create a Single Business Register.

The Employment Tax Incentive (ETI) took effect on 1 January 2014 and is administered by SARS through the payroll system. It is part of government's strategy to create employment for the many young people in South Africa without jobs. SARS enhanced its PAYE systems to accommodate the ETI. Employers who qualify for the ETI can deduct the incentive from their monthly PAYE payments to SARS. Enhancements to the SARS PAYE systems ensure that non-tax compliant companies cannot take advantage of the incentive.

MESSAGE FROM THE MINISTER OF FINANCE

During 2013/14, SARS continued its participation in multi-lateral forums globally. The World Trade Organisation's (WTO) Ninth Ministerial Conference in Bali in December 2013 saw the adoption of the Agreement on Trade Facilitation (ATF). Negotiations towards the agreement followed a lengthy path and the conclusion of the ATF is a significant achievement for customs and border control authorities. For the first time important elements relating to customs provisions become mandatory in trade agreements. The ATF also reflects the WTO's recognition of the important role of Customs in assuring the efficiency, legitimacy and security of global trade.

In the spirit of encouraging closer co-operation between Customs and Tax administrations, SARS, in collaboration with the World Customs Organization and the Organisation for Economic Cooperation and Development, hosted a workshop on Customs Valuation and Transfer Pricing. Eleven countries from the East and Southern Africa region and Ghana from the WCO West and Central Africa region, participated in the five day workshop, which explored how Customs and revenue authorities, particularly on the African continent, can forge closer collaboration to improve compliance with both tax and customs regimes.

South Africa supports the global initiative to make the world more tax transparent to ensure that taxpayers pay their fair share around the world. The Global Forum on Transparency and Exchange of Information for Tax Purposes, with 122 member jurisdictions including South Africa, is a key roleplayer in this initiative. SARS continued to work closely with other tax and revenue authorities to promote global compliance and enforcement and to protect South Africa's tax base from erosion.

Negotiations emanating from an intergovernmental agreement between South Africa and the USA were concluded in early 2014, and an electronic interface with the Internal Revenue Service was established to exchange data in compliance with the USA Foreign Account Tax Compliance Act. Provision for the sharing of information with other tax authorities under the terms of the Convention on Mutual Administrative Assistance (MAA) was also explored. SARS continues to participate in the international Financial Action Task Force.

South Africa is a young democracy with young public institutions that must be nurtured and whose norms are still evolving. We contain within our borders stark contrasts of wealth and poverty that are accompanied by diverse social norms. Therefore, whatever change we seek to effect will succeed only if it is cognisant of these realities. I trust that in this Report you will glean a sense of an organisation that has strived to contribute its fair share to the development of our country and the eradication of poverty.

Nhlanhla Nene
Minister of Finance

Introduction

Despite difficult economic conditions in the global and particularly in the domestic economy the South African Revenue Service (SARS) recorded significant progress during the 2013/14 financial year. It exceeded its revenue collection target, improved the productivity and efficiency of its systems and staff, enhanced service to clients and completed several important projects in its modernisation programme.

SARS also strengthened relations with strategic partners in the public and private sectors and on the regional and international stage. These achievements enabled SARS to better fulfil its mandate to collect tax and customs revenue, ensure compliance with tax and customs legislation and protect South Africa's borders and facilitate trade.

Revenue collection

Revenue collection before the paying out of refunds exceeded 1 trillion rand. After refunds were paid out, SARS collected revenue of R900 billion for the 2013/14 financial year. This is R1 billion above the revised estimate and R86.2 billion (10.6%) more than the previous financial year. Better than forecasted Personal Income Tax (PIT) and Value-Added Tax (VAT) revenue boosted collections. Despite a modest rebound in Corporate Income Tax (CIT) collections, which increased by 11.6% to R179.5 billion and passed the previous high point of R167.2 billion attained before the global financial crisis, the CIT-to-GDP ratio remains well below the 2008/09 high water mark.

The relative contribution of taxes to the revenue portfolio has changed during the past six years due to the global economic crisis. The relative contribution of CIT reduced from 26.7% in the 2008/09 financial year to 19.9% in 2013/14, while PIT increased from 31.4% to 34.5% and VAT rose from 24.7% to 26.4% during this period.

Continued emphasis on the efficiency of its systems and staff enabled SARS to further enhance its productivity. During the year under review SARS cut its cost-to-tax revenue ratio from 1.07% to 0.97%.

Tax and Customs Compliance

SARS aims to increase voluntary compliance across a broader taxpayer and trader base and to inculcate a culture of tax and customs compliance in society. We improve compliance by making service channels more efficient and accessible, streamlining our internal processes and reducing the administrative burden. At the same time, we are committed to putting in place effective measures to deter and confront non-compliance, tax avoidance and evasion.

The annual tax season marks the biggest engagement between SARS and taxpayers and provides a reliable barometer of the compliance of individual taxpayers. Some of the highlights of the 2013 tax season were:

- More than 99% of the 6.6 million returns received by SARS were submitted electronically - either via eFiling or at a SARS branch office
- 91.53% of all returns expected by SARS were filed by the end of the filing season. This is an improvement of more than 5% compared to the 2012 filing season
- Nearly 94.5% of all PIT returns filed were processed within three seconds

Measures enabling employers to register their employees for income tax have borne fruit, resulting in the achievement of a compliance level of more than 99% among individuals required to register for PIT.

We continue to focus efforts on the seven priority areas identified in our five-year Compliance Programme to reduce the risk non-compliance poses to the fiscus and are making steady progress, especially in addressing illegal cigarettes and tax practitioners.

On the service front, SARS continues to improve efficiencies at its Contact Centre and throughout its branch operations. The Contact Centre received more than 5.7 million queries during the 2013/14 financial year and exceeded its first contact resolution target of 82%.

SARS invested in its branches by upgrading and refurbishing seven existing branches and relocating the Pietermaritzburg and Umhlanga Ridge branches to premises that afford staff and taxpayers improved facilities. SARS' fleet of mobile tax units was increased to nine. SARS education and engagement staff launched more than 14 000 interventions to promote taxpayer compliance.

As part of efforts to deter non-compliance, SARS staff conducted more than 1.8 million audit cases. SARS surpassed our audit coverage target of 6% of the total number of registered PIT, CIT, VAT/Excise and PAYE taxpayers. Of these, nearly 20 000 were high-risk, complex and high-impact audit cases. In addition, more than 330 criminal investigation cases were finalised and handed over to the National Prosecuting Authority (NPA) during the 2013/14 financial year.

Improved service delivery

A number of developments on the Customs and Excise front have resulted in improved efficiency and productivity and raised service levels. The most significant is the implementation of a Customs management solution which has enabled Customs to replace a wide range of manual, paper-based processes with an automated electronic system that allows for the centralised clearing of all import, export and cross-border declarations. This also improved substantially the quality and accuracy of trade statistics gathered and also provides SARS with real-time reporting and analysis of this information.

We further strengthened the preferred trader programme which evaluates the compliance and competence of traders and accredits those who meet the criteria set by SARS. To date 480 companies are participating in the programme and SARS is working with a further 156 traders to help them improve compliance. A preferred trader audit programme for Excise clients was also piloted in January 2014.

Modernisation

Our ongoing modernisation programme addressed several key areas of the organisation’s operations to further improve efficiency, productivity and effectiveness. Major projects completed during the year under review include the modernisation of Corporate Income Tax and the further modernisation of Customs and Excise operations which allow Customs and Excise clients to submit their returns online using the SARS eFiling service or a terminal at a SARS branch.

The Customs management solution, which went live in August 2013, has improved efficiency and productivity and raised service levels within the organisation. It has already processed approximately 3.9 million customs declarations, valued at R2.1 trillion, and collected revenue of approximately R92 billion.

Developed by SARS subsidiary Interfront, the new automated management system for cargo replaces a variety of systems and paper-based manual administrative processes required for the import and export of cargo transported by land, sea or air. By managing customs declarations and supporting documents in electronic format the processing of cargo movements is now much quicker and more accurate. Responses are now provided within seconds and the time needed to conduct physical inspections has been significantly reduced. The new solution has also greatly enhanced compliance. The integration of the Customs management system with the SARS risk engine enables illicit or illegal trade to be more accurately identified.

This new solution complements the enhanced Passenger Processing System (PPS) that Customs started introducing at border posts last year. This system has now been rolled out at all border posts around the country and significantly improves the efficiency of processing travellers entering or leaving South Africa as well as security.

Excise operations have also been further modernised. Excise clients can now submit their returns online using an internet device linked to the SARS eFiling service or a terminal at a SARS branch. Excise taxpayers who use the eFiling service have been provided with online account management facilities that process, among other things, reports, payments and refunds.

One of the other most complex and far-reaching projects of the SARS modernisation programme, the extensive overhaul of SARS’ registration and payment systems, also took place in the year under review. This entailed the re-engineering of a wide variety of systems, processes and operations.

At the heart of the overhaul was the creation of a new registration system that holds consolidated profiles of every taxpayer and trader. The Single Registration system underwent extensive testing towards the end of the 2013/14 finacial year and will provide SARS with real-time information about the tax and customs information profiles of individuals and entities. These improvements will affect all of the nearly 20 million taxpayers and traders registered with SARS and ensure that such entities are compliant across all taxes before refunds or credits are issued.

The development of the Single Registration system enabled SARS to upgrade its Tax Clearance Certificate (TCC) system to allow taxpayers and traders to request TCCs online. They can also check their compliance status, and if necessary remedy non-compliance, online.

Other modernisation projects begun during the year under review include upgrading the risk assessment process for income tax declarations made by Trusts as well as enhancing the processing, compliance and audit of the annual income tax returns of exempt institutions.

An assessment of trade statistics systems and processes during the 2013/14 financial year revealed that South Africa's trade statistics were being under-reported because trade with Botswana, Lesotho, Namibia and Swaziland (BLNS) was excluded. The new format of reporting of trade data has been extremely useful in increasing the accuracy of the data and clarifying the context of the national trade balance.

People

SARS recognises that its people are crucial to the organisation's ongoing success and sustainability. It is committed to their development in order to enhance individual and organisational performance. To this end, SARS has introduced an eLearning solution that improves the administration of courses attended by employees. During the 2013/14 financial year, SARS conducted 393 courses and 2 148 training sessions and we will continue to review and refine learning and development processes to enable our employees to further their skills, knowledge and expertise.

Governance

Strong internal governance controls allowed SARS to achieve an unqualified audit from the Auditor-General for the 2013/14 financial year. At the same time, SARS has continued to champion a zero-tolerance approach to corruption, crime and maladministration and has instituted disciplinary action including, where appropriate, dismissals of employees. In addition, we have taken steps to separate the selection of cases from their execution to further minimise risk and the opportunity for fraud.

In previous years, SARS' reporting activities were divided into Administered Revenue and Own Accounts. The reporting of Administered Revenue relates to those assets, liabilities, revenue and expenses which are administered by SARS on behalf of the state.

In the 2012/13 Annual Report, SARS committed to resolving the uncertainty regarding the status of SARS Administered Revenue as a separate entity.

SARS and the Office of the Accountant-General concluded that SARS, as an Agent, collects revenue on behalf of the National Revenue Fund. A separate set of SARS annual financial statements for administered revenue is therefore no longer a requirement. SARS will present the financial information to the Office of the Accountant-General for consolidation purposes in the formats required by National Treasury.

Legislative advances

National Treasury is responsible for drafting and amending South Africa's taxation laws, while SARS is responsible for drafting and amending administrative and customs laws. The rewriting of the customs portion of the Customs and Excise Act, 1964, was completed during the 2013/14 financial year and three Bills, the Customs Control Bill, the Customs Duty Bill and the Customs and Excise Amendment Bill were prepared for Parliament.

Although SARS is not accountable for drafting tax legislation, it helps formulate and draft amendments to legislation and proposed new tax regulations and notices. SARS was influential in the drafting of the Taxation Laws Amendment Act, 2013 (Act No. 31 of 2013), the Merchant Shipping (International Oil Pollution Compensation Fund Contributions Act, 2013 (Act No. 36 of 2013)) and the Tax Administration Laws Amendment Act, 2013 (Act No. 39 of 2013).

SARS also facilitated the ratification by the relevant Parliamentary committees of the One-Stop Border Post (OSBP) Bilateral Agreement and Annexes between Mozambique and South Africa. Once the Agreement and Annexes are promulgated in the

Government Gazette and formal notes have been exchanged between the South African and Mozambican governments, the OSBP agreement will come into force.

As part of its drive to improve South Africa's international treaty network and encourage co-operation between tax administrations, SARS negotiated 16 international tax agreements during the 2013/14 financial year.

Co-operative administration

SARS firmly subscribes to a "whole of Government" approach that seeks to support other State agencies by leveraging its skills and technology. To this end we continued our partnership with the Department of Home Affairs (DHA) by assisting it to design and install the new "Live Capture" system that will control the production and distribution of "smart" identity cards and passports. The system went live at three pilot branches in October 2013 and has since been rolled out by DHA to numerous branches countrywide.

SARS also worked closely with the Companies and Intellectual Property Commission during the 2013/14 financial year. By cross-referencing its records with information held by other State institutions, SARS will be able to improve the accuracy of its data and identify individuals and companies not registered as taxpayers.

International relations

SARS continues to foster and expand ties with tax and customs administrations and international organisations in pursuit of its mandate. On the African continent, in addition to bilateral ties, we continue our work with the Southern African Development Community (SADC), the Southern African Customs Union (SACU) and the African Tax Administration Forum (ATAF), the council of which SARS chairs.

To combat harmful tax practices it is incumbent on SARS to strengthen its relations with other tax jurisdictions and to enter into agreements that enable SARS to receive tax information about South African tax residents from these jurisdictions. It is for this reason that SARS is a leading member of the Global Forum on Transparency and Exchange of Information for Tax Purposes to which 122 jurisdictions subscribe. The Global Forum has set the standard for the automatic exchange of information. SARS participates as one of the 40 tax authorities in a pilot study for automatic exchange of tax information. The standards that may result from this pilot study may become the global standard. The Global Forum is chaired by our chief legal officer Kosie Louw.

Our work internationally must also strengthen tax administration in our region and the continent. To this end South Africa is the host country for the ATAF and SARS currently chairs the forum. During the period under review ATAF conducted a number of training workshops and conferences, arranged reciprocal visits and strengthened relations between African tax authorities. These activities are aimed at improving Africa's ability to mobilise domestic revenue and to combat international harmful tax practices.

Negotiations were concluded to establish an electronic interface with the Internal Revenue Service (IRS) to exchange data in compliance with the USA Foreign Account Tax Compliance Act (FATCA). These negotiations emerged from an intergovernmental agreement concluded by South Africa and the USA early in 2014.

During the 2013/14 financial year, SARS launched a pilot project with its Swazi and Mozambican counterparts to establish an IT network that links regional customs authorities. This is the first step towards the creation of an international eCustoms network that will enable the electronic transfer of information, seamlessly and in real-time, between customs authorities, as well as other organisations, throughout southern Africa.

Like other revenue administrations, SARS is concerned about the threat to its tax base posed by corporations shifting profits to locations with low or no income tax. This concern is underlined by SARS' involvement in the Base Erosion and Profit Shifting (BEPS) project of the Organisation for Economic Co-operation and Development (OECD). SARS' participation in this project enables it to promote the concerns of developing nations. SARS continued during the 2013/14 financial year to co-chair the OECD's Task Force on Tax and Development.

SARS also participated in the World Trade Organisation's (WTO) Ninth Ministerial Conference in Bali in December 2013 which saw the adoption of the Agreement on Trade Facilitation and is an active member of the World Customs Organisation.

Conclusion

The year under review has once again demonstrated SARS' resilience and its ability to fulfil its mandate and obligations to taxpayers and traders and the country as a whole. Most of all it is a tribute to the diligence and commitment of our staff who continue to perform and serve with passion and dedication.

I would like to express my appreciation to the former Minister of Finance, Mr Pravin Gordhan, and to Mr Nhlanhla Nene, the current Minister, for their leadership and invaluable support throughout the year. Finally, I would like to express my appreciation to the millions of compliant taxpayers and traders whose contributions are the cornerstone of SARS' work and which enable the development of our country.

Ivan Pillay
Acting SARS Commissioner

Part one

PERFORMANCE AND ORGANISATIONAL HIGHLIGHTS

01

1.1 REVENUE OVERVIEW

1.1.1 OVERALL REVENUE PERFORMANCE IN 2013/14

Budget estimates for the three-year medium term are formally set or adjusted three times during a particular financial year. For the 2013/14 financial year estimates were announced in the February 2013 Budget (generally referred to as the printed estimate), in October 2013 in the Medium Term Budget Policy Statement (MTBPS) and in the February 2014 Budget (the revised estimate). Presented in Table 1 are the printed estimate, the MTBPS estimate and the revised estimate for the 2012/13 and 2013/14 financial years.

Table 1: Budget estimates for 2012/13 and 2013/14

Estimate description	Date announced	2012/13 Estimate	Date announced	2013/14 Estimate
		R million		**R million**
Printed Estimate	22 February 2012	826 401	27 February 2013	898 004
Medium Term Budget Policy Statement (MTBPS) Estimate	25 October 2012	821 401	23 October 2013	895 004
Revised Estimate	**27 February 2013**	**810 150**	**26 February 2014**	**899 000**

Notwithstanding considerable global economic challenges and uncertainties, SARS collected revenue of R900.0 billion for the 2013/14 financial year. This is R1.0 billion (0.1%) above the revised estimate and R86.2 billion (10.6%) more than the previous financial year. Table 2 shows the composition of tax revenue by tax product and compares the actual 2013/14 performance to the printed estimate as well as the revised estimate.

The split between customs revenue and tax revenue, recorded at the bottom of Table 2, shows that the gain in customs revenue was mainly responsible for the surge in Value Added Tax (VAT) refunds ahead of the revised estimate. Personal Income Tax (PIT) performed better than expected with the remainder of the taxes close to the revised estimates.

Table 2: Tax revenue performance by tax type for 2013/14

Tax type	Printed estimate Feb 2013	Revised estimate Feb 2014	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
	R million	R million	R million	R million	R million
Personal income tax (PIT)	307 109	309 731	310 929	3 820	1 198
Company income tax (CIT)	171 314	178 743	179 520	8 206	777
Secondary tax on companies (STC) / Dividends tax (DT)	22 930	17 000	17 309	-5 621	309
Value-added tax (VAT)	242 990	239 286	237 667	-5 323	-1 620
Domestic VAT	*272 104*	*262 804*	*263 461*	*-8 643*	*657*
Import VAT	*125 414*	*129 530*	*131 085*	*5 671*	*1 554*
VAT refunds	*-154 528*	*-153 048*	*-156 879*	*-2 351*	*-3 831*
Fuel levy	44 970	43 300	43 685	-1 285	385
Customs duties	41 340	44 500	44 179	2 839	-321
Specific excise duties	31 265	28 943	29 039	-2 226	97
Taxes on property	9 070	10 375	10 487	1 417	112
Skills development levy	12 403	12 300	12 476	73	176
Other taxes and duties	14 613	14 821	14 725	112	-96
Total tax revenue	**898 004**	**899 000**	**900 015**	**2 011**	**1 015**
Customs revenue *	167 376	174 346	175 795	8 419	1 450
Tax revenue (excluding customs revenue)	730 628	724 654	724 220	-6 409	-435
Total tax revenue	**898 004**	**899 000**	**900 015**	**2 011**	**1 015**

Note: * *Customs revenue includes Import VAT, Customs duties, Miscellaneous customs and excise and Incandescent light bulb levy*

Table 3 shows the contribution of tax revenue and non-tax revenue to the total budget revenue. Payments to Botswana, Lesotho, Namibia and Swaziland (BLNS) in terms of the Southern African Customs Union (SACU) agreement are deducted. Included in the total non-tax revenue that SARS collects are Mineral and Petroleum Resource Royalties (MPRR), mining leases and ownership, receipts from other State departments as well as extraordinary receipts.

Table 3: Budget revenue performance for 2013/14

Tax type	Printed estimate Feb 2013	Revised estimate Feb 2014	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
	R million	R million	R million	R million	R million
Tax revenue	898 004	899 000	900 015	2 011	1 015
Non-tax revenue	23 328	30 541	29 776	6 448	-765
Mineral and Petroleum Resource Royalties	*5 900*	*6 500*	*6 439*	*539*	*-61*
Mining leases and ownership	*-*	*46*	*100*	*100*	*54*
*Other non-tax revenue and extraordinary receipts**	*17 428*	*23 995*	*23 237*	*5 809*	*-758*
Less: SACU payments	43 374	43 374	43 374	-	-
Total budget revenue	**877 958**	**886 167**	**886 416**	**8 459**	**250**

Note: * *This figure, received at National Treasury, is preliminary and unaudited.*

In addition to tax revenue and other non-tax revenue, as depicted in Table 3, SARS also collects revenue on behalf of the Unemployment Insurance Fund (UIF) and the Road Accident Fund (RAF) as well as some provincial administration receipts.

1.1.2 BREAKDOWN OF TAX REVENUE COLLECTIONS AND CONTRIBUTION TO TAX REVENUE FROM 2008/09 TO 2013/14

PIT, CIT and VAT remain the largest sources of tax revenue and comprise about 80% of total tax revenue collections. As a result of the 2009/10 global financial crisis, the relative contribution of taxes to the revenue portfolio changed over the past six years. The relative contribution of CIT reduced from 26.7% in the 2008/09 financial year to 19.9% in the 2013/14 financial year, while PIT increased from 31.4% to 34.5% and VAT rose from 24.7% to 26.4% during this period. Table 4 provides a breakdown of the relative contributions of the different taxes.

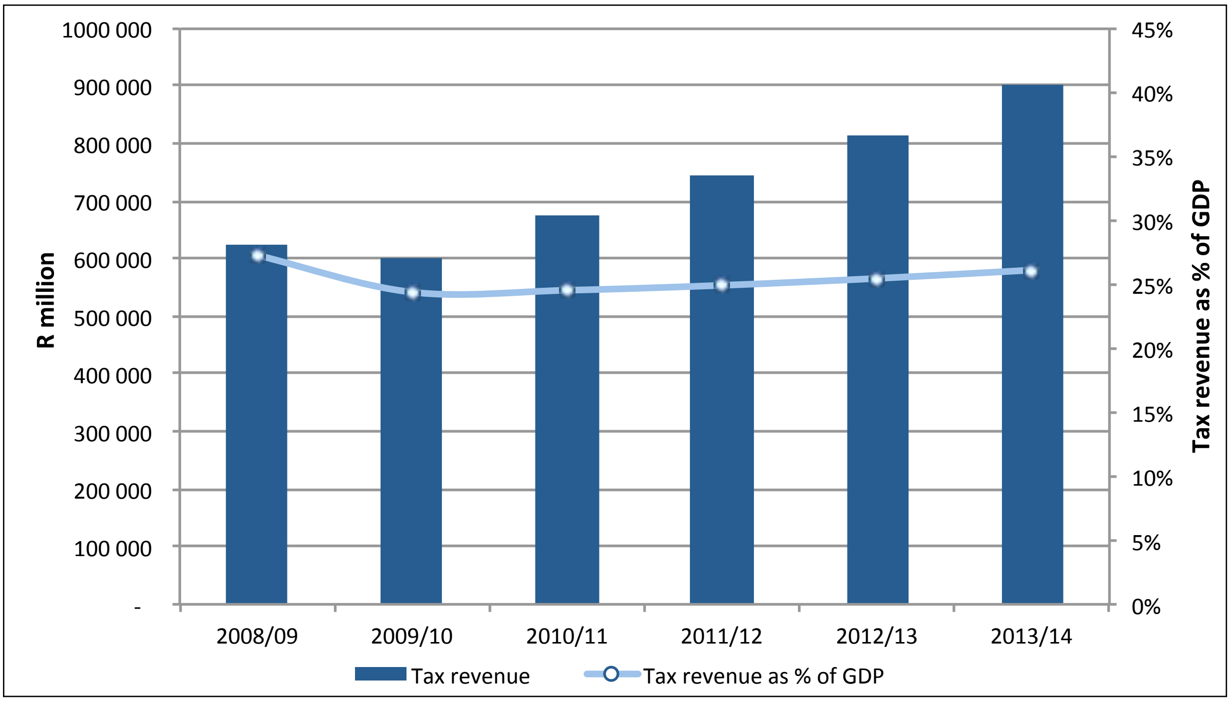
Table 4: Breakdown of revenue collected and contribution of tax revenue for 2008/09 to 2013/14

Year	PIT	CIT	STC/DT	VAT	Fuel levy	Customs duties	Other	Total tax revenue	GDP*
	R million	**R million**	**R million**	**R million**	**R million**	**R million**	**R million**	**R million**	**R million**
2008/09	196 068	167 202	20 018	154 343	24 884	22 751	39 834	625 100	**2 296 571**
2009/10	206 484	136 978	15 468	147 941	28 833	19 577	43 425	598 705	**2 456 629**
2010/11	228 096	134 635	17 178	183 571	34 418	26 637	49 647	674 183	**2 749 532**
2011/12	251 339	153 272	21 965	191 020	36 602	34 198	54 253	742 650	**2 981 828**
2012/13	276 679	160 896	19 739	215 023	40 410	38 998	62 081	813 826	**3 198 579**
2013/14	**310 929**	**179 520**	**17 309**	**237 667**	**43 685**	**44 179**	**66 727**	**900 015**	**3 448 980**
	%	%	%	%	%	%	%	%	%
2008/09	31.4%	26.7%	3.2%	24.7%	4.0%	3.6%	6.4%	100.0%	**27.2%**
2009/10	34.5%	22.9%	2.6%	24.7%	4.8%	3.3%	7.3%	100.0%	**24.4%**
2010/11	33.8%	20.0%	2.5%	27.2%	5.1%	4.0%	7.4%	100.0%	**24.5%**
2011/12	33.8%	20.6%	3.0%	25.7%	4.9%	4.6%	7.3%	100.0%	**24.9%**
2012/13	34.0%	19.8%	2.4%	26.4%	5.0%	4.8%	7.6%	100.0%	**25.4%**
2013/14	**34.5%**	**19.9%**	**1.9%**	**26.4%**	**4.9%**	**4.9%**	**7.4%**	**100.0%**	**26.1%**

*Source: * Q1-2014 GDP, Statistics SA*

South Africa's long-term average Tax to GDP ratio is about 25% (see Graph 1). Prior to the global financial crisis the ratio increased to above 27% as a result of the commodity boom and reforms in the financial sector. When tax revenue contracted in the 2009/10 financial year, the Tax to GDP ratio declined to 24.4%. Since then it has improved steadily and reached 26.1% in the year under review.

Graph 1: Tax revenue compared to tax revenue as percentage of GDP for 2008/09 to 2013/14



1.1.3 TAX RELIEF AND RATES

Direct taxes all benefited from tax relief shifting, increasing the tax obligation to indirect taxes. Tax reforms across various tax products resulted in a net tax relief of R24.4 billion being granted to taxpayers between the 2008/09 financial year and the 2013/14 financial year. Table 5 shows the tax relief over this period. Negative values indicate relief to the taxpayer and positive numbers show an increase in tax obligations.

Table 5: Summary of effects of tax proposals for 2008/09 to 2013/14

Year	Direct				Indirect				Total relief
	PIT	CIT	Other	Total	Excise	Fuel levy	Other	Total	
	R million	R million	R million	R million	R million	R million	R million	R million	R million
2008/09	-7 700	-6 900	-	**-14 600**	1 350	1 250	* 1 500	**4 100**	**-10 500**
2009/10	-13 550	-1 000	-	**-14 550**	2 100	4 890	* 2 985	**9 975**	**-4 575**
2010/11	-5 400	-1 350	-	**-6 750**	2 250	3 600	450	**6 300**	**-450**
2011/12	-8 850	500	-750	**-9 100**	1 935	1 900	1 150	**4 985**	**-4 115**
2012/13	-9 800	1 100	-1 950	**-10 650**	1 840	4 517	1 985	**8 342**	**-2 308**
2013/14	**-7 382**	**-860**	**-**	**-8 242**	**2 065**	**3 270**	**495**	**5 830**	**-2 412**
Total	**-52 682**	**-8 510**	**-2 700**	**-63 892**	**11 540**	**19 427**	**8 565**	**39 533**	**-24 359**

*Note: * The Electricity levy was not introduced in 2008/09 but postponed to 2009/10*

Maximum marginal tax rates, shown in Table 6, were mostly unchanged across all categories, with the exception of the Secondary Tax on Companies (STC) that was replaced by the Dividends Tax (DT) imposed at a rate of 15% from 1 April 2012. Despite the tax relief granted during this period, tax revenues grew as a result of economic growth and increased compliance.

Table 6: Maximum marginal tax rates for 2008/09 to 2013/14

Period	PIT*	CIT	STC/DT	VAT
	%	%	%	%
01 Apr 2008 – 31 Mar 2009	40.0%	28.0%	10.0%	14.0%
01 Apr 2009 – 31 Mar 2010	40.0%	28.0%	10.0%	14.0%
01 Apr 2010 – 31 Mar 2011	40.0%	28.0%	10.0%	14.0%
01 Apr 2011 – 31 Mar 2012	40.0%	28.0%	10.0%	14.0%
01 Apr 2012 – 31 Mar 2013	40.0%	28.0%	** 15.0%	14.0%
01 Apr 2013 – 31 Mar 2014	**40.0%**	**28.0%**	**** 15.0%**	**14.0%**

Note: * *An individual's tax year starts on 1 March and ends at the end of February the subsequent year*

** *The Dividends tax (DT) was introduced from 1 April 2012 and replaced the Secondary tax on companies (STC)*

1.2 INCREASED CUSTOMS COMPLIANCE

1.2.1 CUSTOMS REVENUE PERFORMANCE

During the 2013/14 financial year SARS collected customs revenue of R176 billion. This is R1.5 billion above the revised estimate of R174.3 billion. Import VAT and customs duties accounted for almost all customs income (Table 7). Import VAT is paid on the import of goods into South Africa. Customs duties vary according to the different tariff codes under which goods are declared and cleared.

Table 7: Customs revenue performance by tax type for 2013/14

Tax type	Printed estimate Feb 2013	Revised estimate Feb 2014	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
	R million	**R million**	**R million**	**R million**	**R million**
Import VAT	125 414	129 530	131 085	5 671	1 554
Customs duties	41 340	44 500	44 179	2 839	-321
Miscellaneous customs & excise	438	206	460	22	254
Incandescent light bulb levy	184	109	72	-112	-37
Total customs revenue	**167 376**	**174 346**	**175 795**	**8 419**	**1 450**

Import VAT collections increased during the year under review to R131.1 billion (Table 8).

Table 8: Import VAT for 2008/09 to 2013/14

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	**%**	**%**	**%**
2008/09	92 010	18.1%	14.7%	4.0%
2009/10	70 320	-23.6%	11.7%	2.9%
2010/11	82 189	16.9%	12.2%	3.0%
2011/12	101 813	23.9%	13.7%	3.4%
2012/13	111 427	9.4%	13.7%	3.5%
2013/14	**131 085**	**17.6%**	**14.6%**	**3.8%**

Customs duties collections climbed 13.3% to R44.2 billion in the 2013/14 financial year (Table 9). This was R321 million lower than the revised estimate of R44.5 billion.

Table 9: Customs duties for 2008/09 to 2013/14

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	**%**	**%**	**%**
2008/09	22 751	-14.0%	3.6%	1.0%
2009/10	19 577	-14.0%	3.3%	0.8%
2010/11	26 637	36.1%	4.0%	1.0%
2011/12	34 198	28.4%	4.6%	1.1%
2012/13	38 998	14.0%	4.8%	1.2%
2013/14	**44 179**	**13.3%**	**4.9%**	**1.3%**

1.2.2 SARS EXTENDS PREFERRED TRADER PROGRAMME

During the year under review traders submitted almost 24 million lines of customs declarations. About 25% of these declarations were submitted by importers and exporters participating in the SARS Preferred Trader (PT) programme. A total of 480 companies are participating in the PT programme and working with SARS to improve customs compliance and competence.

SARS completed 77 PT client audits during the year under review. These audits included validating trader compliance, licensing and registration as well as ensuring systems competency, alignment with customs requirements, solvency and appropriate knowledge among designated staff. To date 2 015 importers and exporters have been audited.

As part of its PT programme, SARS is working with a further 156 traders to help them improve compliance.

Companies that want to be appointed as Preferred Traders are evaluated by the SARS Customs Accreditation Review Committee to determine the extent of their compliance. The committee recommended 30 clients to the SARS Risk Committee for level two PT accreditation and helped a further 36 clients implement compliance improvement programmes. An additional R930 million was collected by SARS as a result of PT audits.

The Preferred Trader audit programme for Excise clients was piloted in January 2014. The programme assesses compliance with Excise legislation as well as the ability of traders to meet SARS' Excise accounting requirements. Two companies volunteered to participate in the pilot and have worked closely with SARS audit staff. Risk profiles for these companies have been determined using information held by SARS.

1.2.3 SARS AUTOMATES AND DIGITISES CUSTOMS OPERATIONS TO IMPROVE EFFICIENCY AND SERVICE

Electronic manifest submissions

The number of electronic manifests submitted to SARS climbed 25.58% during the 2013/14 financial year to 1.66 million.

Automated Cargo Management (ACM)

The Automated Cargo Management (ACM) solution, which tracks goods travelling to and from South Africa, was extended during the year under review. Traders are able to electronically submit cargo documents (manifests) not only for goods being transported by sea or air but also for all other forms of transport.

Customs Management System

The new Customs Management System (CMS), which went live in August 2013, has substantially improved efficiency, productivity and service. Developed by SARS subsidiary Interfront, the automated management system enabled SARS to centralise the clearing of all import, export and cross-border declarations on a single processing engine. Automated processing of information in electronic formats and sophisticated workflow management processes replaced a wide range of systems and manual paper-based activities previously required for the import and export of cargo transported by land, sea or air.

This has improved the speed and accuracy of SARS' processes. SARS is able to respond to requests within seven seconds and has cut its inspection time from eight to two hours. The management system has already processed approximately 3.9 million customs declarations, more than 21 million lines, valued at R2.1 trillion, and collected revenue of around R123 billion since August 2013. Nearly 99.99% of all customs declarations were submitted electronically in the 2013/14 financial year. The integration of the Customs Management System with the SARS risk engine enables illicit or illegal trade to be more accurately identified and the activities of unscrupulous traders better analysed.

Excise Modernisation

Excise operations were modernised extensively during the 2013/14 financial year. Excise clients can now submit their returns online using an internet device linked to the SARS eFiling service or through Service Manager at a SARS branch. Excise taxpayers who use the eFiling service have been provided with online account management facilities that process, among other things, reports, payments and refunds. By the end of March 2014 all Excise clients were using the electronic channel to submit declarations.

SARS also migrated its Excise accounting and payments transactions to the SAP platform. This has almost eliminated manual reconciliations and interventions and greatly improved financial transparency and efficiency.

All Customs and Excise payments are now conducted electronically and automatically reconciled and reported. Intervention by branch staff is no longer necessary and financial reporting is performed almost in real-time.

1.2.4 SARS STRENGTHENS EXTERNAL RELATIONSHIPS IN THE CUSTOMS ENVIRONMENT THROUGH REGIONAL PROCESSING INITIATIVES

Information Technology (IT) connectivity in the Region

Plans to establish an IT network that links regional customs authorities progressed during the 2013/14 financial year with the launch of pilot projects involving SARS and its Swazi and Mozambican counterparts.

The South Africa/Swaziland and South Africa/Mozambique IT connectivity pilot projects are modelled on the Globally Networked Customs (GNC) proof of concept supported and monitored by the World Customs Organisation (WCO).

SARS and the Swaziland Revenue Authority identified the data to be used for export and transit between the two countries, agreed on protocols, standards and guidelines for information exchange, and selected communication software for the pilot.

SARS and the Mozambique Revenue Authority have successfully set up communications exchange infrastructure and are in the process of exchanging test data.

The two pilot projects are the first steps towards the creation of an international eCustoms network. This network will enable the electronic transfer of information, seamlessly and in real-time, between customs authorities, as well as other organisations, throughout southern Africa.

1.2.5 SARS MINIMISES CUSTOMS ADMINISTRATIVE BURDEN ON TRAVELLERS

Passenger Processing System (PPS)

The Customs Passenger Processing System (PPS), launched in 2012, has been rolled out to all Customs offices. During the year under review the PPS was introduced at Customs offices at Beitbridge, Pretoria, Lebombo and Alberton as well as at Durban's harbour and King Shaka International Airport. It improves the efficiency of processing travellers entering or leaving South Africa whilst facilitating the exchange of information between border agencies.

One Stop Border Post (OSBP) Bilateral Legal Framework (BLF)

SARS helped establish the legal framework required for the creation of a One Stop Border Post (OSBP) to process travellers and cargo moving between South Africa and Mozambique.

The SARS Legal and Policy team facilitated the ratification of the OSBP Bilateral Agreement and Annexes in October 2013. During this process the Director General of Home Affairs led a delegation of representatives from SARS, the Department of Agriculture, Forestry and Fisheries and the South African Police Service to present the Bilateral Agreement and Annexes to the National Council of Provinces (NCOP) Select Committee on Finance. Once approved by the NCOP select committee, the Bilateral Agreement and Annexes were then presented to the Standing Committee on Finance (SCOF) in November 2013. SCOF approved the Bilateral Agreement and Annexes and the legal framework for the OSBP which will soon be promulgated in the Government Gazette. Once this process is complete, and formal notes have been exchanged between the South African and Mozambican governments, the OSBP agreement will come into force.

Tariff Management System

The implementation of a Tariff Management System has greatly improved access to tariff information. Customs staff can use the new system to quickly retrieve tariff data as well as amend and publish tariffs. The Tariff Management System replaces a variety of automated and manual sources of tariff information and can be integrated with several other automated systems operated by SARS. It not only improves customs efficiency but also increases the integrity of the information it publishes.

A price-referencing system has been developed and incorporated into the customs risk-engine to improve identification of illicit or illegal trade. Imports and exports identified as high risk, because their pricing differs significantly from the reference model, are stopped for inspection. The price-referencing system has already enhanced efforts to combat illicit and illegal trade.

Border Control Operations Co-ordinating Committee (BCOCC)

SARS is working with the Department of Home Affairs (DHA) to help set up South Africa’s first Port Control Centre. The two Government agencies are refitting the Cowrie Place building in Cape Town so that it can host the pilot control centre. The new centre will be the first maritime facility in South Africa at which services from DHA, SARS, the Department of Health, the Department of Agriculture and Fisheries and the South African Police Service (SAPS) are rendered from the same building. Sophisticated video cameras and secure Wi-Fi communications infrastructure are being installed at the harbour.

The Inter-Agency Clearing Forum (IACF) continues to improve and modernise the processing of travellers and cargo crossing South Africa’s borders. Several initiatives to improve the flow of traffic during the festive season were introduced at the Maseru Bridge, Lebombo and Beitbridge border posts in conjunction with the DHA. They included the implementation of improved traffic flow facilities and IT networks for Customs and the DHA at these border posts. Improvements at Beitbridge included new systems and processes to manage traffic flows as well as the installation of enhanced processing facilities. At Maseru Bridge a new bypass road was created to separate cargo trucks from passenger vehicles.

SARS participated in joint Government operations to support the visit to South Africa of the President of the USA in June 2013, as well as the State funeral of former President Nelson Mandela in December 2013. Customs officers joined the National Joint Operational Centre and were deployed to facilitate the arrival and departure of Heads of States and VIPs as well as clear a large number of weapons transported by the US Air Force.

SARS is providing the DHA with technical and administrative information about the Border Control Operations Co-ordinating Committee (BCOCC) to help the department establish the new Border Management Agency (BMA). Cabinet appointed the DHA to chair the BMA in June 2013. The BCOCC, which was previously hosted by SARS, has been moved to the BMA project office at the DHA.

1.2.6 STRENGHTENING RISK MANAGEMENT CAPABILITIES AT CUSTOMS

Illicit Cigarettes

The market for illicit cigarettes is attracting increasing attention from revenue authorities across the world because it is highly lucrative and very complex. SARS has increased its supervision of warehouses to stem the illegal movement of cigarettes from these facilities on to the local market.

In the 2013/14 financial year SARS conducted more than 900 bonded warehouse audits of which 415 resulted in successful interventions. These audits identified the unauthorised diversion and removal of goods from bonded warehouses as well as the export of high risk goods without supervision and many rebate irregularities. Nine excise audits were completed at cigarette manufacturers. Two of these audits resulted in successful interventions.

A new warehouse process was implemented during the 2013/14 financial year to improve the control of cigarettes moving in and out of the country. It has already stopped the illegal diversion of over 1 billion cigarette sticks from customs warehouses. A total of 26 cases, worth R319.4 million, were referred to the National Prosecuting Authority (NPA) for prosecution. SARS trained 52 detector dogs and their handlers in the detection of narcotics, endangered species, explosives, firearms and ammunition.

SARS will continue to work closely with representatives of industry to gather information to produce trade statistics, monitor compliance initiatives and better identify smuggling techniques and routes.

Clothing and textiles

Undervalued imports are a threat to South Africa's clothing and textile industry.

SARS worked with representatives of the local clothing and textile industry as well as other Government agencies during the year under review to develop a reference pricing list for imported clothing and textiles. Since this pricing list was adopted by SARS the average price of clothing and textile goods declared by importers has increased.

The average unit price of textiles climbed 34.6%, compared with the previous financial year, while the price of curtains rose 30.2%, toilet and kitchen linen 19.4%, bed linen 19.9%, clothing 23.2% and blankets 7.5%. SARS also worked with the Inter Agency Clearing Forum (IACF) to create additional tariff subheadings and tighten rebate facilities on clothing and textiles.

During the 2013/14 financial year, 14 audits of clothing and textile firms were completed. These audits achieved a 64% success rate and raised assessments of R25.4 million of which more than R880 000 has been collected. A total of 274 seizures of clothing and textiles worth R28.3 million were conducted during the 2013/14 financial year.

SARS completed 283 inspections, of which 25% were successful. Most of the inspections took place in Durban and Johannesburg and were prompted by suspected undervaluation of goods imported from countries such as China and Pakistan. A further 4 880 lines of import declarations were inspected at border gates.

Cargo scanners

Fixed cargo scanners are being installed at Cape Town and Durban harbours. The mobile cargo scanner currently in use at Durban harbour will be moved to Beitbridge once the new fixed scanner has been installed. The scanners will be fully integrated into the inspection procedures and the new Customs Management system implemented during the course of the year.

Bonded warehouses and mobile customs solution

The integration of the Customs Management System with the SARS risk engine enables illicit or illegal trade to be more accurately identified and the activities of unscrupulous traders better analysed. Risk management was further enhanced by the installation of additional scanners for cargo, containers and baggage, improved controls at bonded warehouses and greater use of mobile electronic devices during inspections.

Customs Bills

SARS participated in the consultations that shaped proposed changes to customs legislation. It briefed the Standing Committee on Finance on the proposed Customs Control Bill and the proposed Customs Duty Bill in September 2013. SARS briefed the committee again, in February 2014, after the public hearings on the two Bills. SARS presented its response to the proposed customs legislation to the Minister of Finance in November 2013.

Once the Customs Control Bill and the Customs Duty Bill are passed by Parliament, SARS will analyse its solutions, policies and procedures and ensure they are aligned with the new legislation.

1.3 INCREASED TAX COMPLIANCE

1.3.1 TAX REVENUE PERFORMANCE

Tax revenue, excluding customs revenue, collected during the 2013/14 financial year totalled R724.2 billion (Table 10). This was R435 million below the revised estimate of R724.7 billion.

Table 10: Tax revenue (excluding customs revenue) performance by tax type for 2013/14

Tax type	Printed estimate Feb 2013	Revised estimate Feb 2014	Actual result	Increase / decrease on Printed estimate	Increase / decrease on Revised estimate
	R million	R million	R million	R million	R million
Personal income tax (PIT)	307 109	309 731	310 929	3 820	1 198
Company income tax (CIT)	171 314	178 743	179 520	8 206	777
STC/DT	22 930	17 000	17 309	-5 621	309
Domestic VAT	272 104	262 804	263 461	-8 643	657
VAT refunds	-154 528	-153 048	-156 879	-2 351	-3 831
Fuel levy	44 970	43 300	43 685	-1 285	385
Specific excise duties	31 265	28 943	29 039	-2 226	97
Taxes on property	9 070	10 375	10 487	1 417	112
Skills development levy	12 403	12 300	12 476	73	176
Other taxes and duties	13 991	14 506	14 193	202	-313
Total tax revenue (excl customs)	**730 628**	**724 654**	**724 220**	**-6 409**	**-435**

PIT collections climbed 12.4% to R310.9 billion, above the revised estimate of R309.7 billion, and contributed 34.5% of total revenue collections for the year under review. PIT is the largest contributor to tax revenue and comprises assessed and provisional tax as well as Pay-As-You-Earn (PAYE) collected by employers on behalf of employees (net of refunds). Despite muted job growth, PIT collections grew and were fuelled by above-inflation wage settlements.

Table 11 shows the trend in PIT collections from the 2008/09 to 2013/14 financial years.

Table 11: PIT revenue including interest for 2008/09 to 2013/14

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2008/09	196 068	15.6%	31.4%	8.5%
2009/10	206 484	5.3%	34.5%	8.4%
2010/11	228 096	10.5%	33.8%	8.3%
2011/12	251 339	10.2%	33.8%	8.4%
2012/13	276 679	10.1%	34.0%	8.7%
2013/14	**310 929**	**12.4%**	**34.5%**	**9.0%**

CIT revenue increased by 11.6% to R179.5 billion and passed the previous high point of R167.2 billion attained before the global financial crisis. CIT comprises all provisional and assessed taxes paid by companies (net of refunds). The contraction in profits during the global financial crisis caused CIT revenues to slump during the 2009/10 financial year. CIT revenue in the year under review benefited from more stable conditions in the economy. The sluggish recovery of CIT is the main reason for the slow improvement of the CIT-to-GDP ratio. Table 12 shows the trend in CIT revenue from the 2008/09 to 2013/14 financial years.

Table 12: CIT revenue including interest for 2008/09 to 2013/14

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	%	%	%
2008/09	167 202	18.1%	26.7%	7.3%
2009/10	136 978	-18.1%	22.9%	5.6%
2010/11	134 635	-1.7%	20.0%	4.9%
2011/12	153 272	13.8%	20.6%	5.1%
2012/13	160 896	5.0%	19.8%	5.0%
2013/14	**179 520**	**11.6%**	**19.9%**	**5.2%**

Sector contributions to CIT revenue have changed significantly since the global financial crisis. The contribution of the mining sector dropped sharply following the industrial upheaval in the latter part of 2012. The recovery of contributions from the mining sector (up 45.9%) and the manufacturing sectors (up 12.4%) drove CIT growth during the 2013/14 financial year. Revenue from the finance sector, currently the biggest contributor to CIT, grew R2.1 billion (4.7%). A detailed breakdown of CIT revenue by sector is provided in Table 13.

Table 13: CIT revenue by sector for 2011/12 to 2013/14

Sector *	2011/12	2012/13	Growth	2013/14	Growth
	R million	R million	%	R million	%
Agriculture	2 247	2 584	15.0%	3 118	20.7%
Mining	21 030	14 754	-29.8%	21 524	45.9%
Telecommunications	9 722	10 388	6.9%	9 941	-4.3%
Financial services	40 306	43 793	8.7%	45 857	4.7%
Banks	*15 987*	*16 688*	*4.4%*	*18 127*	*8.6%*
Insurance	*13 656*	*15 914*	*16.5%*	*16 187*	*1.7%*
Other financial services	*10 662*	*11 192*	*5.0%*	*11 544*	*3.1%*
Manufacturing	35 943	40 008	11.3%	44 956	12.4%
Petroleum	*8 672*	*8 352*	*-3.7%*	*9 313*	*11.5%*
Other manufacturing	*27 271*	*31 656*	*16.1%*	*35 643*	*12.6%*
Wholesale and retail trade	17 052	18 205	6.8%	18 753	3.0%
Business services	11 800	14 639	24.1%	15 707	7.3%
Medical and health	3 924	4 071	3.7%	4 617	13.4%
Transport	2 839	2 989	5.3%	3 588	20.0%
Construction	3 486	3 631	4.2%	4 460	22.8%
Catering and accommodation	1 343	1 517	12.9%	1 984	30.8%
Recreation and cultural	2 690	3 259	21.2%	3 828	17.5%
Other	891	1 058	18.7%	1 186	12.2%
Total	**153 272**	**160 896**	**5.0%**	**179 520**	**11.6%**

*Note: * SARS-defined sector*

Legislative changes to replace the Secondary Tax on Companies (STC) with a Dividends Tax (DT) came into effect from 1 April 2012. DT is a tax imposed on shareholders at a rate of 15% on receipt of dividends, whereas STC was imposed on companies at a rate of 10% on the declaration of dividends. Many businesses forestalled these legislative changes by declaring dividends early to enjoy the benefit of paying STC at the reduced rate on dividends declared before 1 April 2012. This reduced combined STC and DT collections by 12.3% to R17.3 billion in the 2013/14 financial year. The STC and DT collections are shown in Table 14.

Table 14: STC and DT revenue for 2008/09 to 2013/14

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	**%**	**%**	**%**
2008/09	20 018	-2.8%	3.2%	0.9%
2009/10	15 468	-22.7%	2.6%	0.6%
2010/11	17 178	11.1%	2.5%	0.6%
2011/12	21 965	27.9%	3.0%	0.7%
2012/13	19 739	-10.1%	2.4%	0.6%
STC	*9 814*	*-55.3%*	*1.2%*	*0.3%*
DT	*9 925*		*1.2%*	*0.3%*
2013/14	**17 309**	**-12.3%**	**1.9%**	**0.5%**
STC	*911*	*-90.7%*	*0.1%*	*0.0%*
DT	*16 398*	*65.2%*	*1.8%*	*0.5%*

Growth in Domestic VAT collections slowed to 8.7% during the year under review. This is due to the curb in consumer spending caused by high consumer debt, modest job creation and low growth in disposable income. Growth in real consumption expenditure by households slowed from 3.5% in 2012 to 2.6% in 2013. Spending on durable, semi-durable and non-durable goods as well as services faltered. Table 15 shows the domestic VAT collections.

Table 15: Domestic VAT for 2008/09 to 2013/14

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	**%**	**%**	**%**
2008/09	187 171	9.1%	29.9%	8.2%
2009/10	195 050	4.2%	32.6%	7.9%
2010/11	205 029	5.1%	30.4%	7.5%
2011/12	220 215	7.4%	29.7%	7.4%
2012/13	242 416	10.1%	29.8%	7.6%
2013/14	**263 461**	**8.7%**	**29.3%**	**7.6%**

VAT refunds grew by a modest 13.0% to R156.9 billion. Refunds increased in finance, mining and the machinery and related items sectors. Growth was driven mainly by increased capital expenditure and a rise in other production costs. VAT refund trends are shown in Table 16.

Table 16: VAT refunds for 2008/09 to 2013/14

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	**%**	**%**	**%**
2008/09	-124 838	26.0%	-20.0%	-5.4%
2009/10	-117 428	-5.9%	-19.6%	-4.8%
2010/11	-103 646	-11.7%	-15.4%	-3.8%
2011/12	-131 008	26.4%	-17.6%	-4.4%
2012/13	-138 820	6.0%	-17.1%	-4.3%
2013/14	**-156 879**	**13.0%**	**-17.4%**	**-4.5%**

1.3.2 CURRENT COMPLIANCE LEVELS

1.3.2.1 Registration compliance

SARS continues to broaden the tax base and expand its taxpayer and trader register. In the 2010/11 financial year SARS changed its registration policy. It stipulated that all individuals who are formally employed must register with SARS and not, as in the past, only those taxpayers above the tax threshold. The number of individuals on the SARS register has increased from around 6.4 million taxpayers in 2009/10 to 16.8 million in 2013/14. This shift in policy, together with other measures implemented by SARS, grew the taxpayer and trader register by 9.8% during the 2013/14 financial year (Table 17).

Measures implemented by SARS to increase registration compliance include the introduction of bulk registration at places of employment and the launch of an online facility that enables employers to register staff when submitting their monthly PAYE returns. A compliance level of more than 99% has been achieved among individuals required to register for PIT.

Table 17: Register data for 2010/11 to 2013/14

Registered taxpayers	2010/11	2011/12	2012/13	2013/14	% Growth
Income tax	12 751 006	16 039 801	17 926 869	19 787 304	10.4%
Individuals	*10 346 175*	*13 703 717*	*15 418 920*	*16 779 711*	*8.8%*
Trusts	*326 649*	*301 365*	*312 066*	*322 188*	*3.2%*
Companies	*2 078 182*	*2 034 719*	*2 195 883*	*2 685 405*	*22.3%*
Value-added tax (VAT)	664 267	652 349	650 540	662 194	1.8%
Pay-as-you-earn (PAYE)	386 428	384 883	391 254	407 066	4.0%
Customs	456 138	471 811	506 206	519 044	2.5%
Importers	*238 779*	*247 595*	*265 497*	*272 544*	*2.7%*
Exporters	*217 359*	*224 216*	*240 709*	*246 500*	*2.4%*
Total register	**14 257 839**	**17 548 844**	**19 474 869**	**21 375 608**	**9.8%**

1.3.2.2 Filing compliance

PIT filing compliance

PIT filing compliance is calculated by comparing the total number of returns received on time for a particular filing season with the expected total number of returns for the same filing season. During the 2013 filing season more than 91% of all returns expected by SARS were filed by the end of the filing season. This is approximately 5% up on the 2012 filing season and more than 10% above target.

Table 18: PIT filing compliance

Financial Year	Returns Required	Returns on Time	Returns on Time (%)
2008/09	4 186 834	2 418 286	57.8%
2009/10	3 961 391	3 116 024	78.7%
2010/11	4 084 151	3 296 024	80.7%
2011/12	4 232 027	3 519 157	83.2%
2012/13	4 896 969	4 213 996	86.1%
2013/14	**4 894 081**	**4 479 348**	**91.5%**

VAT filing compliance

SARS modernised its VAT systems during the 2011/12 financial year to make it easier for taxpayers to submit their returns and to improve the accuracy of its VAT register. However, despite an initial improvement, filing compliance among VAT vendors remains a concern. Filing on-time among VAT vendors declined in the 2013/14 financial year by 0.70%.

Table 19: VAT filing compliance

Financial Year	Returns Required	Returns on Time	Returns on Time %
2008/09	4 332 653	2 537 815	58.57%
2009/10	4 269 064	2 455 759	57.52%
2010/11	3 974 346	2 352 527	59.19%
2011/12	4 007 835	2 224 331	55.50%
2012/13	4 008 631	2 309 163	57.60%
2013/14	**4 088 905**	**2 326 440**	**56.90%**

PAYE filing compliance

PAYE on-time filing compliance has gradually improved since 2008/09. However, there was a slight drop of 0.8% in compliance levels in 2013/14.

Table 20: PAYE filing compliance

Financial Year	Returns Required	Returns on Time	Returns on time (%)
2008/09	4 365 895	2 672 609	61.22%
2009/10	4 456 321	2 802 978	62.90%
2010/11	4 331 013	2 732 445	63.09% (68.21%)
2011/12	4 419 076	2 900 618	65.64% (68.43%)
2012/13	4 545 446	3 006 488	66.14% (71.25%)
2013/14	**4 727 615**	**3 087 646**	**65.31%**

Note: SARS has developed a more accurate method of calculating PAYE filing compliance, which has resulted in the resetting of the compliance figures from 2010/11 onward. This has had no impact on the increasing trend in compliance; however the percentage increases have now been adjusted. The pre-adjusted compliance levels are shown in brackets in Table 20.

1.3.2.3 Declaration compliance

Compliance refers to the degree to which taxpayers and traders meet their obligations in terms of the legislation administered by SARS. In addition to registration compliance, filing and payment compliance also needs to be monitored and improved. An important deterrent to non-compliance is the effective detection of such behaviour. SARS manages this process through its risk engines as well as the use of third party data.

SARS aims to match the severity of enforcement to the nature of the non-compliance. Cases identified for verification or audits are generated through the various risk engines. Cases with higher risks will be subject to more formal audit interventions and those where a risk of possible criminal involvement is detected receive the highest level of scrutiny.

Audit coverage

SARS surpassed its audit coverage target of 6% of the total number of registered PIT, CIT, VAT/Excise and PAYE taxpayers. It conducted more than 1.8 million audit cases. This was 76% above target and 14% ahead of the 2012/13 financial year. An increase in the inflow of cases together with a successful drive to conclude cases were the main reasons for this improvement.

In-depth audit coverage

SARS achieved its target for in-depth audit coverage during the 2013/14 financial year. The target was 0.15% of the combined number of registered PIT, CIT, VAT/Excise and PAYE taxpayers above the tax threshold. SARS conducted nearly 20 000 high-risk, complex and high-impact audit cases. This was 20% above target but 45% below the mark achieved in the 2012/13 financial year. The reduction in the number of audits completed was the result of a strategic decision by SARS to dedicate more time to complete in-depth audits and thereby make them more effective.

Tax and Customs Enforcement Investigations (TCEI)

Criminal investigations and prosecutions

More than 330 criminal investigation cases were finalised and handed over to the National Prosecuting Authority (NPA) during the 2013/14 financial year. The NPA successfully prosecuted 267 cases for contravention of Acts administered by SARS during the year under review.

Enforcement investigations projects

During the 2013/14 financial year 40 project-based cases were finalised, of which 29 (73%) involved illicit economic activities.

At end March 2014, 145 focused-area investigation projects had yet to be completed. Investigations into organisations that intended to benefit from illegal activity account for 39 of these projects, while 103 concern legitimate enterprises involved in illegal activities. A further three projects have yet to be allocated.

Tactical interventions

The Tactical Interventions Unit conducted more than 26 000 “disruption and detection” interventions, intended to combat smuggling, during the 2013/14 financial year. These interventions resulted in nearly 8 000 detentions, close to 6 000 seizures and around 200 referrals for arrest.

1.3.2.4 Payment compliance

Overdue debt as a percentage of revenue

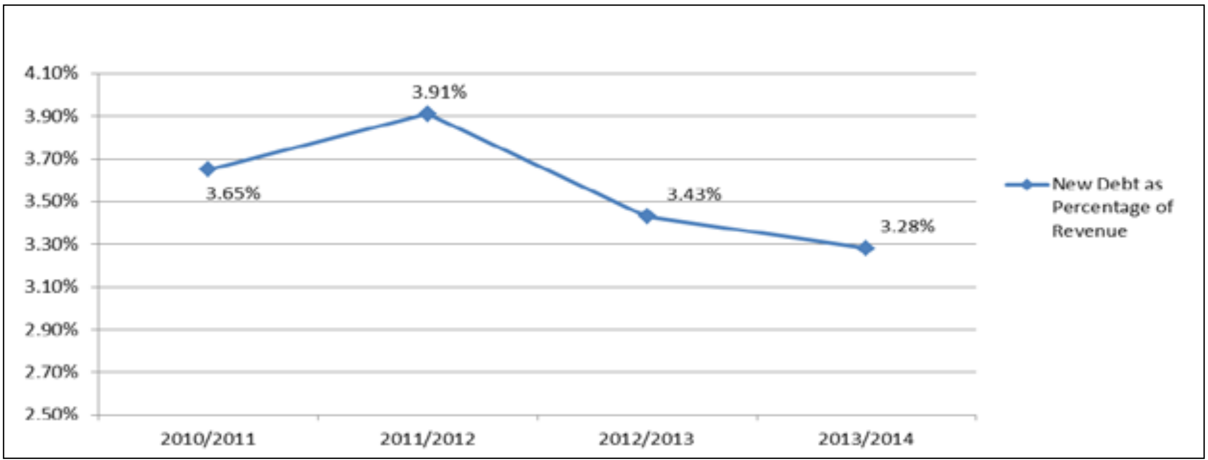
Debt was well managed during difficult conditions in the 2013/14 financial year. Total debt at year end of R82.6 billion was just 0.5% (R386 million) above last year. Growth in revenue was 10.6% and debt-as-a-percentage-of-revenue fell from 10.1% to 9.2% and continues to improve (See table 21).

Table 21: Overdue debt as a percentage of revenue

Financial Year	Total Revenue	Debt (Excluding Admin Penalties, Estate Duty, Small Business Amnesty Levy and Donations Tax)	Debt (Including Admin Penalties, Estate Duty, Small Business Amnesty Levy and Donations Tax)	Debt (Excluding Admin Penalties, Estate Duty, Small Business Amnesty and Donations Tax) as % of Tax Revenue	Debt (Including Admin Penalties, Estate Duty , Small Business Amnesty and Donations Tax) as % of Tax Revenue
	R million	**R million**	**R million**	**%**	**%**
1998/1999	184 786	32 680	-	17.7%	
1999/2000	201 226	32 530	-	16.2%	
2000/2001	220 119	29 400	-	13.4%	
2001/2002	252 295	39 200	-	15.5%	
2002/2003	281 939	53 700	-	19.1%	
2003/2004	302 443	58 041	-	19.2%	
2004/2005	354 979	66 740	-	18.8%	
2005/2006	417 196	65 595	-	15.7%	
2006/2007	495 549	63 608	-	12.8%	
2007/2008	572 815	62 853	-	11.0%	
2008/2009	625 100	61 577	-	9.9%	
2009/2010	598 705	79 477	-	13.3%	
2010/2011	674 183	86 092	87 534	12.8%	13.0%
2011/2012	742 651	85 535	88 608	11.5%	11.9%
2012/2013	813 826	78 149	82 250	9.6%	10.1%
2013/2014	**900 015**	**77 138**	**82 636**	**8.6%**	**9.2%**

New debt stood at R29.5 billion at end March 2014. This was 3.3% of the total revenue collected during the year under review and is an improvement on the 3.4% achieved the previous year.

Graph 2: New debt as a percentage of revenue



Debt Management performed well and reduced mid-range debt by 8.8% (R5 billion) to R56.7 billion. Debt collectors recovered R10.8 billion of cash from debt cases. This was a 29.4% improvement on the previous year. The cost-to-income ratio of the Debt Collection division showed a 21.1% increase in productivity compared with the previous year. Collections per full time employee (FTE) rose 32.9%.

Write-offs during the year under review were 3.2% (R500 million) lower at R14.99 billion. Opening debt of R32 billion is no longer on the books.

During the 2013/14 financial year the Large Business Centre (LBC) raised R5.4 billion in high-value audit assessments against aggressive tax structures. This was a strategic initiative intended to deter the use of such tax structures. Similar initiatives by the LBC raised R2.9 billion in the 2013/14 financial year. The R8.3 billion tax debt raised against these structures cannot be collected because they contain no assets. According to the current provisions of the Tax Administration Act (TAA), SARS is unable to write-off this debt because it is under dispute. If this write-off had been possible the LBC debt book would have been 15.6% (R1.9 billion) lower than the previous year. The total debt book would have totalled R74.3 billion and the debt-as-a-percentage-of-revenue ratio would have fallen to 8.3%. SARS is seeking an amendment of the TAA to enable it to correctly account for debts that are uneconomical to pursue. SARS expects such an amendment to be enacted during 2014. Notable net debt reductions were achieved in PAYE (R2.3 billion), VAT (R1.4 billion), Excise (R396 million) and UIF (R276 million).

The net debt growth in Income Tax (R1.5 billion) and STC (R1.8 billion) resulted from the strategic assessments raised by the LBC. Two audit assessments accounted for R315 million of the Customs increase of R489 million. Continued non-compliance by taxpayers contributed to the increase in Administrative Penalty debt (R1.4 billion). Increased functionality and improved ease of use of the Administrative Penalty system introduced during the year has made agent payment of these penalties easier. However, much work is needed to resolve non-compliance in this area. Dividends Tax debt also grew during the year. This is a new tax that replaced the Secondary Tax on Companies (STC).

An increase of R1.3 billion in debt older than four years was as a result of many cases moving into categories for older debt during the year.

Debt under objection or appeal decreased to a net R814 million (7%). This decline is a result of the finalisation of a large case and the temporary write-off of another case.

Table 22: Overdue taxpayer debt

TAXES: Unaudited overdue taxpayer debt (receivables) as at 31 March 2014		
	2013/14	2012/13
Segmentation	**R**	**R**
Established Debt		
Active	48 304 852 835	47 098 766 565
Address Unknown	916 086 505	1 171 636 412
Estate	6 343 294 006	6 608 890 563
Total Established Debt	**55 564 233 346**	**54 879 293 540**
Uncertain Debt		
Objections	2 771 166 208	1 959 693 240
Appeals	7 998 418 957	9 623 762 418
Debt Under Dispute	10 769 585 165	11 583 455 658
Debt Older Than 4 Years	13 230 703 222	11 899 214 509
Taxpayers No Longer Operational	3 071 703 513	3 888 023 004
Total Uncertain Debt	27 071 991 900	27 370 693 171
Total Overdue Taxpayer Debt	**82 636 225 246**	**82 249 986 711**
Comprising		
Capital	55 066 520 315	54 424 759 710
Penalty and Additional Tax	12 147 652 361	11 184 647 312
Interest	15 422 052 570	16 640 579 689
Total Overdue Taxpayer Debt	82 636 225 246	82 249 986 711
Administered Tax Analysis		
Income Tax	33 756 015 314	32 611 082 404
Company	*17 242 006 392*	*15 746 053 526*
Individuals and Trusts	*16 514 008 922*	*16 865 028 878*
PAYE	8 850 878 809	11 151 309 513
VAT	23 648 358 357	25 020 811 375
STC	5 314 434 615	3 563 453 468
SDL	1 055 582 418	1 237 930 872
UIF	1 732 247 090	2 008 593 312
Diesel	172 027 770	240 738 248
Customs	1 950 923 908	1 462 065 622
Excise	376 633 219	773 133 592
Administrative penalties	4 916 571 154	3 553 597 005
Estate Duty	259 102 828	243 712 131
Small Business Amnesty Levy	62 121 735	63 164 991
Dividends Tax	280 508 117	79 868 017
Donations Tax	258 675 329	240 526 161
Transfer Duty	**2 144 583**	**-**
Total Overdue Taxpayer Debt	**82 636 225 246**	**82 249 986 711**

There continue to be taxpayer cases where both a debit and a credit exist within common tax types but for different tax periods. Both the debt and credit book could be reduced by R4.3 billion if credits due to taxpayers were off-set against debt. The VAT and PAYE systems do not currently accommodate this off-setting process and treat each period as a separate account. Credits and debits, however, are off-set in the Income Tax system because it operates a single account for each taxpayer. If VAT and PAYE credits were off-set against debt owed by the same taxpayer the debt-as-a-percentage-of-revenue ratio would have dropped further to 7.8%.

Table 23: Debt as percentage of revenue after strategic assessments and credit book offsets

	2013/14		2012/13	
		Debt as Percentage of Revenue		Debt as Percentage of Revenue
	R million	%	R million	%
Total Taxpayer debt at 31 March 2014	82 636	9.2%	82 250	10.1%
Less strategic assessments raised by LBC that were unable to be temporarily written-off	-8 318		-2 884	
Total taxpayer debt after strategic assessments	**74 318**	**8.3%**	**79 366**	**9.8%**
Less credit book offsets	-4 323		-5 605	
Total taxpayer debt after strategic assessments and credit offsets	**69 995**	**7.8%**	**73 761**	**9.1%**

If the full credit book were to be off-set, to provide a net debt position, there would be a net debt by all taxpayers to SARS of R42.7 billion. Further account maintenance is needed to address old entries on accounts. Payment reform, Single Registration and the new Tax Compliance Status system will help improve account accuracy and address both debit and credit balances.

Credit book

At 31 March 2014 the credit book amounted to R39.96 billion. This was a net reduction of R2.8 billion (-6.6%) from R42.86 billion the previous year.

The following credit book includes credits which can be off-set against the debt book.

Table 24: Unaudited taxpayer credits

TAXES: Unaudited taxpayer credits (payables) as at 31 March 2014		
	2013/14	2012/13
	R	R
Income Tax	-11 698 148 188	-12 393 510 273
Unallocated payments	-43 851	-41 933 371
Income Tax	**-11 698 192 039**	**-12 435 443 644**
PAYE	-1 177 747 607	-2 681 393 939
Unallocated payments	-4 051 175 957	-3 640 822 957
Returns not received	248 172 150	352 054 702
PAYE	**-4 980 751 414**	**-5 970 162 194**
VAT	-21 031 138 829	-18 969 381 125
Unallocated payments	-3 138 489 741	-3 431 933 894
Returns not received	2 989 261 860	1 889 226 188
VAT	**-21 180 366 710**	**-20 512 088 831**
UIF	-201 297 956	-278 741 207
Returns not received	67 026 374	89 083 317
UIF	**-134 271 582**	**-189 657 890**
SDL	-167 095 677	-227 988 406
Returns not received	52 830 345	74 369 097
SDL	**-114 265 332**	**-153 619 309**
Diesel	-1 501 658 199	-1 236 200 072
Returns not received	35 029 561	1 079 115
Diesel	**-1 466 628 638**	**-1 235 120 957**
STC	-166 656 353	-280 460 722
Unallocated payments	-720 510	-1 022 735 500
STC	**-167 376 863**	**-1 303 196 222**
Estate Duty	-1 907 513 478	-1 811 554 233
Returns not received	1 907 513 478	1 811 554 233
	-	**-**
Dividends Tax	-265 863 847	-951 844 898
Unallocated payments	-	-8 276 746
Returns not received	**56 346 874**	**-**
Dividends Tax	-209 516 973	-960 121 644
Administrative Penalties	-6 942 125	-16 339
Unallocated payments	**-23 235**	**-3 157 128**
Administrative Penalties	**-6 965 360**	**-3 173 467**
Small Business Amnesty levy	**-6 143 931**	**-7 711 381**
Customs	**-**	**-811 415**
Excise	**-**	**-193 120**
Total Taxpayer Credits	**-39 964 478 842**	**-42 771 300 074**

1.3.3 TARGETED COMPLIANCE INTERVENTIONS IN HIGH RISK AREAS

The SARS Compliance Programme, launched three years ago, has significantly strengthened SARS' efforts to improve tax and customs compliance. The five-year programme has helped SARS tackle seven key areas of non-compliance. It has also provided valuable support to other compliance initiatives that address these areas.

High-Net-Worth Individuals (HNWI) and associated trusts

SARS has created a credible and comprehensive database of High-Net-Worth Individuals (HNWI). It has identified nearly 3 000 wealthy individuals using comparative data and third-party information about property, trusts, motor vehicles and financial transactions. During the 2013/14 financial year, nearly 80 audits were conducted by SARS on these individuals. These audits achieved a 94% success rate, raised assessments of R348.8 million and recovered debt of R106 million.

A further 20 audits were conducted by Audit Operations and LBC on trusts associated with HNWI. An 83% success rate was achieved by these audits, assessments of R33.6 million raised and R1.1 million in revenue collected.

SARS has referred six criminal cases involving wealthy South Africans to the National Prosecuting Authority (NPA) for prosecution. Total revenue in prejudice for these cases is R8.8 million.

SARS is working with several members of the Organisation for Economic Co-operation and Development (OECD) to assess the viability of an automated information exchange that would help revenue authorities track international transactions conducted by wealthy individuals.

Large business and transfer pricing

SARS continues to address the practice of transfer pricing by large companies. This is a high priority because this practice threatens to erode South Africa's tax base. SARS developed risk profiles during the 2013/14 financial year of multinational companies possibly involved in transfer pricing. It audited four of these companies. These audits achieved an 88% success rate and raised assessments of R3.7 billion of which R2.4 billion was collected.

SARS will continue to participate in the OECD and United Nations (UN) working groups on transfer pricing and draw on its membership of the India-Brazil-South Africa (IBSA) forum to share best practices with other revenue authorities. It is also involved in the sub committees of the Base Erosion and Profit Shifting (BEPS) project of the OECD.

Construction industry

SARS remains concerned about the low level of compliance in the construction industry. On-time filing of VAT returns declined from 47% in the 2010/11 financial year to 43% in the 2013/14 financial year while the level of non-filing increased from 36% to 48%. Although PAYE filing compliance improved from 61% to 65% in the past four years, CIT filing compliance has declined. The number of late or outstanding CIT returns increased from 64% in 2011 to 75% in 2013.

SARS has used information supplied by the Construction Industry Development Board (CIDB) and National Home Builders' Registration Council (NHBRC) to identify 627 companies that are not registered for VAT and PAYE.

SARS completed 800 audits of firms in the construction industry. These audits achieved an 81% success rate and raised R1.76 billion in assessments of which R192.6 million was collected.

In an effort to improve compliance, SARS made more than 9 500 telephone calls to nearly 4 200 taxpayers in the construction industry during the 2013/14 financial year. This resulted in more than 1 800 cases being finalised and the submission of more than 5 000 outstanding returns. Overdue debt of around R480 million was collected. SARS referred 29 cases, with a prejudice of R52 million, to the NPA for possible prosecution.

SARS will continue to focus on the construction industry. It will pay particular attention to companies that receive Government contracts, to ensure they are tax compliant, because these firms receive funding that is sourced from taxpayers.

The modernisation of the Tax Clearance Certificate (TCC) system will tighten control of the issuing of these certificates. The enhanced system will allow taxpayers to check their compliance status and apply for a TCC online. Compliant taxpayers can use the online facility to request a one-time password (OTP) that they can forward to a third party to enable them to check their compliance status.

Tax practitioners

The Tax Administration Act (TAA) has greatly improved the management of risk associated with tax practitioners. The new Act has introduced guidelines that better monitor and regulate the conduct of tax practitioners. In accordance with the Act, more than 15 000 tax practitioners have been re-registered by SARS. All of these practitioners were notified by SARS of their compliance status. This enabled SARS to recover R13.5 million in debt.

SARS conducted 243 compliance audits of tax practitioners in the year under review. The audits achieved a 65% success rate and yielded revenue of R14.2 million.

More than 2 700 telephone calls were made by SARS to tax practitioners and about 1 200 practitioners engaged in discussions about their compliance status. This resulted in nearly 1 500 outstanding returns being submitted to SARS. A total of 20 cases, with a prejudice of R18 million, were handed to the NPA for possible prosecution.

Further legislation that allows SARS to share information about tax practitioners with their controlling bodies has been enacted by Parliament.

SARS has also established close ties with tax practitioner controlling bodies to ensure effective reporting and compliance. Tax practitioners who have yet to re-register with SARS will be issued with a final notice to do so. Until they are registered, tax practitioners will only have limited access to the SARS eFiling service.

Small businesses

Small businesses in South Africa have the potential to make a substantial contribution to the country's economic growth and generate employment. SARS ensures that its policies, procedures and systems do not inhibit the contribution of small businesses to the national economy.

The SARS Compliance Programme has delivered mixed results in the small business sector. On-time CIT filing dropped from 50.6% in 2011 to 40.9% in 2013. However, on-time filing of VAT returns improved from 70.6% in 2011 to 80% in 2014.

CIT on-time payment compliance improved from 54.4% in 2011 to 60.2% in 2013 but VAT on-time payment compliance dropped from 82.5% in 2011 to 79.76% in 2014.

SARS collected R14.9 million from 594 compliance audits conducted on small businesses during the year under review. These audits achieved a success rate of 70%.

Several outreach initiatives were launched by SARS to reduce the cost and administrative burden of compliance on small businesses and to encourage these firms to register for tax. The SARS Mobile Registration team visited more than 1 100 small businesses during the 2013/14 financial year. Nearly 550 businesses were registered by the team or provided SARS with updated information.

SARS continues to offer tax education to small businesses. It conducted nearly 2 000 workshops at business premises, which attracted more than 55 000 participants. It also gave tax product presentations to 33 000 owners of small businesses. Subjects presented included: turnover tax, SMME registration, SMME business types, record keeping, basic PAYE, basic VAT, tax overview, E@syfile, eFiling, and provisional tax. E@syfile and eFiling workshops were conducted by SARS to help small businesses use these online services.

1.3.4 SARS STRENGHTENS RISK MANAGEMENT IN PIT, PAYE, CIT AND VAT

Risk engines developed by SARS to support its tax systems were extended and further enhanced and refined during the year under review. The rate of successful interventions during the risk screening of PIT transactions improved in the 2013/14 financial year from 25.2% to 29.8%. Successful interventions from the risk screening of VAT transactions climbed from 22.9% to 24.9% while successful customs interventions increased from 12.8% to 17.4% and successful Excise interventions rose from 3.6% to 9.1%. Total revenue from these interventions totalled R16.9 billion. This is a 7.14% improvement on the previous year.

1.3.5 SARS STRENGTHENS RISK MANAGEMENT OF TAXPAYER AND TRADER ACCOUNTS

Debit orders and credit push payments

Taxpayers used to be allowed to settle their obligations to SARS using debit orders. SARS deemed the financial risk associated with debit orders to be excessive and decided to discontinue this payment mechanism. This capability has been discontinued by the four clearing banks. In January, SARS gave second-tier banks until the end of March to discontinue debit order facilities. Not all of these banks were able to meet this deadline.

Payments clarifications

Modernisation of the payments systems has begun during the 2013/14 financial year with an investigation into why some payments made to SARS are not correctly and automatically allocated to the appropriate taxpayer accounts. SARS also worked with its banking partners to ensure that they had correctly implemented the required validation rules for these payments. SARS is helping banks that have yet to establish payment channels for taxpayers to introduce "credit-push" products and interfaces with SARS.

Payment Identification Failures (PIFs)

SARS receives revenue from taxpayers through many different channels every day. These channels include the major and second-tier banks, the online eFiling service and the Service Manager cash desk at SARS branches. Most of these payments are processed electronically and can be referenced to the correct taxpayer's account. On rare occasions, some payments cannot, for a variety of reasons, be automatically allocated. These payments are then investigated, processed and forwarded to the correct account. In December 2013 SARS enhanced its payment systems to better identify problem payments. This eliminated the need for human intervention and accelerated payment allocations.

Refer to Drawer (RD) cheques

SARS further improved its payments processing by simplifying the way it handles RD (Refer to Drawer) cheques and credit notes. SARS staff could in the past only process these transactions if they had access to the organisation's SAP platform. SARS has provided its staff with a common platform on which to process RD cheques and credit notes.

Account validations

By introducing the Account Verification System (AVS) SARS has enhanced its verification of taxpayer banking details. The AVS checks banking details in real time using a variety of criteria submitted by SARS and the major banks. The AVS is more accurate than the Automatic Clearing Bureau (ACB) validation system. SARS now verifies banking details automatically before it pays a refund. SARS initially used the AVS to verify PIT banking details. It has extended the system to address CIT and VAT bank accounts.

1.3.6 SARS ENHANCES THE ADMINISTRATIVE PENALTY PLATFORM

Management of Administrative Penalties was improved by more efficient deployment of SMS services, outbound telephone calls and risk identification processes as well as enhanced systems processing.

1.3.7 BUILDING FISCAL CITIZENSHIP

Engagement and education interventions

During the 2013/14 financial year SARS launched more than 14 000 campaigns and education interventions to promote taxpayer compliance.

Footprint expansion

The SARS Branch Operations Engagement (BOE) unit acquired a further six mobile tax units to service remote areas. BOE now operates nine mobile tax units and has assigned one of these vehicles to each province. The mobile tax units are equipped with eight laptops and signature pads. The new vehicles will support satellite communication links to provide quicker service to taxpayers.

SARS continues to co-operate with other Government agencies to better service taxpayers. The BOE unit extended SARS services to taxpayers in remote areas by engaging in 1 441 co-location interventions with other Government agencies. Many of these interventions were sited at the premises of local municipalities.

1.3.8 SARS SUPPORTS GLOBAL COMPLIANCE TO COMBAT EROSION OF SOUTH AFRICA'S TAX BASE

Foreign Account Tax Compliance Act (FATCA)

SARS continued to work closely with other tax and revenue authorities to promote global compliance and enforcement and to protect South Africa's tax base from erosion. Negotiations were concluded to establish an electronic interface with the Internal Revenue Service (IRS) to exchange data in compliance with the USA Foreign Account Tax Compliance Act (FATCA). These negotiations emerged from an intergovernmental agreement concluded by South Africa and the USA early in 2014. Provision for the sharing of information with other tax authorities under the terms of the Convention on Mutual Administrative Assistance (MAA) was also explored. SARS continued to participate in the international Financial Action Task Force (FATF).

1.3.9 EMPLOYMENT TAX INCENTIVE (ETI)

SARS enhanced its PAYE systems to accommodate the Employment Tax Incentive (ETI) that was launched in December 2013. SARS is administering this tax incentive. The ETI is intended to help young people, aged between 18 and 29, and workers in special economic sectors enter the labour market. It offers employers a sliding incentive that starts at the entry-level wage and falls away once the wage reaches R72 000 a year. Employers who qualify for the ETI can deduct the incentive from their monthly PAYE payments to SARS.

The enhancement to the PAYE systems required SARS to change the EMP201 form on the Service Manager, eFiling and e@syFile platforms. It has also provided employers with the facility to indicate which employees the incentive will be claimed against as well as the amount being off-set for ETI.

Together with National Treasury, SARS conducted information sessions in major cities to brief employers about ETI. During the current year SARS will further modify its systems and processes to enable companies not registered for PAYE to take advantage of the incentive. This will be a more complex adjustment than the first phase of the project.

1.4 INCREASED EASE AND FAIRNESS OF DOING BUSINESS WITH SARS

1.4.1 SARS IMPROVES ITS ADMINISTRATIVE SYSTEMS AND PROCESSES TO REDUCE THE ADMINISTRATIVE BURDEN ON TAXPAYERS AND TRADERS

CIT modernisation

SARS reduced the administrative burden on Corporate Income Tax (CIT) taxpayers by introducing a dynamic electronic tax return form for companies (ITR14). The new ITR14 return can be customised to meet the specific requirements of the company. The launch of the new form marks the beginning of SARS' modernisation of its CIT systems and processes. The new ITR14 form will enable SARS to improve the accuracy of its information about CIT taxpayers. The form contains a variety of mandatory fields that must be completed before it is submitted. Companies must verify or update their contact details as well as their address, banking details and information about their public officer.

SARS will no longer post ITR14 forms to taxpayers. They can only be requested using the online eFiling service or at a SARS branch.

Tax Ombud

SARS helped Government prepare for the introduction of the mandate of the Tax Ombud under the Tax Administration Act (TAA) by implementing a formal communications structure with the Ombuds office. This will enable regular reporting and feedback between the two agencies.

VAT and PAYE replacement project

SARS is working to establish an environment where taxpayers are able to take a more active role in managing their accounts and ensuring their tax affairs are in order. It is streamlining its tax systems and providing taxpayers with online facilities to manage their accounts.

To deliver these improvements SARS needs a scalable, consolidated accounting and financial management platform for all the taxes, duties, levies and other charges it is mandated to collect. It also needs a consolidated billing platform to manage the processing of tax returns and sophisticated risk engines to support taxpayer audits.

The VAT and PAYE replacement project, together with the Single Registration project, will migrate the processing of VAT and PAYE returns and associated billing from separate legacy systems onto the consolidated Automatic Tax Processor (ATP) transaction processing platform and the SAP account management application.

PIT modernisation filing season changes

System changes required for Filing Season 2013 were delivered into production well ahead of the start of the season on 1 July 2013. Changes included legislative amendments and critical items required to reduce revenue collection risk. Changes in legislation that affected the ITR12 forms and calculations were also introduced. New features introduced to the PIT systems during the year under review include:

- A facility which allows letters and statements to be opened on a mobile device
- Correspondence to taxpayers who use the eFiling service is automatically emailed to their eFiling account
- Taxpayers are notified of the result of the assessment of their tax returns by SMS. A statement of account is only printed at a branch if requested by a taxpayer
- Taxpayers are automatically requested to submit their email addresses and cell phone numbers to SARS
- Automatic printing has been stopped in most core tax systems. Correspondence is only printed when required

During Tax Season 2013 SARS implemented several process improvements that supported the organisation's "Go-Green" environmental initiative. The consumption of paper, printer supplies and consumables was greatly reduced by cutting the number of documents it printed. Increased use of email and SMS services to contact taxpayers reduced printing and postage costs and also improved communications with SARS clients.

Third-party data platform and IT3s

SARS has enhanced its online eFiling service by introducing a facility that enables taxpayers to submit supporting data from third parties. The new secure web channel allows taxpayers to submit up to 50 000 lines of supporting data on the eFiling service. This channel may be used to submit third-party data related to Dividends Tax or Withholding Tax, medical scheme contributions and insurance payments as well as IT3(b), IT3(c) and IT3(e) submissions. Third-party data providers must request certificates as part of the enrolment and activation process.

SARS also extended its electronic channel infrastructure to enable listed and unlisted companies, as well as their intermediaries, to submit Dividends Tax supporting data. These channels enable SARS to respond more quickly to taxpayer submissions and reduce the administrative burden, on both SARS and taxpayers, associated with the transfer of large volumes of data.

Institutions must submit third-party certificates for:

- IT3(b) certificates, including interest income from investments, rental income, dividends, royalties and other income that was due, paid or accrued to account holders
- IT3(c) certificates, including capital gains and the proceeds from the sale of unit trusts and other financial instruments
- IT3(e) certificates, including income received by or accrued to clients from the sale or shipment of livestock, produce, timber, ores, minerals and precious stones. Bonuses and interest paid or accrued to the members of co-operative societies or companies must also be reported on an IT3(e) certificate
- Medical scheme contributions, including contributions made by employers and employees towards a medical scheme as well as benefits not covered, interest and refunds
- Insurance payments, highlighting members and contributions made by members towards insurance

1.4.2 BUSINESS REGISTRATION REFORM PROCESS

The Single Registration system, which underwent extensive testing during the 2013/14 financial year, will provide SARS with real-time information about the tax and customs products used by a registered entity, be it an individual, company or trust. SARS will be able to ensure that its information about such entities is accurate and thereby improve its service to taxpayers. The Single Registration system will form the platform for further developments such as integrated account management, monitoring the tax compliance status of an entity and creating an integrated business register.

SARS has established electronic data links with the Companies and Intellectual Property Commission (CIPC) and the Department of Home Affairs (DHA) that enable it to validate entity details with information held by these State agencies. It plans to co-operate further with these agencies and other third parties. Additional capabilities under review include automatically registering companies with SARS when they are entered onto the CIPC register and developing an integrated business register.

1.4.3 SARS TRANSFORMS THE TAX CLEARANCE CERTIFICATES (TCC) PROCESS

SARS has transformed the issuing of Tax Clearance Certificates (TCCs) from a predominantly manual process to a taxpayer-driven, self-help, electronic process. The new TCC service, introduced during the 2013/14 financial year, enables taxpayers to request their certificates by using the SARS online eFiling service or a terminal at a branch.

Taxpayers who required a TCC could previously only obtain this document at a SARS branch. All certificates were manually printed and SARS relied on the use of letterhead paper to control the authenticity of these certificates. The paper certificates were issued for a fixed period of one year. This required taxpayers to only be compliant when the TCC was requested. A taxpayer's compliance could lapse and the TCC would still be valid for the remainder of the year. The number of TCC requests has grown steadily. SARS received more than 785 000 TCC applications last year. This placed a considerable burden on the SARS branch network as well as its back office facilities that processed these applications. The previous TCC process was also inconvenient for taxpayers. They had to visit a SARS branch to apply for a certificate and return to collect it.

The new automated TCC solution, which uses several components of the SARS modernisation programme implemented elsewhere in the organisation, separates responsibility for receiving and processing TCC requests. Branch staff are only responsible for capturing TCC applications from taxpayers who don't use the eFiling service to request certificates. Applications are automatically approved, declined or referred for manual review. Requests are declined or referred when the information provided by a taxpayer does not match SARS records or if a taxpayer has outstanding returns. About 60% of all TCC applications are automatically approved. The automated process informs taxpayers of the result of their TCC application within minutes. The new TCC process greatly improves client service and also reduces the workload at SARS branches. The new system improves substantially the security of the TCC process. It automatically checks for duplicate applications and ensures that taxpayers are compliant before re-issuing certificates. Taxpayers must still collect their certificates from a SARS branch. However, they can now use the eFiling service to access a dashboard display that indicates the compliance status of each of the tax products for which they are registered

1.4.4 SARS IMPROVES TAXPAYER AND TRADER SERVICE CHANNELS

Uptake in electronic filing, declaration and payment submissions

Around 40 million returns, declarations and payments were processed by SARS during the 2013/14 financial year. It processed more than 96% of these transactions electronically. This is above its target of 95%. Returns comprised 45.14% of SARS' electronic transactions. Payments accounted for 38.88% of electronic transactions and customs declarations 15.98%.

Electronic customs bills and declarations

More than six million customs declarations were submitted to SARS during the 2013/14 financial year of which 99.97% were submitted electronically using the SARS Electronic Data Interchange (EDI) gateway.

Processing PIT returns

The average processing turnaround time for PIT returns, improved from 0.26 days in the 2012/13 financial year to 0.16 days in the year under review. The SARS modernisation programme has overhauled PIT administration and improved substantially the processing of PIT returns. In 2007, before the modernisation programme began, only 2.6% of PIT returns were processed within 48 hours. During the year under review 94.5% of all PIT returns filed were processed within three seconds.

Processing CIT returns

The average processing turnaround time for CIT returns during the 2013/14 financial year was 0.47 days. This is an improvement from the previous year's 0.87 days, and is 51% ahead of the 2013/14 target. The new dynamic Income Tax Return for Companies (ITR14) form, introduced during the year under review, reduced the administrative burden on CIT taxpayers and improved the accuracy of data submitted to SARS.

Processing VAT refunds

The average processing turnaround time for VAT refunds during the year under review, increased slightly from 30.51 to 31.7 working days. Increased scrutiny on old refunds submitted during the year under review, as well as refunds held back because SARS was waiting for supporting documents from taxpayers or was investigating submission, increased the refund turnaround time. An average of 69.6% VAT refunds were paid within 14 days, 75.1% within 21 days and 24.9% were paid after 21 days.

Taxpayer service channels

During the year under review SARS' Contact Centres received more than 5.7 million queries. They exceeded their first contact resolution target of 82% and contact-time target of 85%. The call abandonment rate was 15%. The higher than expected abandonment rate was partially the result of the introduction of a highly successful SMS campaign, which yielded more than R2.2 billion, and a shortage of staff to service the high volume of calls received during July at the start of the Income Tax season.

SARS branches and engagement facilities received more than 7.2 million taxpayer visits during the 2013/14 financial year. This is an increase of more than 5% compared with the previous year.

Branch Operations Engagement teams participated in more than 14 000 tax awareness campaigns and education interventions. They engaged with more than 725 000 taxpayers. This is a 46.9% increase on the previous year. Outreach to taxpayers was further extended with the increase in the number of mobile tax units from six to nine. Two branch relocations were completed during the year under review, in Pietermaritzburg and Umhlanga Ridge, and a further seven branches partially refurbished. Queue times improved as a result of a 24% increase in staff at branches and enhancements to the Branch Queue Management (BQM) system. The number of taxpayers attended to within 30 minutes improved significantly.

Mobisite and MobiApp

SARS enhanced its online service channels in preparation for the 2013 PIT season. The eFiling Mobisite, a website for mobile devices, was upgraded to enable taxpayers to use the service to complete and submit both IRP6 returns and the more complex ITR12 returns. The MobiApp application for mobile devices has been enhanced to allow tax practitioners to use this facility to submit returns on behalf of their clients.

Help-You-e-File (HYEF)

SARS upgraded its Help-You-eFile (HYEF) online service to better support taxpayers completing their 2013 PIT returns. The system now has the ability to detect when callers are on an active eFiling session. This enables an HYEF session to be automatically launched. "Help" prompts have been added to the eFiling service to assist taxpayers complete and submit their returns. A survey of HYEF users found that more than 90% of callers would use the support service again if they needed assistance.

SARS website

SARS redesigned its website in the 2013/14 financial year to better promote its image and improve communications with its clients. Improvements to the website include:

- Simpler English and easier to understand instructions
- Improved navigation facilities
- Dedicated pages for each tax type and associated documents, forms and FAQs
- Easier access to forms, publications and branch information
- Improved search engine
- Tailored offerings for individual taxpayers, companies and tax practitioners

1.5 INCREASED COST EFFECTIVENESS, INTERNAL EFFICIENCY AND INSTITUTIONAL RESPECTABILITY

1.5.1. COST OF REVENUE COLLECTION

SARS' cost-to-tax-revenue ratio continues to be in line with the international benchmark used by revenue authorities around the world. The ratio dipped below the 1% international benchmark to 0.97% during the 2013/14 financial year. During the past six years it has ranged around the 1% mark and moved from a high of 1.17% in the 2009/10 financial year to a low of 0.97% in the 2013/14 financial year (Table 25).

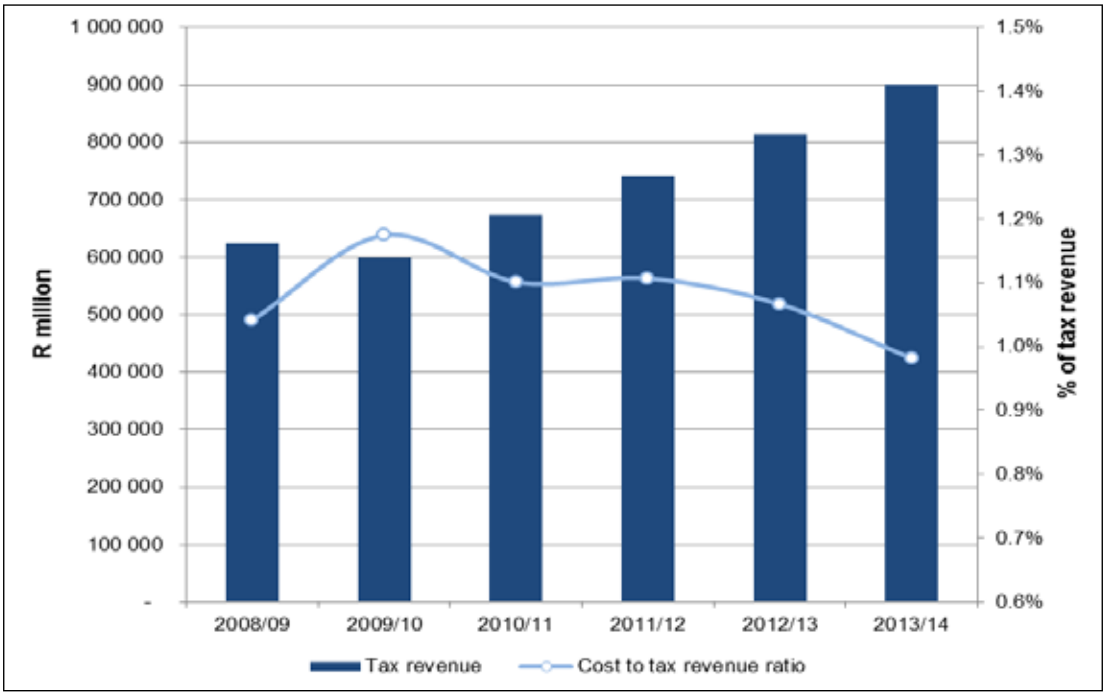
Table 25: Cost of revenue collection for 2008/09 to 2013/14

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	R million	**R million**	**R million**	**R million**	**R million**	**R million**
Tax revenue	625 100	598 705	674 183	742 650	813 826	900 015
Operating cost *	6 511	7 032	7 426	8 221	8 696	8 701
	%	%	%	%	%	%
Cost to tax revenue ratio	**1.04%**	**1.17%**	**1.10%**	**1.11%**	**1.07%**	**0.97%**

*Note: * Controlling entity*

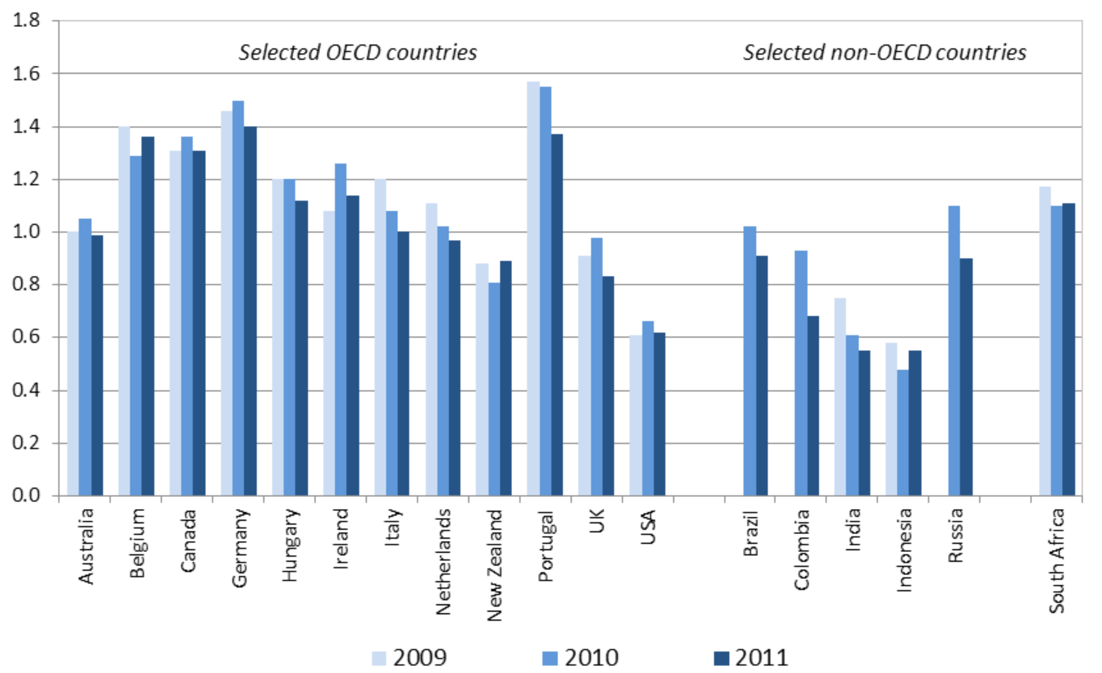
This indicates that SARS has contained costs while increasing the amount of revenue it has collected (Graph 3). The SARS cost-to-tax-revenue ratio does not take into account collections of non-tax revenue on behalf of other institutions. Such revenue includes collections of RAF levies and UIF contributions as well as collections of the Mineral and Petroleum Resources Royalties.

Graph 3: SARS' cost of revenue collection for 2008/09 to 2013/14



The 2013 edition of *Tax Administration*, published by the Organisation for Economic Co-operation and Development (OECD), reports that the cost-to-tax-revenue ratio for most countries ranges around the international benchmark of 1%. The USA achieved a low of around 0.6% and Germany a high of 1.5%. Brazil and Russia were also around the 1% international benchmark. If administered revenue, instead of tax revenue, is used to calculate South Africa's cost of revenue, the 2013/14 ratio drops from 0.97% to 0.94%. Graph 4 shows a comparison of selected countries' ratios from 2009 to 2011.

Graph 4: Comparison of cost collection ratios for 2009 to 2011



Source: *OECD Tax Administration 2013.*
Data for South Africa pertains to 2008/09, 2009/10 and 2010/11.

1.5.2 SARS' WHOLE OF GOVERNMENT APPROACH ACHIEVES VALUE CHAIN EFFICIENCIES

Civil society

SARS works closely with the Department of Social Development (DSD), the Non Profit Organisations Directorate and other State agencies that support civil society. Together with the DSD it has conducted tax education workshops and tax registration campaigns aimed at organisations that serve civil society. SARS will increase its engagement with this sector to better support Public Benefit Organisations (PBOs) and other civil society agencies.

Private sector

SARS collaborated with tax practitioner representatives to ensure that guidelines governing the conduct of tax practitioners were implemented effectively. The new guidelines, published in the Tax Administration Act, are intended to improve the quality of service tax practitioners provide their clients.

More than 15 000 tax practitioners have re-registered with SARS as required by the Tax Administration Act. SARS has upgraded its website to enable tax practitioners to re-register and retrieve tax information more easily. SARS frequently meets tax practitioner representatives to discuss tax policy, address operational issues, and promote best practices.

Department of Home Affairs (DHA)

SARS helped the Department of Home Affairs (DHA) design and install the new system that now controls the production and distribution of the new "smart" identity cards and passports. The system went live at three pilot branches in October 2013. Following the successful pilot, DHA rolled out the system to 70 branches. SARS continues to support the electronic Movement Control System (eMCS) it installed for the DHA in 2010. The system, which tracks the movement of people entering and leaving South Africa, performed with a 99.99% uptime during the 2013/14 financial year. In the past four years the system has tracked 130 million movements in and out of the country and identified more than 100 000 contraventions of immigration regulations.

Border Management Agency (BMA)

The DHA was appointed to lead the process of creating a Border Management Agency (BMA) by Cabinet in June 2013. The DHA is planning a feasibility study to help guide the creation of the BMA. It has requested several Government agencies, including SARS, to help it devise the feasibility study. SARS is participating in discussions led by DHA aimed at completing the BMA feasibility study.

Companies and Intellectual Property Commission (CIPC)

SARS further co-operated with the DHA, as well as the CIPC, to cross-reference its PIT and CIT records with information held by these Government agencies. The electronic data interface established between SARS and the CIPC will also support Government's plans to create a single business register. Close co-operation with these agencies will enable SARS to continue verifying the information it holds with that possessed by the DHA and CIPC. This will strengthen SARS' efforts to build fiscal citizenship and encourage compliance.

Trade statistics

The implementation of the Customs Management System in 2013 improved substantially the quality and accuracy of trade statistics gathered by SARS. An assessment of trade statistics systems and processes during the 2013/14 financial year revealed that South Africa's trade statistics were being under reported because trade with Botswana, Lesotho, Namibia and Swaziland (BLNS) was excluded. This was because of the free flow of trade within the Southern African Customs Union (SACU). The correction of this discrepancy reduced the national trade balance deficit and improved the country's Gross Domestic Product and current account balance.

1.5.3 SARS ENSURES THAT ITS PEOPLE PERFORM AT THEIR PEAK

eCentral

The eCentral management information system has been upgraded to provide managers with better oversight of assets and people. The enhanced eCentral system was tested extensively before it was implemented throughout the organisation in November 2013. It features an improved user interface, better navigation facilities and extended reporting functions.

1.5.4 SARS FIGHTS FRAUD AND CORRUPTION

SARS has a zero tolerance of corruption and fraud. This is communicated strongly among its workforce and outside the organisation. SARS has strengthened its code of ethics and organisational values to ensure higher standards of integrity.

It has implemented a comprehensive and holistic strategy to combat corruption and fraud that addresses the prevention, detection, investigation and resolution of these activities.

Preventive and protective measures adopted by SARS include pre-screening and vetting employees; promoting organisational values and ethics; and the strict enforcement of policies that require staff to declare private interests and decline gifts from taxpayers or service providers. The installation of CCTV technology, to monitor SARS operations and premises, has been a very successful method of detection and deterrence. Incidents of theft by employees have dropped dramatically. Regular risk assessment of SARS systems and processes has enabled the organisation to identify and remedy many opportunities for transgressions before they occur. SARS also monitors system transactions so that suspicious patterns can be detected, investigated and addressed. It analyses case trends and environmental influences to ensure that resources are effectively applied to combat corruption and fraud.

Fraud reporting

SARS encourages its staff to report suspected fraud and corruption. Its "Protected Disclosure" policy allows staff to remain anonymous when reporting such activities and protects them from possible victimisation or reprisal. SARS provides several channels for staff to report fraud or corruption. They include a 24-hour independent hotline (0800 00 2870) and a facility to report suspected non-compliance on the SARS website and intranet. SARS promotes the use of these channels during fraud awareness sessions with employees.

SARS internal disciplinary action

During the 2013/14 financial year SARS finalised 77 internal disciplinary cases. In 49 of these cases staff members were found guilty and in 14 cases the employees resigned before the hearing was concluded. No further action was taken against staff in the remaining 14 cases. These internal disciplinary cases resulted in the dismissal of 20 employees and the issuing of warnings to 37 staff members.

SAPS cases and arrests

SARS registered 32 cases with the South African Police Service (SAPS) during the 2013/14 financial year. This resulted in 106 arrests for fraud, theft or corruption. Among those arrested were 19 SARS employees and three former employees.

Court cases

The National Prosecuting Authority (NPA) finalised 10 cases submitted by SARS. Convictions were obtained in all of these cases. Twenty people were convicted in these cases, of whom five were SARS employees. Prison sentences were given to six of the people convicted. Suspended sentences and fines were issued to a further nine people; two people were given suspended sentences and ordered to repay stolen funds; another two people were given suspended sentences and one person was given a suspended sentence and placed under house arrest.

1.5.5 CO-OPERATIVE ADMINISTRATION

The African Tax Administration Forum

The Acting Commissioner for SARS continued to chair the African Tax Administration Forum (ATAF) during the year under review. The ATAF provides a forum for African tax administrators to work together to deepen relations with one another and build capacity within the continent.

Other international engagements

SARS, together with other international revenue authorities, is increasingly concerned about the threat to its tax base posed by corporations that are shifting profits to locations with low or no income tax. SARS stepped up its efforts to combat this problem in September 2013 by becoming an associate member of the Base Erosion and Profit Shifting (BEPS) project of the Organisation for Economic Co-operation and Development (OECD) and the G20 economic forum. The BEPS project was established to review international tax legislation in order to counter profit shifting. SARS' participation in this project will enable it to promote the concerns of developing nations.

SARS continued, during the 2013/14 financial year, to co-chair the OECD's Task Force on Tax and Development.

Part two

PERFORMANCE INFORMATION

02

2.1 MEASURING SARS' PERFORMANCE

SARS has aligned its performance management to the Government's new planning, performance monitoring and evaluation approach that focuses on measuring and assessing outcomes and impacts. SARS has also researched the measurement and reporting approaches of revenue administrations elsewhere in the world.

It has identified four key outcomes it believes encompass not only SARS' mandate, but also its commitment to the South African Government and the citizens of South Africa. These four outcomes are to improve customs compliance, to improve tax compliance, to improve the ease and fairness of doing business with SARS and lastly to increase cost effectiveness, internal efficiency and institutional respectability. SARS is committed to holding itself accountable to the predetermined targets set out in the 2013/14 SARS Annual Performance Plan and 2014/15 – 2017/18 Strategic Plan in order to deliver these outcomes.

SARS has made significant progress in finding measures of performance that are well defined and meet all the required standards of reliability, verifiability, cost-efficiency and relevancy. It has identified several output measures for which it is establishing systems of data collection to ensure the necessary quality, verification and validation of information. These processes are complex and in some cases challenging, particularly when SARS is reliant on third parties to provide the required information. SARS has taken a multi-year approach in developing these new measures.

Once SARS is satisfied that a measure can be reliably and consistently measured, the measure will be incorporated in the SARS strategic outcome measures. On the advice of the Auditor-General, SARS resolved to present finalised SARS strategic outcome measures separately from those that are still in a development stage. This separation will be explicitly reflected in future publications.

Of the 11 developmental measures set out in the 2013/14 Strategic Plan, good progress has been made against six of these measures. It is envisaged that these measures will be introduced into SARS' performance management in the 2015/16 financial year.

For the year under review SARS performed well against the predetermined targets set out in Table 26.

2.1.1 Table 26: Schedule of Performance Information 2013/14

SARS							
Predetermined Objectives: Schedule of Performance Information for 2013/14							
NO.	**STRATEGIC OUTCOME**	**STRATEGIC MEASURE**			**ACTUAL ACHIEVEMENT 2013/14**	**VARIANCE ON TARGET**	**COMMENTS/REASON FOR NEGATIVE VARIANCE AND POSITIVE VARIANCE >20%**
		MEASURES	**BASELINE**	**2013/14 TARGET**			
1	Increased Customs compliance	Customs revenue collected (R bn)	R151.1 billion	As per agreed target with Minister of Finance R174.3 billion - (Revised estimate for 2013/14)	R175.8 bn	1.5	
2	Increased Customs compliance	% of trade that have been audited with a view to obtaining Preferred Trader status	23.76	20	25.04	5.04	Traders submitted declarations consisting of 23 710 104 lines. Of this total, 5 935 831 lines were submitted by the potential preferred traders which equates to 25.04% of the trade volume coverage by potential preferred traders.
3	Increased Customs compliance	% of cargo declarations targeted	15	12	14.5	-2.5	The main reason for the higher than expected alert ratio is the following: • Rate of exchange – the reference prices on clothing and textiles were periodically adjusted according to the new rate of exchange. This resulted in an increase in the number of alerts. • Increased focus on clothing and textiles and tyres.
4	Increased Customs compliance	% Increase in electronic manifest submissions *	This is a new measure	1	25.58	24.58	The number of electronic manifests submitted were 1 660 010 compared to 1 321 865 submitted in the previous period. This represents a 25.58% increase from the previous financial period.

NO.	STRATEGIC OUTCOME	STRATEGIC MEASURE			ACTUAL ACHIEVEMENT 2013/14	VARIANCE ON TARGET	COMMENTS/REASON FOR NEGATIVE VARIANCE AND POSITIVE VARIANCE >20%
		MEASURES	BASELINE	2013/14 TARGET			
5	Increased Customs compliance	Interfront Governance - Unqualified audit report	Unqualified audit report	Unqualified audit report	Clean audit report		
6	Increased Tax compliance	Total revenue (excluding Customs revenue) collected (R bn)	R662.8 billion	As per agreed target with Minister of Finance R724.7 billion - (Revised estimate for 2013/14)	R724.2 bn	-0.5	Total revenue (excluding customs revenue) collected for 2013/14 amounted to R724.2 billion against the 2013/14 revised estimate of R724.7 billion. This translated into a shortfall of R435 million.
7	Increased Tax compliance	Debt book as a % of tax revenue	11.17	10	9.2	0.8	
8	Increased Tax compliance	% PIT filing compliance	86.05	84	91.53	7.53	
9	Increased Tax compliance	% Audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) *	14.98	6	10.57	4.57	The positive variance in the Audit coverage is influenced by the increase in compliance, the growth in the register as well as an inflow of cases which is pre-determined by the set risk rules.
10	Increased Tax compliance	% in-depth audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) above the threshold	0.25	0.15	0.26	0.11	The positive variance is as a result of the high inflow of PIT cases generated by the risk engine which made up 54% of the overall coverage in the in-depth audit area.
11	Increased ease and fairness of doing business with SARS	% Uptake in electronic filing, declaration and payment submissions for all tax products	95.5	95	96.22	1.22	
12	Increased ease and fairness of doing business with SARS	% Uptake in electronic customs bills/declarations (EDI)	99.2	100	99.97	-0.03	Of the 6 131 624 declarations received, 6 129 755 were submitted electronically. This represents 99.97% of the EDI uptake for YTD.

NO.	STRATEGIC OUTCOME	STRATEGIC MEASURE			ACTUAL ACHIEVEMENT 2013/14	VARIANCE ON TARGET	COMMENTS/REASON FOR NEGATIVE VARIANCE AND POSITIVE VARIANCE >20%
		MEASURES	BASELINE	2013/14 TARGET			
13	Increased ease and fairness of doing business with SARS	Average processing turnaround time for PIT returns (working days)	0.26	Less than 1.0	0.16	0.84	The over achievement is due to the change to real time processing which was implemented during the financial year. Previously all returns received during the day were assessed at the end of the business day. This is now done real time.
14	Increased ease and fairness of doing business with SARS	Average processing turnaround time for CIT returns (working days)	0.87	Less than 2.0	0.47	1.53	The over achievement is due to the change to real time processing which was implemented during the financial year. Previously all returns received during the day were assessed at the end of the business day. This is now done real time.
15	Increased ease and fairness of doing business with SARS	Average processing turnaround time for VAT refunds (working days)	30.51	21	31.7	-10.7	The increased scrutiny on old refunds submitted in current year as well as refunds held back due to investigations caused the refund turnaround time to be high.
16	Increased ease and fairness of doing business with SARS	% of VAT refunds processed within 14 days *	This is a new measure	72	69.6	-2.4	This is a new measure. The service standard for compliant taxpayers remained consistent with 69.6% of taxpayers receiving their refunds within 14 days.
17	Increased cost effectiveness, internal efficiency and institutional respectability	Employee Engagement	57.10%	51%	64.09%	13.09	The survey results are in line with the previous years' results and show a steady increase since 2009/10.
18	Increased cost effectiveness, internal efficiency and institutional respectability	Leadership Effectiveness Index	88.15%	87%	85.27%	-1.73	The LEI declined slightly but remained satisfactory.

NO.	STRATEGIC OUTCOME	STRATEGIC MEASURE			ACTUAL ACHIEVEMENT 2013/14	VARIANCE ON TARGET	COMMENTS/REASON FOR NEGATIVE VARIANCE AND POSITIVE VARIANCE >20%
		MEASURES	BASELINE	2013/14 TARGET			
19	Increased cost effectiveness, internal efficiency and institutional respectability	Employment Equity: Demographics	71.02%	71%	71.26%	0.26	
20	Increased cost effectiveness, internal efficiency and institutional respectability	Employment Equity: Gender on Management Level	41.07%	42%	40.63%	-1.37	Due to staff exits during February and March which will only be replaced early in the new financial year.
21	Increased cost effectiveness, internal efficiency and institutional respectability	Employment Equity: Disability *	2.03%	2.18%	1.99%	-0.19	Due to attrition and a low recruitment rate.
22	Increased cost effectiveness, internal efficiency and institutional respectability	Treasury allocation to revenue percentage	1.07	Between 1.0 and 1.2	0.97	0.03	
23	Increased cost effectiveness, internal efficiency and institutional respectability	Unqualified report by Auditor-General	Unqualified report	Unqualified report	Clean audit report		

* Measures and/or targets differ from the printed version of the Strategic Plan and Annual Performance Plan due to amendments approved by the Minister of Finance on 13 December 2013.

The development measures as printed in the 2013/14 Strategic Plan and Annual Performance Plan were, on the recommendation of the Auditor General, and subsequent approval of the Minister of Finance on 13 December 2013, removed from the SARS measurement outcomes and therefore do not appear on this Schedule of Performance Information.

The "Interfront Deliverable" measure as printed in the 2013/14 Strategic Plan and Annual Performance Plan was removed as approved by the Minister of Finance on 13 December 2013.

Part three

GOVERNANCE, LEGAL AND RISK MANAGEMENT

03

3.1 THE SARS EXECUTIVE COMMITTEE

Table 27: SARS Executive Committee

Post	Name of Official
Commissioner (4 months, March - July)	Oupa Magashula (1)
Acting Commissioner (8 months, July - March)	Ivan Pillay
Deputy Commissioner (4 months, March - July)	Ivan Pillay
Chief Operating Officer	Barry Hore
Chief Officer: Legal and Policy	Kosie Louw
Chief Financial Officer (9 months, March – December)	Trix Coetzer (2)
Acting Chief Financial Officer (3 months, January – March)	Bob Head
Special Advisor to the Commissioner (9 months, March - December)	Bob Head
Chief Officer: Tax and Customs Enforcement and Investigations	Gene Ravele
Chief Officer: Human Resources (2 months, Feb - March)	Elizabeth Kumalo
Acting Chief Officer: Human Resources (10 months, March – January)	Takalani Musekwa
Group Executive: Large Business Centre	Sunita Manik
Acting Chief Officer: Strategy, Enablement and Communication (8 months, July – March)	Peter Richer

Resignations

1. Oupa Magashula resigned from SARS with effect 12 July 2013.
2. Trix Coetzer resigned from SARS with effect 31 December 2013.

3.2 THE SARS AUDIT COMMITTEE

The SARS Audit Committee has ensured its independence in accordance with Section 77 of the Public Finance Management Act (PFMA) and Treasury Regulations 27.1.3 and 27.1.4, through the appointment of an external chairperson, Mr Bongani Nqwababa, and three additional external (non-executive) members. The Chairperson and all the other members complied with statutory required competency, independence and conflict of interest requirements. The Chairperson temporarily recused himself in 2014 pending finalisation of a company taxation matter. He resumed responsibilities as Chairperson from July 2014.

In the year under review, the Audit Committee reviewed the effectiveness of SARS' internal control systems; the effectiveness of SARS' internal audit function; the risk areas of SARS' operations to be covered in the scope of internal and external audits; the adequacy, reliability and accuracy of financial information provided to management and other users of such information; and any accounting and auditing concerns identified as a result of internal and external audits. Also reviewed were SARS' compliance with legal and regulatory provisions; the activities of the internal audit function (including its annual work Programme); co-ordination with the Auditor-General; reports of significant investigations and the responses of management to specific recommendations.

The Audit Committee Report comprising, amongst others, details of membership and meetings conducted is included in Part five.

3.3 SARS ENTERPRISE RISK MANAGEMENT

Nature of risk management

SARS employs a comprehensive risk management policy, methodology and governance framework. Its risk management policy provides minimum standards and guidelines for the management of risk throughout the organisation. Each division and business unit within SARS applies its own risk management strategy and guidelines, which comply with this policy, to best address their specific requirements.

The SARS risk management policy and the risk governance framework clearly defines roles and responsibilities in the management of risk throughout the organisation.

The Enterprise Risk Management Committee, a sub-committee of the Executive Committee (EXCO), oversees the management of strategic and business operations risk. The Compliance Risk Committee, a further sub-committee of EXCO, oversees taxpayer and trader compliance risks. These committees, both of which are chaired by the Deputy Commissioner, meet every quarter.

Strategies to identify and manage risks

SARS conducts extensive research on and analysis of risk factors within and outside the organisation to determine their potential impact on its ability to deliver its strategic outcomes. This includes close scrutiny of risk factors within the global economy. Strategic risks identified in the SARS Strategic Plan are being reviewed by EXCO to determine whether they are still accurate.

The SARS risk management policy ensures that line managers are responsible for identifying and managing operational risks within their areas of responsibility.

Risk assessment forms an integral part of SARS' strategic and business planning as well as its performance management and budgeting processes. Its risk management policy requires all business units to incorporate risk assessment into their business plans. Details of how risk will be managed during the term of the business plan must be stated in the plan as well as an analysis of risks that might prevent the unit attaining its objectives and targets. Risk assessment is a key factor in the allocation of resources within the business units.

Each business unit operates an effectiveness team that manages risk, compliance, governance and business planning within the unit. It is responsible for maintaining an accurate and current divisional risk register that identifies the unit's risk factors, rates their likely occurrence and impact, and records measures taken to address these threats. Risk profiling is performed by the effectiveness team in accordance with the guidelines and framework of the SARS risk management methodology.

Addressing identified risks

Strategies to address major operational risks identified by SARS have been implemented throughout the organisation's business planning processes. This has ensured that the management of risk and performance is tightly integrated within all SARS business units.

SARS has begun implementing a centralised risk repository, BarnOwl, that enables business units throughout the organisation to electronically manage, monitor and track risks and related actions and controls. Implementation will be completed in the coming financial year.

SARS also conducts extensive training and awareness programmes to promote effective risk management and the application of its risk methodologies at all levels of the organisation. The implementation of risk management initiatives and other risk related activities are tracked in reports submitted to the Audit, Enterprise Risk and Compliance Risk committees.

3.4 LEGAL SERVICES

3.4.1 LEGISLATIVE RESEARCH, DRAFTING AND IMPLEMENTATION

SARS conducts extensive legal research to support the drafting and amendment of Acts of Parliament, tax proposals and international tax and customs agreements. National Treasury is responsible for drafting and amending South Africa's taxation laws, while SARS is responsible for drafting and amending administrative and customs laws.

3.4.1.1 Draft Customs Bills

The rewriting of the customs portion of the Customs and Excise Act, 1964, was completed during the 2013/14 financial year and three Bills, the Customs Control Bill, the Customs Duty Bill and the Customs and Excise Amendment Bill, were prepared for Parliament.

The Bills provide a flexible legal framework that supports the SARS Strategic Plan. Key features of the Control and Duty Bills include:

- The Bills are written in plain language and presented in a simple format to encourage customs compliance

- Electronic communication and risk management based on electronic information will increase ease and fairness of doing business with SARS
- Electronic communication will also increase cost effectiveness and internal efficiencies which will facilitate legitimate trade
- Improved control and enforcement measures introduced in the Bills will enable SARS to better detect and prevent illegal trade
- The Customs Control Bill also serves as a platform for the administration of other taxes on imported or exported goods

3.4.1.2 Amendment Acts

SARS is not responsible for drafting tax legislation. However, it helps formulate and draft amendments to legislation and proposed new tax regulations and notices. It meets frequently with organisations such as the Department of Trade and Industry, the Department of Labour, and the Department of Mineral Resources as well as tax practitioner organisations to help improve tax legislation and regulations. SARS was influential in the drafting of the following legislation:

- The Taxation Laws Amendment Act, 2013 (Act No. 31 of 2013) promulgated on 12 December 2013
- The Merchant Shipping (International Oil Pollution Compensation Fund Contributions Act, 2013 (Act No. 36 of 2013)) promulgated on 8 January 2014
- The Tax Administration Laws Amendment Act, 2013 (Act No. 39 of 2013) promulgated on 17 January 2014

3.4.1.3 International tax and customs agreements

As part of its drive to improve South Africa's international treaty network and encourage co-operation between tax administrations, SARS negotiated 16 international tax agreements during the 2013/14 financial year.

These agreements included:

African Tax Administration Forum (ATAF)/South Africa Host Country Agreements; General Administration of China Customs-SARS Declaration of Intent on Capacity Building; General Administration of China Customs-SARS Minutes of the Action Plan; Qatar Double Taxation Agreement (DTA); Cook Islands Tax Information Exchange Agreement (TIEA); Belgium Protocol; Uruguay TIEA; Jamaica TIEA; Germany Protocol; Malawi DTA; Isle of Man limited DTA; United Arab Emirates DTA; Lesotho DTA; Angola Customs Mutual Administration Assistance (MAA); Ghana Customs MAA and the United States of America Foreign Account Tax Compliance Act (FATCA) Model 1 Agreement, Annex I and Annex II.

3.4.2 INTERPRETATION OF LAWS ADMINISTERED BY SARS

SARS helped provide clarity, consistency and certainty on the interpretation of tax legislation and other laws it administers. It achieved this by:

- Issuing interpretation notes, guides and brochures on new and/or contentious areas of legislation
- Updating existing documents to comply with current thinking and developments in legislation and court cases
- Issuing non-binding opinions on all the Acts administered by SARS
- Issuing binding private and class rulings on future transactions
- Issuing binding VAT rulings

During the financial year 85 policy documents, including binding general rulings, guides, brochures and interpretation notes were issued. A few require special mention and are set out in the following table.

Table 28: Key documents published in the 2013/14 financial year

Document	Purpose of document
Second Draft IN on allowance for future expenditure on contracts	The initial document was released earlier, but due to serious concerns expressed by some stakeholders the draft was reworked and special attention was directed to these concerns and input requested again.
Draft IN 18 (Issue 3) on rebates and deduction for foreign taxes on income	This draft is a re-issue of an existing document, but totally revised and very comprehensive on rebates allowed for foreign taxes payable on income taxable in South Africa and in a foreign jurisdiction.
Discussion Paper on Contingent Liabilities	This is a highly contentious area in the legislation and affects all merger and acquisition transactions.
Discussion Paper on Loyalty Programmes	This discussion document examines the VAT implications of the various types of loyalty programmes.

3.4.3 DISPUTE RESOLUTION

Disputes between SARS and taxpayers are addressed through litigation, the Alternative Dispute Resolution Process, or a combination of both mechanisms. Revenue and customs cases addressed through litigation during the 2013/14 financial year are shown in Table 29 below.

Table 29: Breakdown of revenue and customs cases dealt with through litigation

Revenue Appeal cases		Customs Appeal cases	
Tax Court	**Quantity**	**Magistrate Court**	**Quantity**
Won	5.5	Won	0
Lost	2.5	Lost	0
Total cases	8	Total cases	0
High Court		**High Court**	
Won	8	Won	4
Lost	2	Lost	1
Total cases	10	Total cases	5
Supreme Court of Appeal cases		**Supreme Court of Appeal cases**	
Won	5	Won	2
Lost	0	Lost	0
Total cases	5	Total cases	2
Constitutional Court cases		**Constitutional Court cases**	
Won	0	Won	1
Lost	1	Lost	1
Total cases	1	Total cases	2

A total of 381 dispute cases were addressed by the Alternative Dispute Resolution process at SARS' head office and a further 1 904 at regional offices. The Tax Board heard 78 disputes between taxpayers and SARS and 152 cases were finalised by the tax court unit.

3.4.4 PRODUCT OVERSIGHT

Product oversight services include:

- Assisting National Treasury to design legislation that takes into account the operational ability of SARS
- Assisting with the implementation of tax legislation by aligning SARS' policies, procedures and practices

When addressing the alignment of tax policy, the product oversight unit facilitates the implementation of legislation. It also identifies aspects of tax law that need to be changed to accommodate SARS' operational constraints and points to SARS operations that should be modified to better accommodate tax law or policy.

3.4.5 LEGAL SERVICES AT SARS REGIONAL OFFICES

Legal services operates at several SARS regional offices. Its services address tax and customs legislation as well as disputes and other matters. Customs assistance included drafting legal opinions and warrants. Tax services included issuing opinions, providing support and guidance on governance committees and managing escalations at the SARS Service Monitoring Office (SSMO).

3.4.6 CORPORATE LEGAL SERVICES

Legal services and advice were provided to SARS that addressed corporate law as well as other legislation that might impact SARS' operations and administration. Corporate Legal Services also helped ensure SARS was compliant with corporate legislation and regulations and adequately mitigated risk in its commercial dealings. Better contract oversight and the mitigation of the risk of serious litigation by suppliers were important achievements during the 2013/14 financial year.

3.4.7 VOLUNTARY DISCLOSURE UNIT

The Voluntary Disclosure Programme (VDP) yielded revenue of R5 billion during the 2013/14 financial year. The conclusion of the temporary VDP project that commenced in 2010 yielded R3.8 billion and the permanent VDP under the Tax Administration Act R1.2 billion.

3.5 INTERNAL AUDIT

SARS Internal Audit helps SARS maintain effective audit controls throughout the organisation. It evaluates these controls to determine their adequacy, effectiveness and efficiency and, where necessary, recommends improvements.

During the year under review, Internal Audit drafted the annual audit plan and the three year rolling plan. The plan, which addressed challenges identified by the SARS Executive Committee, was approved by the Audit Committee. Among the challenges the plan addresses are tax compliance; service delivery and efficiency; security of information; modernisation; fraud; data integrity; governance; border control and trade facilitation; and human resources. Internal Audit also conducted a variety of assignments, including consulting reviews and following up some of its recommendations, to improve audit processes.

National Treasury requires public entities to conduct internal audits in accordance with the standards set by the Institute of Internal Auditors. SARS Internal Audit conforms to these standards. It will commission an external review in 2016 to ensure it continues to adhere to the Institute's standards. Internal Audit's Quality Assurance and Technical Support teams monitor audit performance within SARS and provide on-going feedback to enhance the quality of audits. Audits are conducted by audit personnel within Operations Audit (tax and customs operations); Information Systems Audit; Forensic Audit; Performance Audit; and Support Services Audit (human resources, facilities and finance).

The Chief Audit Executive is the SARS "Accounting Authority" and in this capacity reports administratively to the Commissioner. The Chief Audit Executive reports functionally to the SARS Audit Committee. This committee comprises of independent members who are not SARS executives.

3.6 MINIMISING CONFLICT OF INTEREST

SARS seeks to minimise conflict of interest by ensuring that its staff comply with the organisation's ethics policy. This policy stipulates that employees must declare private interests and obtain permission from SARS to conduct work outside the organisation. SARS checks the owners and directors of its suppliers to ensure that none of its staff benefit from its procurement contracts. SARS employees are prohibited from conducting business with the organisation and, in terms of local government regulations, they may not conduct business with municipalities.

The SARS ethics policy stipulates that employees must maintain neutral relationships with the organisation's service providers. Procurement officials who find themselves compromised must disclose this situation to SARS through channels established by the organisation for this purpose.

Procurement officials are forbidden from providing insider information to service providers attempting to secure work from SARS.

If SARS detects that an employee has a possible conflict of interest it will request the employee to explain the circumstances of this potential conflict. Employees deemed by SARS to be in conflict of interest are withdrawn from the activities in which they are compromised and may be required to resign. Employees can appeal such decisions and may request to appear before the SARS Ethics Committee.

3.7 CODE OF CONDUCT

Integrity is essential for SARS because it impacts the organisation's ability to achieve its mission to promote voluntary compliance and raise revenue collection. To reinforce its commitment to integrity among all its employees SARS has begun revising its Code of Conduct. The revised Code of Conduct will be better aligned to SARS' values and policies. It will also be more effective in promoting ethical behaviour throughout the organisation. Special attention has been given to drafting guidelines for senior managers. Consultation with employees has begun and the revised Code of Conduct will be finalised in the coming financial year.

3.8 HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

SARS recognises the importance of employee health and safety. Occupational injury and illness are not only matters of health, they also have economic consequences.

Costs associated with poor health and safety management include:

- Reputational damage
- Loss of employee time at work due to an injury in the workplace
- Loss of employee time at work due to assistance of a colleague injured in the workplace
- Absenteeism due to illness or injury
- Possible compensation

Properly executed health and safety initiatives ensure fewer accidents and ailments among employees. This reduces compensation costs, improves the organisation's image and enhances the motivation of its workforce.

3.9 SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR)

During the 2013/14 financial year the SARS Corporate Social Responsibility (CSR) team built on the successes it achieved during the previous year. It collaborated with the departments of education, health, social development, and local government, as well as the South African Police Service (SAPS) and the South African Social Security Agency (SASSA), to support communities around the country.

The SARS CSR programme supports Government priorities such as improving education and health care and combatting crime. It donates assets, such as IT equipment and furniture, and also conducts programmes to support community leaders, educators and learners.

Education projects

The education projects supported by the SARS CSR programme address the needs of schools near border posts such as Skilpadshek, Ficksburg, Maseru, Jeppes Reef, Beitbridge and Nakop. These "adopted" schools received gifts of IT equipment and furniture as well as educator and learner support such as career guidance courses, motivational sessions and donations of stationery.

SARS encourages its employees to participate in community projects. Many employees donate time, skills and knowledge, as well as food and clothing, to help their communities. SARS often supports these donations with gifts of equipment and other resources. Schools supported by SARS employees include the Pula Difate Primary School in Mamelodi, the Kgwadiamoleke School in Polokwane, the Frans Rasimphi Secondary School in Thilapala Limpopo and the Booysens Park High School in Port Elizabeth.

SARS' CSR programme donated assets, including IT equipment and accessories, to 171 beneficiaries during the 2013/14 financial year. Some of these donations were given to organisations that the CSR team has supported in the past to meet further requirements while others were supplied to new recipients.

Health projects

The SARS CSR programme supported Cape Town's Nomaxabiso Disability Centre in Gugulethu and the Emasithandane Orphanage in Nyanga East as well as the Duduzwane Hospice in Johannesburg and the Kings and Queens Home in Bizana, Eastern Cape, during the 2013/14 financial year. It provided these institutions with IT equipment, furniture, blankets, clothing and groceries as well as help with their tax affairs.

Celebration of national events

SARS staff participated in a variety of initiatives around the country on 18 July 2013 to commemorate Mandela Day. They visited schools, old age homes, care centres and poor communities to donate food and other goods. Many employees who were unable to leave their offices supported Mandela Day by serving soup and tea to taxpayers queuing at SARS premises.

Part four

HUMAN RESOURCES

04

4.1 HUMAN RESOURCE OVERSIGHT

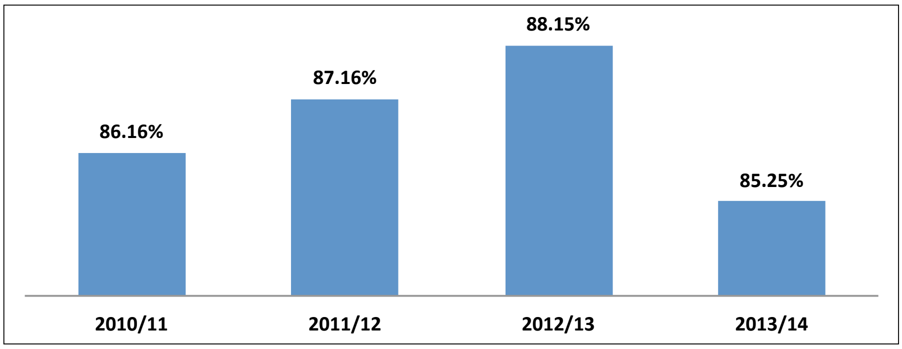
4.1.1 INTEGRATED OPERATING MODEL AND VALUE-BASED LEADERSHIP

SARS has implemented leadership development programmes to enhance the performance of its senior managers. These programmes remedy weaknesses identified in performance assessments, observations and reviews.

The 2013/14 Leadership Effectiveness Index (LEI), conducted among senior and top managers, declined slightly but remained satisfactory at 85.25%. The index has remained around this mark during the past four years.

The LEI results for the past four years are illustrated in Graph 5.

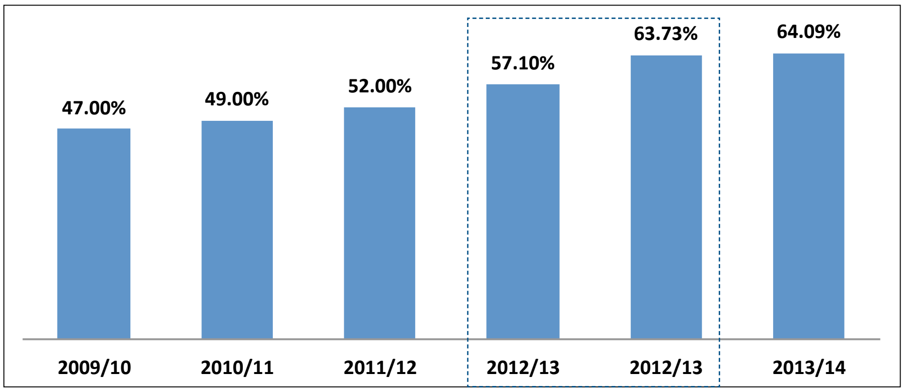
Graph 5: Leadership Effectiveness Index



4.1.2 IMPROVING ORGANISATIONAL CULTURE AND EMPLOYEE ENGAGEMENT

The annual Employee Engagement survey attracted the second highest participation rate since its inception in 2007. This high response was bolstered by the timing of the survey which took place outside the annual revenue collection drive. During the 2013/14 financial year 70.58% of employees took part in the survey. Employee engagement in the survey measured 64.09%. The SARS overall Engagement results indicate a year-on-year improvement trend since its inception in 2007. During the 2012/13 financial year Employee Engagement levels were calculated with two formulas and both engagement results are illustrated on the graph. The new calculation method with a result of 63.73% is the baseline for target setting going forward. The 57% was utilised for the 2012/13 performance measures on the set targets for 2012/13. The engagement trend during the past five years is illustrated in Graph 6.

Graph 6: Employee Engagement Index



4.2 ENABLING OUR PEOPLE TO PERFORM AT THEIR PEAK

4.2.1 PEOPLE DEVELOPMENT

SARS furthered its people development programme during the year under review by introducing a new eLearning solution that improves the administration of courses attended by employees. The eLearning solution ensures that training requirements identified by an employee's Personal Development Plan (PDP) are addressed and recorded on their staff profiles.

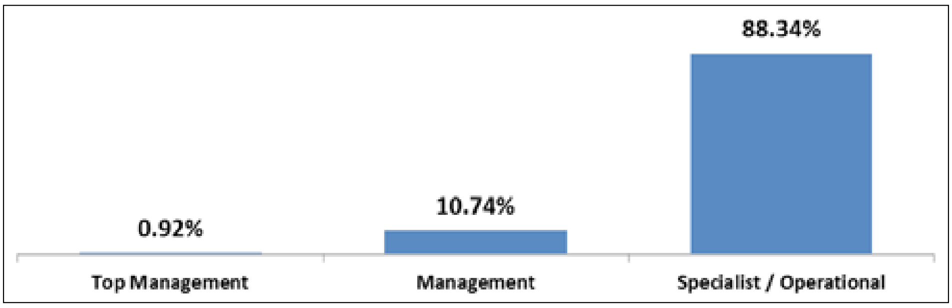
SARS continues to review and refine its learning and development processes to enable its employees to further their skills, knowledge and expertise and enhance their performance.

Steady investment in employee learning and development has enabled SARS to establish an extensive curriculum of business and leadership courses. During the 2013/14 financial year, SARS conducted 393 courses and 2 148 training sessions.

4.3 SARS WORKFORCE PROFILE

SARS' employee headcount at the end of March 2014 was 14 137. This excludes 20 temporary employees. Most of SARS employees (88.34%) are specialists or operational staff (Graph 7).

Graph 7: Workforce profile



During the year under review 369 employees were recruited from outside the organisation. The staff attrition rate during the 2013/14 financial year was slightly higher than the previous year. Net staff turnover was -3.92% (Table 30).

Table 30: Net staff turnover

Re-Instatements	External Recruitment	Attrition	Recruitment Rate	Attrition Rate	Net Staff Turnover %
1	369	934	2.56%	6.48%	-3.92%

Staff attrition during the 2013/14 financial year comprised 723 resignations, 106 retirements, 72 Employee Relations (ER) terminations and 33 deaths.

Table 31 shows permanent and temporary staff numbers in the past five financial years.

Table 31: Comparative staff numbers

	2009/10	2010/11	2011/12	2012/13	2013/14
Permanent Employees	14 738	14 967	14 944	14 701	14 137
Temporary Employees	525	329	332	79	20
Employees Total (incl. Temps)	**15 263**	**15 296**	**15 276**	**14 780**	**14 157**

4.3.1 EMPLOYMENT EQUITY AND WORKPLACE DIVERSITY

SARS continues to prioritise employment equity. It strives to achieve annual equity targets for race, gender and disability among its managers and other staff. The table below indicates the employment equity profile of the SARS workforce across its various occupational levels.

Table 32: Workforce profile relating to Employment Equity

Occupational Levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	7	5	4	13	3	2	1	2	1	0	38
Senior management	352	78	127	370	245	48	88	281	14	8	1 611
Professionals	509	98	89	291	477	117	96	390	10	6	2 083
Skilled	1 885	325	160	438	2 724	575	270	1 682	11	13	8 083
Semi-skilled	390	71	11	47	924	211	42	474	4	2	2 176
Unskilled	50	12	0	5	66	12	0	1	0	0	146
GRAND TOTAL	**3 193**	**589**	**391**	**1 164**	**4 439**	**965**	**497**	**2 830**	**40**	**29**	**14 137**

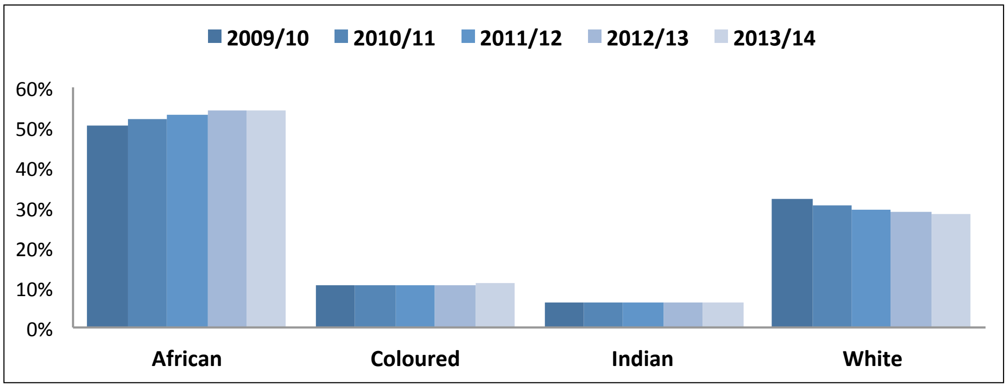
Occupational Levels	Explanation
Top Management	Grade: 9 - 10 represents SARS Commissioner, Chief Officers and Group Executives
Senior Management	Grade: 7 - 8B represents managerial positions with the following job titles: Executive, Senior Manager, Manager and Specialist
Professionals	Grade: 6 represents Operational Specialists and Team Leaders
Skilled	Grade: 4-5 represents Graduate Trainees and Functional Operators
Semi-Skilled	Grade: 2-3 represents Support Staff
Unskilled	Grade: 1 represents General Assistants

(Note: A=Africans, C=Coloureds, I=Indians, W=Whites)

4.3.2 RACE WORKFORCE PROFILE

The total SARS headcount among various racial sectors is shown in Graph 8.

Graph 8: Race workforce profile

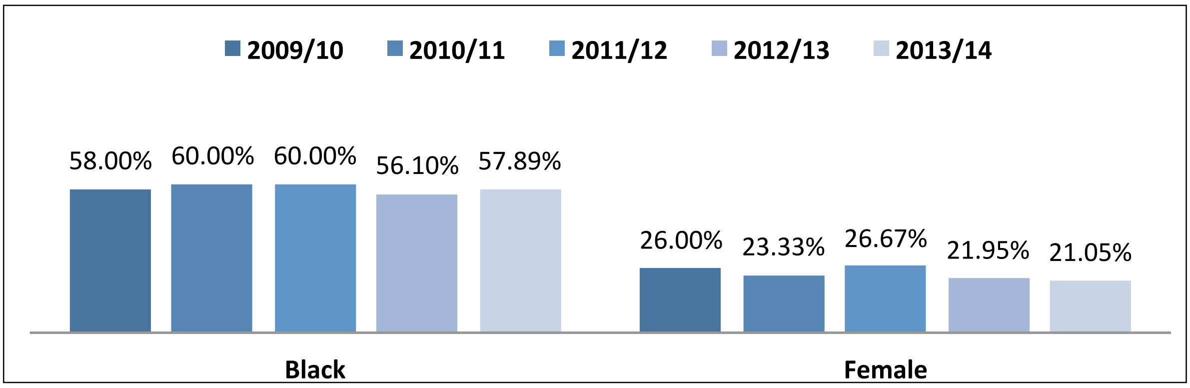


4.3.3 BLACK AND FEMALE WORKFORCE PROFILE

The graphs in this section provide the black and female workforce profile distribution from 2010 to 2014. Only the first four occupational levels, top management, senior management, professionally qualified and skilled, are presented because this is where people from designated groups are most under-represented in our country.

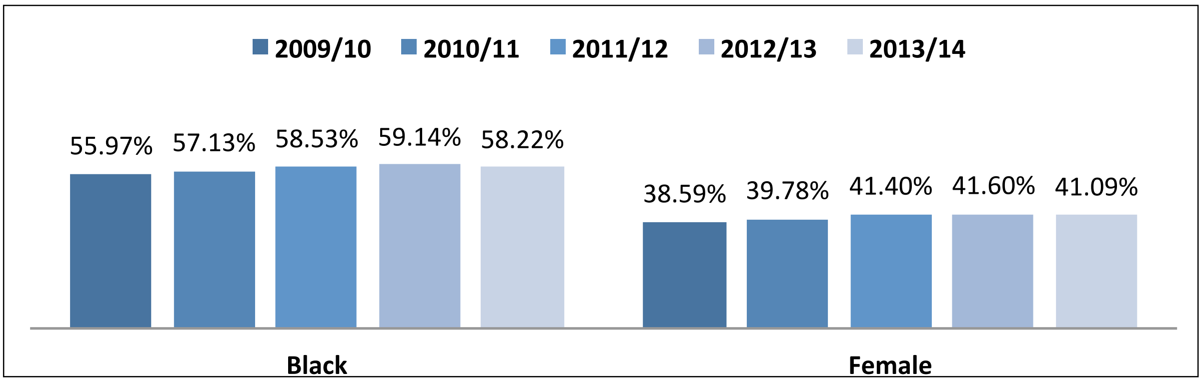
Graph 9 shows the black and female workforce profile at top management level since 2010.

Graph 9: Black and female workforce profile according to top management level since 2010



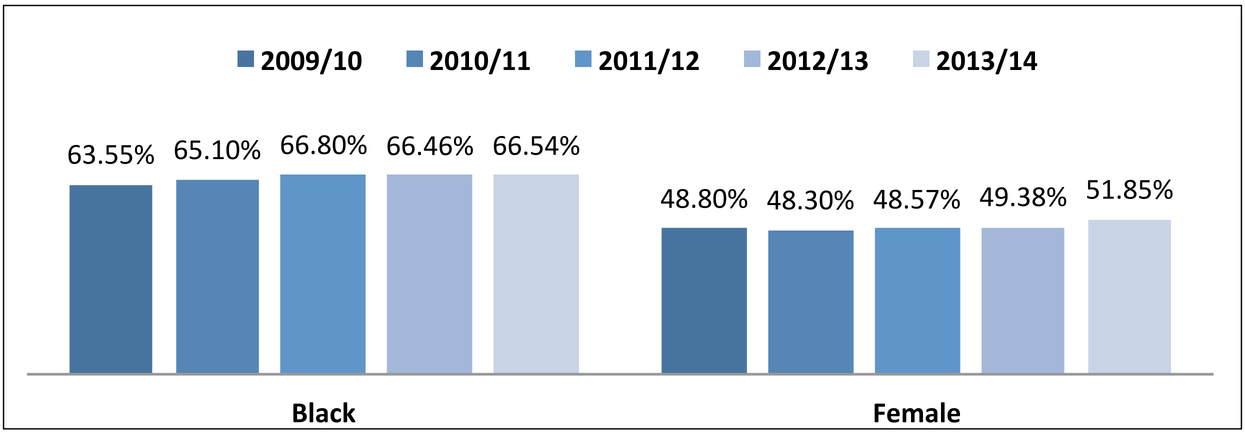
Both black and female representation declined slightly at top management level since 2011. The SARS EE Plan has prioritised the appointment of Africans, in particular women, in the next two years.

Graph 10: Black and female workforce profile according to senior management level since 2010



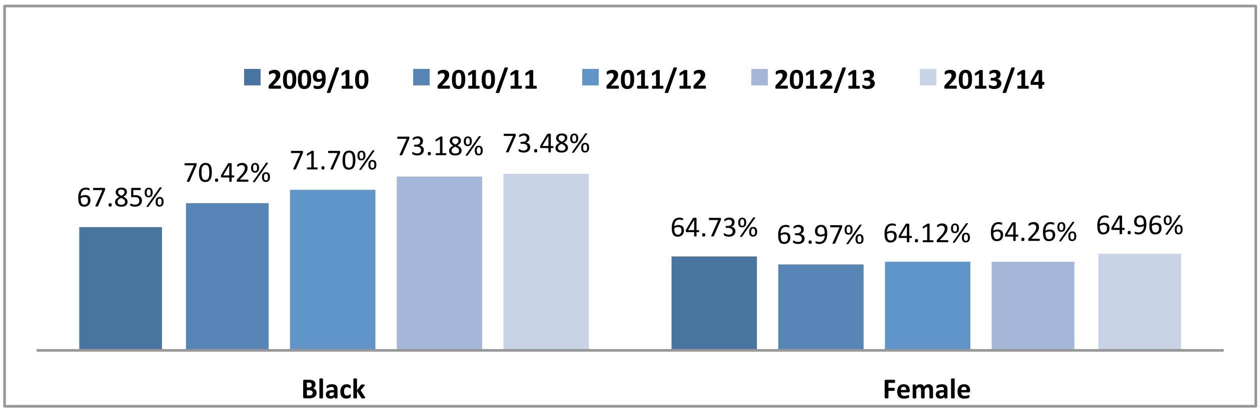
Both black and female representation increased at senior management level since 2011. In particular, black female representation increased from 20.41% in 2010 to 23.65% in 2014.

Graph 11: Black and female workforce profile according to professional qualified level since 2010



Black and female representation is also increased at the professional level.

Graph 12: Black and female workforce profile according to skilled level since 2010

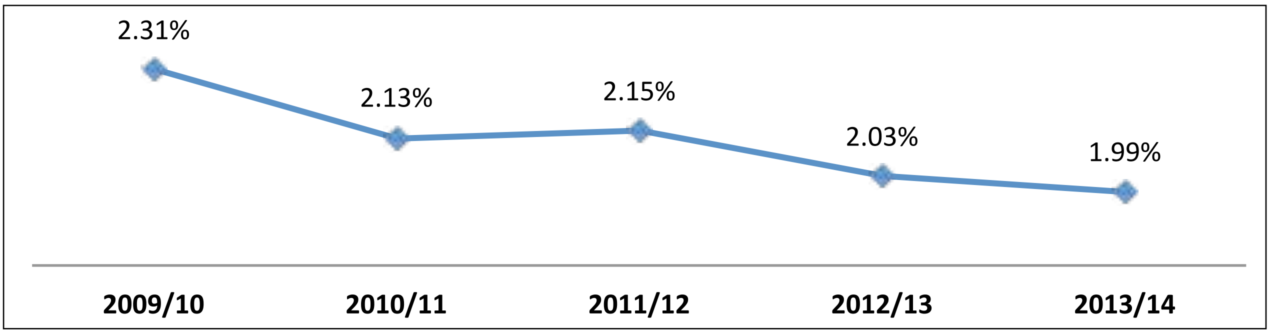


Female representation at the skilled level has remained constant since 2011. White females have historically been in the majority at this level. White female natural attrition has created opportunities to increase black representation at this level.

4.3.4 PERSONS WITH DISABILITY WORKFORCE PROFILE

The number of employees with disabilities in SARS has declined to 1.99% in this financial year as illustrated in Graph 13.

Graph 13: Persons with disability workforce profile



4.4 EMPLOYEE RELATIONS

SARS appreciates the value of worker representative bodies and recognises the importance of constructive engagement with recognised trade unions. The benefits of engagement in a constructive dialogue on issues of mutual interest affecting both the organisation and its employees are workforce stability and labour harmony.

SARS measures the effectiveness of its application of employment policies, procedures and collective agreements by tracking its success rate at the Commission of Conciliation, Mediation and Arbitration (CCMA). This body reviews and adjudicates disputes between SARS and its employees and assesses how the organisation applied its employment policies and procedures. During the 2013/14 financial year, SARS was involved in 74 disputes that had been referred to the CCMA. This was 23% less than the previous year. SARS' success rate of CCMA cases successfully defended, amicably settled and successfully dismissed from the CCMA case roll is 86.5%. This is higher than the industry norm.

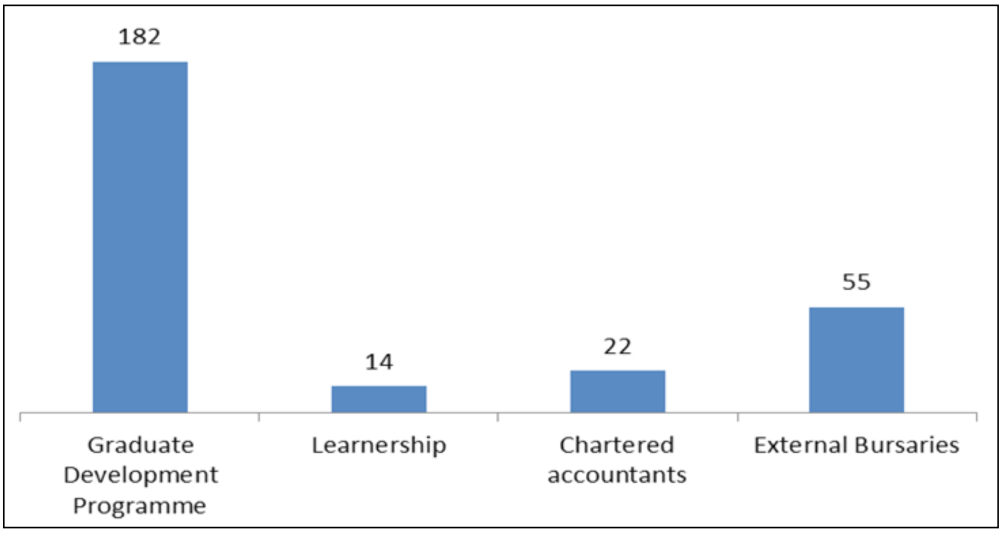
The Employment Relations (ER) business unit worked closely with SARS' human resources business partners as well as its shop stewards, line managers and presiding officers to ensure they were able to adequately address the needs of the organisation's employees. It provided these parties with both support and advice.

4.5 SKILLS PIPELINE AND YOUTH EMPLOYMENT

SARS has refined and expanded its skills pipeline strategy to encompass learners and potential employees as well as school leavers, university students and graduates.

The strategy includes development programmes for chartered accountants and graduates as well as learnerships and bursaries for learners at higher institutions of learning (Graph 14).

Graph 14: Learners in pipeline development programmes



Part five

FINANCIALS

05

5.1 REPORT OF THE AUDIT COMMITTEE


Bongani Nqwababa, Chairperson

INTRODUCTION

The Interfront Audit Committee is combined with the SARS Audit Committee. This allows for independent oversight.

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2014 in terms of Treasury Regulations 3.1.1.9 and 10 whereby the Audit Committee is required to report amongst others on the effectiveness of the internal controls, the quality of the monthly and quarterly reports, as well as its own evaluation of the annual financial statements.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee operates in terms of approved written terms of reference, which deals with its membership, authority and responsibilities. These terms of reference are reviewed on an ongoing basis to ensure their continued relevance (Treasury Regulations 27.1.6).

The composition of the Audit Committee members is such that all Treasury Regulations requirements are met in terms of financial literacy and independence. The Audit Committee consisted of four external members listed hereunder and held four meetings for the financial year under review. Mr Bongani Nqwababa voluntarily recused himself from the Audit Committee since March 2013. He resumed the duties of the Chairperson on 25 July 2014.

AUDIT COMMITTEE ATTENDANCE

Audit Committee Members	Meeting Dates			
	26-Jul-13	**30-Jul-13**	**13-Sep-13**	**15-Nov-13**
Mr Bongani Nqwababa (Chairperson Audit Committee): Finance Director: Anglo American Platinum Limited; B. Acc Hons (University of Zimbabwe), CA (ZIM), MBA in Finance (University of Manchester and Wales, Bangor)	x (Recused)	x (Recused)	x (Recused)	x (Recused)
Ms Berenice Lue-Marais: Head: Strategic Contracts, CSIR; MBA International Finance (The American University, Washington, DC), Bachelor of Arts, BA Economics (The University of the District of Columbia, Washington, DC)	√ (Chair)	√ (Chair)	√ (Chair)	√ (Chair)
Mr Vuyo Kahla: Executive: Vice-President Advisory & Assurance and Company Secretary: Sasol Limited; Bachelor of Arts (Rhodes University), LLB (Rhodes University)	√	√	√	√
Sathie Gounden: Professional Director B. Compt. - Unisa Diploma in Accounting - University of Durban- Westville; Chartered Accountant (S.A.); Registered Auditor; Certificate in Forensic Accounting & Fraud Examination - University of Pretoria; Fellow of the Institute of Chartered Secretaries (CIS)	√	√	√	√

AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a)(ii) and 76(4)(d) of the PFMA, and Treasury Regulation 27.1. The Audit Committee has regulated its affairs in compliance with its Terms of Reference and has discharged all its responsibilities as contained therein.

THE EFFECTIVENESS OF INTERNAL CONTROL

The system of internal controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. From the various reports issued by the Internal Audit function, the external Audit Report on the Annual Financial Statements and management letters of the Auditor-General, it was noted that no significant or material non-compliance with prescribed policies and procedures has been reported.

In line with the PFMA and the King III Report on Corporate Governance, the Internal Audit function provided the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

The Audit Committee satisfied itself that SARS took the necessary steps to maintain the effective functioning of its Internal Audit unit. Accordingly, the committee reports that the systems of internal controls for the period under review were effective and efficient.

EVALUATION OF FINANCIAL STATEMENTS

The Audit Committee has:

a) Reviewed and discussed the audited Annual Financial Statements to be included in the annual report with the Auditor-General and the Accounting Officer

b) Reviewed the Auditor-General's management letters and management's responses thereto

c) Reviewed accounting policies

d) Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the Annual Financial Statements and recommends that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.

Bongani Nqwababa

Chairperson

25 July 2014

5.2 ADMINISTERED REVENUE

In previous years, the reporting activities of SARS were divided into the Administered Revenue and Own Accounts. In terms of its mandate, SARS administers various taxes, duties and levies on behalf of organs of state and other institutions. The reporting of Administered Revenue relates to those assets, liabilities, revenue and expenses which are administered by SARS on behalf of Government, organs of state and other institutions.

In the 2012/13 Annual Report, SARS committed to resolving the uncertainty regarding the status of SARS Administered Revenue as a separate entity for reporting purposes in the 2013/14 year.

SARS and the Office of the Accountant-General concluded that SARS Administered Revenue is not a separate legal entity and that the financial information thereof presented to the Office of the Accountant-General will be prepared for consolidation purposes and provided in the formats required by National Treasury. A separate set of annual financial statements is therefore no longer a requirement.

5.3 OWN ACCOUNTS

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The following supplementary information does not form part of the financial statements and is unaudited:

Annexure 1 – Tax Computation – Controlled Entity………………………………………………… 132

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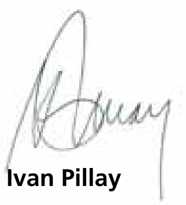
The financial statements set out on pages 79 to 131, which have been prepared on the going concerns basis, were approved and signed by:



Ivan Pillay

Acting Commissioner

25 July 2014

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SOUTH AFRICAN REVENUE SERVICE (SARS): OWN ACCOUNTS

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of SARS Own Accounts and its subsidiary set out on pages 79 to 131, which comprise the consolidated and separate statement of financial position as at 31 March 2014, the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the consolidated and separate financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Public Finance Management Act of South Africa,1999 (Act no.1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the SARS Own Accounts and its subsidiary as at 31 March 2014 and their financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the PFMA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

7. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2014:
    - Objective 2: Increased Tax Compliance on page 51
    - Objective 3: Increased Ease and Fairness of doing business with SARS on pages 51 to 52

9. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

10. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

11. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

12. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Achievement of planned targets

14. Refer to the annual performance report on pages 50 to 53 for information on the achievement of the planned targets for the year.

Compliance with legislation

15. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

16. I considered internal control relevant to my audit of the financial statements, Schedule of Performance Information (SoPI) and compliance with legislation. I did not identify any significant deficiencies in internal control.

Auditor-General

Pretoria

31 July 2014

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT BY THE SARS ACCOUNTING AUTHORITY FOR THE YEAR ENDED 31 MARCH 2014

INTRODUCTION

The Accounting Authority presents his Annual Report that forms part of the Annual Financial Statements of SARS Own Accounts for the year ended 31 March 2014. Specific reference has been made to Administered Revenue where applicable, otherwise all other statistics quoted are for Own Accounts.

The South African Revenue Service (SARS) was established in terms of the South African Revenue Service Act, 1997(Act No. 34 of 1997) as an organ of the state within the public administration, but as an institution outside the public service. It is listed as a national public entity in schedule 3A of the Public Finance Management Act, 1999, (PFMA).

In terms of the SARS Act, 1997, the Commissioner for SARS is the Chief Executive Officer and Accounting Authority of SARS.

1. EXECUTIVE MEMBERS

The Executive Committee (EXCO) is an oversight committee of SARS and is accountable to the Commissioner. Its powers and terms of reference are delegated and approved by the Commissioner.

The EXCO members that served during the 2014 Financial Year were:	
Oupa Magashula	Commissioner and EXCO Chairperson
Ivan Pillay	Deputy Commissioner and Acting Commissioner and Exco Chairperson
Barry Hore	Chief Operating Officer
Kosie Louw	Chief Officer: Legal and Policy
Trix Coetzer	Chief Financial Officer
Gene Ravele	Chief Officer: Tax and Customs Enforcement Investigations
Elizabeth Kumalo	Chief Officer: Human Resources
Takalani Musekwa	Acting Chief Officer: Human Resources
Sunita Manik	Group Executive: Large Business Centre
Bob Head	Special Advisor: Commissioner and Acting Chief Financial Officer
Peter Richer	Acting Chief Officer: Strategy, Enablement, and Communication

Executive Committee appointments and resignations

Oupa Magashula resigned in July 2013 and Trix Coetzer in December 2013. Elizabeth Khumalo was appointed in February 2014.

ORGANISATIONAL STRUCTURE

The organisational structure of SARS is reviewed as and when the need arises to enable it to fulfil its obligations towards Parliament and the Constitution.

2. PRINCIPAL ACTIVITIES

The SARS Act, 1997, gives the entity the mandate to perform the following tasks:

- Collect all revenues that are due
- Ensure maximum compliance with tax and customs legislation
- Provide a customs service that will maximise revenue collection, protect our borders and facilitate trade.

3. REVIEW OF OPERATIONS AND RESULTS (amounts disclosed in R'000)

OWN ACCOUNTS

The Revenue for the year was made up as follows:

	% change	2014	2013
Operating revenue	4.13%	9 542 872	9 164 796
- Transfers from National Treasury	4.12%	9 534 393	9 149 374
- Rendering of Services	-45.02%	8 479	15 422
Other Income	4.37%	446 777	428 068
- Interest received	-9.36%	133 105	146 858
- Other income	11.54%	313 672	281 210
	4.14%	**9 989 649**	**9 592 864**

The Grant from National Treasury increased in line with the approvals obtained through the Medium Term Expenditure Framework (MTEF). Interest earned fluctuated in line with interest rates and funds temporarily available for investment.

Other revenue consists mainly of commissions earned from acting as the agent for the Department of Labour in collecting Unemployment Insurance Fund contributions (UIF) in terms of the Unemployment Insurance Contributions Act, 2002, and Skills Development Levies (SDL) in terms of the Skills Development Levies Act, 1999.

In addition to the commissions earned, SARS also receive funds for claims from the Department of Higher Education and Training for SARS' contribution to skills development in the form of training provided internally. SARS is entitled to claim a mandatory grant equivalent to 20% and a discretionary grant equivalent to 49.5% of the total levies paid by SARS as an employer to the Skills Development Fund in accordance with the Skills Development Act, 1998 (Act No.97 of 1998).

The surplus for the year was as follows:

	2014	2013
Balance accumulated surplus at 1 April as previously reported	2 766 124	1 877 776
Prior year adjustments	(17 127)	16 707
Restated balance 1 April	2 748 997	1 894 483
Net surplus/(deficit) for the year	1 222 895	871 641
Balance accumulated surplus at 31 March	**3 971 892**	**2 766 124**

ADMINISTERED REVENUE (amounts disclosed in R'000)

The net revenue for the year was R898 101 333 (2013: R807 706 743). Administered Revenue does not retain funds as taxes collected are transferred to the National Revenue Fund on a daily basis.

Revenue for Administered Revenue comprises the taxes, levies, duties, fees and other monies collected for the year. The net revenue is the amount collected after deduction of payments made by the National Treasury to the South African Customs Union. The operating expenditure for Administered Revenue is provided for in the Own Accounts budget.

	% change	2014	2013
Total revenue	10.78%	941 475 717	849 858 019
SA Customs Union Agreement	2.90%	43 374 384	42 151 276
Net revenue	**11.19%**	**898 101 333**	**807 706 743**

Revenue collected is a function of the prevailing economic conditions, their effect on the South African economy and the level of compliance.

4. JUDICIAL PROCEEDINGS

SARS has been mandated by the provisions of the SARS Act to perform legal acts, or institute or defend any legal action in its own name. By virtue of its mandate SARS is involved in litigation on a continuous basis.

5. REVIEW OF THE FINANCIAL POSITION

Reserves and accumulated surplus:
Reserves and surpluses consist of the asset revaluation reserve and accumulated surpluses.

Assets:
For the period under review SARS has continued to invest in selected categories of assets to achieve its strategic objectives.

6. SURRENDER OF SURPLUS FUNDS (amounts disclosed in R'000)

SARS did not surrendered surplus funds during the financial year under review in to National Treasury and did not provide for an obligation to surrender surplus funds from the 2014 financial year.

7. PUBLIC/PRIVATE PARTNERSHIPS

There are currently no Public/Private Partnerships in operation or under consideration.

8. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (amounts disclosed in R'000)

There are currently no events subsequent to the balance sheet date that requires disclosure.

9. ADDRESSES

The entity's business, postal and registered addresses are:

Business address	Postal address	Registered address
299 Bronkhorst Street Nieuw Muckleneuk 0181	Private bag X923 Pretoria 0001	299 Bronkhorst street Nieuw Muckleneuk 0181

Addresses for SARS' other offices are available from SARS.

Ivan Pillay
Acting Commissioner
South African Revenue Service **25 July 2014**

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

		Economic entity		Controlling entity	
		2014	2013 Restated*	2014	2013 Restated*
	Note(s)	R '000	R '000	R '000	R '000
Assets					
Current Assets					
Trade and other receivables	3	64 235	66 537	61 965	65 037
Current tax receivable - controlled entity	9	3 583	2 300	-	-
Prepayments	24	55 361	84 751	54 394	84 751
VAT receivable		-	121	-	-
Cash and cash equivalents	4	2 925 324	1 747 705	2 901 681	1 732 375
		3 048 503	**1 901 414**	**3 018 040**	**1 882 163**
Non-Current Assets					
Property, plant and equipment	5	1 526 761	1 518 954	1 523 209	1 515 267
Intangible assets	6	1 057 132	1 015 786	1 196 192	1 097 317
Investment in controlled entity	7	-	-	-	-
Loan to controlled entity	8	-	-	74 699	66 559
Deferred tax - controlled entity	22	1 147	1 021	-	-
		2 585 040	**2 535 761**	**2 794 100**	**2 679 143**
Total Assets		**5 633 543**	**4 437 175**	**5 812 140**	**4 561 306**
Liabilities					
Current Liabilities					
Finance lease obligation	10	11 577	11 431	11 523	11 399
Trade and other payables	11	606 048	618 728	608 729	628 932
Deferred income	12	110	539	110	539
Provisions	13	380 509	400 320	377 137	399 000
VAT payable		414	-	-	-
		998 658	**1 031 018**	**997 499**	**1 039 870**
Non-Current Liabilities					
Finance lease obligation	10	11 885	17 396	11 789	17 396
Operating lease liability		232 932	245 843	232 717	245 482
Deferred income	12	-	67	-	67
Employee benefits	25&26	293 694	301 239	293 694	301 239
		538 511	**564 545**	**538 200**	**564 184**
Total Liabilities		**1 537 169**	**1 595 563**	**1 535 699**	**1 604 054**
Net Assets		**4 096 374**	**2 841 612**	**4 276 441**	**2 957 252**
Net Assets					
Asset revaluation reserve	14	124 482	92 618	124 482	92 618
Accumulated surplus		3 971 892	2 748 994	4 151 959	2 864 634
Net Assets		**4 096 374**	**2 841 612**	**4 276 441**	**2 957 252**

*see note 35

STATEMENT OF FINANCIAL PERFORMANCE

		Economic entity		Controlling entity	
		2014	2013 Restated*	2014	2013 Restated*
	Note(s)	R '000	R '000	R '000	R '000
Revenue					
Rendering of services	15	8 479	15 422	-	-
Other income	16	313 672	281 210	313 997	281 210
Interest received		133 105	146 858	139 762	153 778
Transfer from government entity	15	9 534 393	9 149 374	9 534 393	9 149 374
Total revenue		**9 989 649**	**9 592 864**	**9 988 152**	**9 584 362**
Expenditure					
Employee cost		(5 890 571)	(5 873 271)	(5 841 936)	(5 821 216)
Depreciation and amortisation		(569 124)	(509 097)	(562 354)	(506 180)
Impairment loss	17	(16 363)	(84 894)	(5 938)	(101 045)
Finance costs	18	(6 567)	(15 498)	(6 556)	(15 487)
Other expenses		(32 100)	1 320	(32 360)	(2 082)
Administrative expenses		(1 465 078)	(1 499 383)	(1 460 392)	(1 494 476)
Professional and special services		(783 784)	(749 315)	(791 706)	(755 790)
Total expenditure		**(8 763 587)**	**(8 730 138)**	**(8 701 242)**	**(8 696 276)**
Operating surplus		**1 226 062**	**862 726**	**1 286 910**	**888 086**
Gain /(loss) on disposal of assets		415	(926)	415	(926)
Surrender of surplus funds		-	(66)	-	(66)
		415	**(992)**	**415**	**(992)**
Surplus before taxation		**1 226 477**	**861 734**	**1 287 325**	**887 094**
Taxation	19	(3 582)	(7 223)	-	-
Surplus for the year		**1 222 895**	**854 511**	**1 287 325**	**887 094**

*see note 35

STATEMENT OF CHANGES IN NET ASSETS

	Revaluation reserve R '000	Accumulated surplus R '000	Total net assets R '000
Economic entity			
Balance at 01 April 2012	**61 679**	**1 894 483**	**1 956 162**
Changes in net assets			
Surplus for the year	-	854 511	854 511
Surplus in revaluation of land and buildings	31 543	-	31 543
Depreciation on the revalued portion of assets	(604)	-	(604)
Total changes	**30 939**	**854 511**	**885 450**
Opening balance as previously reported	93 468	2 766 124	2 859 592
Adjustments			
Prior year adjustments	(850)	(17 127)	(17 977)
Balance at 01 April 2013 as restated*	**92 618**	**2 748 997**	**2 841 615**
Changes in net assets			
Surplus for the year	-	1 222 895	1 222 895
Surplus in revaluation of land and buildings	33 133	-	33 133
Depreciation on the revalued portion of assets	(1 269)	-	(1 269)
Total changes	**31 864**	**1 222 895**	**1 254 759**
Balance at 31 March 2014	**124 482**	**3 971 892**	**4 096 374**
Note	14		

STATEMENT OF CHANGES IN NET ASSETS

	Revaluation reserve R '000	Accumulated surplus R '000	Total net assets R '000
Controlling entity			
Balance at 01 April 2012 as restated	**61 679**	**1 977 540**	**2 039 219**
Changes in net assets			
Surplus for the year	-	887 094	887 094
Surplus in revaluation of land and buildings	31 543	-	31 543
Depreciation on the revalued portion of assets	(604)	-	(604)
Total changes	**30 939**	**887 094**	**918 033**
Opening balance as previously reported	93 468	2 881 761	2 975 229
Adjustments			
Prior year adjustments	(850)	(17 127)	(17 977)
Balance at 01 April 2013 as restated*	**92 618**	**2 864 634**	**2 957 252**
Changes in net assets			
Surplus for the year	-	1 287 325	1 287 325
Surplus in revaluation of land and buildings	33 133	-	33 133
Depreciation on the revalued portion of assets	(1 269)	-	(1 269)
Total changes	**31 864**	**1 287 325**	**1 319 189**
Balance at 31 March 2014	**124 482**	**4 151 959**	**4 276 441**
Note	14		

CASH FLOW STATEMENT

		Economic entity		Controlling entity	
		2014	2013 Restated*	2014	2013 Restated*
	Note(s)	R '000	R '000	R '000	R '000
Cash flows from operating activities					
Receipts					
Rendering of services		21 226	23 353	-	-
Transfer from government entity		9 534 393	9 149 374	9 534 393	9 149 374
Interest received		126 176	150 037	125 102	149 464
Other income		312 448	284 910	312 773	283 793
		9 994 243	9 607 674	9 972 268	9 582 631
Payments					
Employee costs		(5 910 634)	(5 837 489)	(5 862 649)	(5 786 196)
Suppliers		(2 296 982)	(2 334 487)	(2 294 776)	(2 319 577)
VAT paid		535	(964)	-	-
Tax paid	9	(4 990)	(9 018)	-	-
Surrender of surplus		-	(794 000)	-	(794 000)
		(8 212 071)	(8 975 958)	(8 157 425)	(8 899 773)
Net cash flows from operating activities	**20**	**1 782 172**	**631 716**	**1 814 843**	**682 858**
Cash flows from investing activities					
Acquisition of property, plant and equipment	5	(273 628)	(855 836)	(271 821)	(855 175)
Proceeds from sale of property, plant and equipment	5	4 131	1 670	4 131	1 670
Acquisition of intangible assets	6	(323 124)	(365 880)	(375 808)	(429 643)
Proceeds from sale of intangible assets	6	-	1 026	-	1 026
Repayment of loan by controlled entity		-	-	10 000	-
Net cash flows from investing activities		**(592 621)**	**(1 219 020)**	**(633 498)**	**(1 282 122)**
Cash flows from financing activities					
Finance lease and interest payments (including settlements)		(11 932)	(138 839)	(12 039)	(138 738)
Net (decrease)/increase in cash and cash equivalents		**1 177 619**	**(726 143)**	**1 169 306**	**(738 002)**
Cash and cash equivalents at the beginning of the year		1 747 705	2 473 848	1 732 375	2 470 377
Cash and cash equivalents at the end of the year	**4**	**2 925 324**	**1 747 705**	**2 901 681**	**1 732 375**

*see note 35

STATEMENTS OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R '000	R '000	R '000	R '000	R '000	
Controlling entity						
Statement of Financial Position						
Assets						
Current Assets						
Trade and other receivables	69 927	-	**69 927**	61 965	**(7 962)**	
Prepayments	84 751	-	**84 751**	54 394	**(30 357)**	
Cash and cash equivalents	1 835 428	-	**1 835 428**	2 901 681	**1 066 253**	
	1 990 106	-	**1 990 106**	**3 018 040**	**1 027 934**	
Non-Current Assets						
Property, plant and equipment	2 389 225	-	**2 389 225**	1 523 209	**(866 016)**	
Intangible assets	974 679	-	**974 679**	1 196 192	**221 513**	
Loan to controlled entity	56 559	-	**56 559**	74 699	**18 140**	
	3 420 463	-	**3 420 463**	**2 794 100**	**(626 363)**	
Total Assets	**5 410 569**	-	**5 410 569**	**5 812 140**	**401 571**	
Liabilities						
Current Liabilities						
Finance lease obligation	10 117	-	**10 117**	11 523	**1 406**	
Trade and other payables	519 709	-	**519 709**	608 729	**89 020**	
Deferred income	539	-	**539**	110	**(429)**	
Provisions	426 930	-	**426 930**	377 137	**(49 793)**	
	957 295	-	**957 295**	**997 499**	**40 204**	
Non-Current Liabilities						
Finance lease obligation	7 279	-	**7 279**	11 789	**4 510**	
Operating lease liability	297 188	-	**297 188**	232 717	**(64 471)**	
Deferred income	67	-	**67**	-	**(67)**	
Employee benefits	322 326	-	**322 326**	293 694	**(28 632)**	
	626 860	-	**626 860**	**538 200**	**(88 660)**	
Total Liabilities	**1 584 155**	-	**1 584 155**	**1 535 699**	**(48 456)**	
Net Assets	**3 826 414**	-	**3 826 414**	**4 276 441**	**450 027**	
Net Assets						
Asset revaluation reserve	93 468	-	**93 468**	124 482	**31 014**	
Accumulated surplus	3 732 946	-	**3 732 946**	4 151 959	**419 013**	
Net Assets	**3 826 414**	-	**3 826 414**	**4 276 441**	**450 027**	

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R '000	R '000	R '000	R '000	R '000	
Controlling entity						
Statement of Financial Performance						
Revenue						
Other income	238 001	-	**238 001**	313 997	75 996	Note 1
Interest received	100 000	-	**100 000**	139 762	39 762	Note 2
Transfer from government entity	9 534 393	-	**9 534 393**	9 534 393	-	
Total revenue	**9 872 394**	**-**	**9 872 394**	**9 988 152**	**115 758**	
Expenditure						
Employee cost	(6 084 657)	-	**(6 084 657)**	(5 841 936)	242 721	Note 3
Depreciation and amortisation	(547 378)	-	**(547 378)**	(562 354)	(14 976)	
Impairment loss	(55 948)	-	**(55 948)**	(5 938)	50 010	Note 4
Finance costs	(6 405)	-	**(6 405)**	(6 556)	(151)	
Other expenses	(2 518)	-	**(2 518)**	(32 360)	(29 842)	Note 5
Administrative expenses	(1 496 462)	-	**(1 496 462)**	(1 460 392)	36 070	Note 6
Professional and special services	(827 812)	-	**(827 812)**	(791 706)	36 106	Note 6
Total expenditure	**(9 021 180)**	**-**	**(9 021 180)**	**(8 701 242)**	**319 938**	
Operating surplus	**851 214**	**-**	**851 214**	**1 286 910**	**435 696**	
Gain on disposal of assets	-	-	**-**	415	415	
Surrender of surplus funds	(57)	-	**(57)**	-	57	
	(57)	-	**(57)**	**415**	**472**	
Surplus for the year	**851 157**	**-**	**851 157**	**1 287 325**	**436 168**	

Reconciliation

Timing difference	
The interest variance represents interest earned on short-term investments as a result of delays in project roll-outs, settlement of provisions and business as usual activities.	Note 1
The variance is due to a higher than anticipated income on commission received from the Unemployment Insurance Fund and equipment leases to the Department of Home Affairs.	Note 2
Delays in recruitment resulted in an underspend in employee costs. SARS lost a total net of 570 employees for the year under review. Recruitment strategies are being finalised to ensure optimal resourcing.	Note 3
Impairment loss is based on annual valuations as well the impairment policy that states that assets that have not been verified for a period of two years are impaired at year end, while budgets are based on prior year actual impairments.	Note 4
Other expenses mainly comprise a contribution of R8 million to ATAF as well as some CCMA settlement costs that could not be budgeted for due to their uncertain nature.	Note 5
Savings in administrative, professional and special services are due to cost efficiencies, tighter controls and negotiation of better rates with service providers.	Note 6

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R '000	R '000	R '000	R '000	R '000	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Grants	9 534 393	-	**9 534 393**	9 534 393	**-**	
Interest income	100 000	-	**100 000**	125 102	**25 102**	Note 1
Other receipts	238 000	-	**238 000**	312 773	**74 773**	Note 2
	9 872 393	**-**	**9 872 393**	**9 972 268**	**99 875**	
Payments						
Employee costs	(5 976 226)	-	**(5 976 226)**	(5 862 649)	**113 577**	Note 3
Suppliers	(2 490 952)	-	**(2 490 952)**	(2 294 776)	**196 176**	Note 4
Finance costs	(6 682)	-	**(6 682)**	-	**6 682**	
	(8 473 860)	**-**	**(8 473 860)**	**(8 157 425)**	**316 435**	
Net cash flows from operating activities	**1 398 533**	**-**	**1 398 533**	**1 814 843**	**416 310**	
Cash flows from investing activities						
Acquisition of property, plant and equipment	(1 172 669)	-	**(1 172 669)**	(271 821)	**900 848**	Note 5
Proceeds from sale of property, plant and equipment	-	-	**-**	4 131	**4 131**	
Purchase of intangible assets	(111 412)	-	**(111 412)**	(375 808)	**(264 396)**	Note 5
Repayment of loan by controlled entity	-	-	**-**	10 000	**10 000**	
Net cash flows from investing activities	**(1 284 081)**	**-**	**(1 284 081)**	**(633 498)**	**650 583**	
Cash flows from financing activities						
Finance lease and interest payments	(11 399)	-	**(11 399)**	(12 039)	**(640)**	
Net increase in cash and cash equivalents	**103 053**	**-**	**103 053**	**1 169 306**	**1 066 253**	
Cash and cash equivalents at the beginning of the year	1 732 375	-	**1 732 375**	1 732 375	**-**	
Cash and cash equivalents at the end of the year	**1 835 428**	**-**	**1 835 428**	**2 901 681**	**1 066 253**	

Reconciliation

Timing difference

The interest variance represents interest earned on short-term investments as a result of delays in project roll-outs, settlement of provisions and business as usual activities.	Note 1
The variance is due to higher than anticipated income on commission received from the Unemployment Insurance Fund and equipment leases to the Department of Home Affairs.	Note 2
Delays in recruitment resulted in an underspend in employee costs. SARS lost a total net of 570 employees for the year under review. Recruitment strategies are being finalised to ensure optimal resourcing.	Note 3
Savings in operating activities are due to cost efficiencies, tighter controls and negotiation of better rates with service providers.	Note 4
Savings in investing activities is timing in nature as the investment strategy for expanding SARS footprint through a mix of acquisition and rental is under investigation and will realise in the 2014/15 financial year. The overspend against purchase of intangible assets is mainly due to the budget split between property, plant and equipment versus intangible assets. Investment overall reflects a temporary savings.	Note 5

1. Presentation of Financial Statements

The reporting activity of SARS has been divided into Administered Revenue and Own Accounts. The National Revenue Fund is the relevant entity for Administered Revenue. Therefore SARS is not responsible for preparing separate Annual Financial Statements for Administered Revenue. SARS is applying Directive 6 and for purposes of preparing the financial statements of the legal entity, SARS will not account for the receivables or payables relating to the agent-principal relationship until the expiry of the transitional provision in Directive 6 issued by the ASB or the issuance of a Standard by the ASB on Accounting by Principals and Agents.

The Own Accounts annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 changes in accounting policy.

1.1 Consolidation

Basis of consolidation

The economic entity's annual financial statements include those of the controlling and its controlled entity. Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of the controlled entity are included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases.

The annual financial statements of the controlling entity and its controlled entity used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation, except for VAT on inter-company transactions. This is due to the fact that the controlling entity is not a registered VAT vendor.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements and estimates include:

1.2 Significant judgements and sources of estimation uncertainty (continued)

Loans and receivables

The economic entity assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the applicable interest rates that are available to the economic entity for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units have been determined based on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumed future cash flows from cash-generating units may change which may then impact estimations and may then require a material adjustment to the carrying value of the cash- generating units.

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. The event is defined as the inability to verify an asset for a period of two years upon which the carrying value is impaired to zero. If the asset remains unverified, it will be written-off on the subsequent reporting date.

If there is objective evidence that an impairment loss on the carrying value of assets has been incurred, the amount of the loss is the difference between the asset's carrying amount and estimated recoverable amount. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

Provisions

Provisions were raised and management was prudent in determining estimates based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Taxation - controlled entity

This policy is not applicable to the controlling entity as it is exempt from the payment of income tax in terms of section 10(1)(cA) of the Income Tax Act of 1962. In respect of the controlled entity judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The controlled entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The controlled entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the controlled entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the controlled entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods and services or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Stand by equipment which is expected to be used for more than one period is included in property, plant and equipment. In addition, stand by equipment which can only be used in connection with an item of property, plant and equipment is accounted for as property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which are carried at revalued amounts being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is not eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The cost price will reflect the grossed up value instead of the revalued amount. This does not have any effect on the values as per the statement of financial position.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment is depreciated on the straight line basis over the expected useful lives of the asset. The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	15 years to 50 years
Plant and equipment	7 years to 10 years
Furniture, fittings and office equipment	3 years to 10 years
Land & water vehicles	5 years to 8 years
Computer equipment	3 years to 5 years
Leasehold improvements	Over the life of the asset or the lease period whichever is shorter
Generators	10 years
Security equipment	5 years

All changes for useful lives were accounted for as changes in accounting estimates.

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimates.

Items of property, plant and equipment are derecognised when the assets are disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in surplus or deficit when the item is de-recognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, either individually or together with a related contract, identifiable asset or liability; or
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separable from the economic entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. The cost of intangible assets acquired at no nominal cost is measured at its fair value at date of acquisition.

Cost on research (or initial project research phase) is recognised as an expense when it is incurred.

An intangible asset arising from development (or on the initial project development phase) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less accumulated amortisation and impairment losses.

1.4 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Intellectual property	10 years
Computer software	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from their use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Investment in controlled entity

Economic entity's annual financial statements

The economic entity's annual financial statements include those of the controlling and its controlled entity.

Controlling entity's annual financial statements

In the entity's separate annual financial statements, investment in the controlled entity is carried at cost less any accumulated impairment.

The cost of an investment in the controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the entity; plus
- any costs directly attributable to the purchase of the controlled entity.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

The controlled entity's concessionary loan is a loan granted on terms that are not market related.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

1.6 Financial instruments (continued)

A financial asset is:

- cash; or
- a residual interest in another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Loan commitment is a firm commitment to provide credit under agreed terms and conditions.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are instruments designated at fair value.

Classification

The entity has the following types of financial assets (classes and categories) as reflected in the statement of financial position or in the notes thereto:

Class	Category
Loan to controlled entity	Financial asset measured at amortised cost
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and categories) as reflected in the statement of financial position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Employee benefits	Financial liability measured at fair value

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting (transaction date).

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction cost that is directly attributable to the acquisition or issue of the financial asset or financial liability.

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.

All financial assets measured at amortised cost are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a recognised valuation technique. The objective of using a recognised valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired through the amortisation process.

Impairment and non-collectability of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets should be impaired.

Financial assets measured at amortised cost

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost model would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The entity derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire, are settled or waived.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit using trade date accounting (transaction date).

1.6 Financial instruments (continued)

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position upon settlement.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7 Tax - controlled entity

Current tax assets and liabilities

In respect of the controlled entity, current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Tax liabilities or assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit or tax loss.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction and affects neither accounting surplus nor taxable profit or tax loss.

A deferred tax asset is recognised for the balance of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Tax expense

Current and deferred taxes are recognised as an income or an expense and included in surplus or deficit for the period.

1.8 Leases

Finance leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the future economic benefits or service potential through depreciation (amortisation) of the asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance cost and income tax expense.

Depreciation and amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is the period of time over which an asset is expected to be used by the economic entity.

1.9 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the economic entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

After the recognition of an impairment loss, the depreciation or amortisation charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the economic entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash- generating unit).

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash- generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

Reversal of impairment loss

The economic entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

1.9 Impairment of cash-generating assets (continued)

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase. After a reversal of an impairment loss is recognised, the depreciation or amortisation charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

An impairment loss recognised for goodwill shall not be reversed in subsequent periods.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- salaries and social security contributions;
- short-term compensated absences where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service; and
- bonus and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another accounting standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense).

1.11 Provisions and contingencies

Provisions are recognised when:

- the economic entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the time value of money effect is material, the amount of a provision is the present value of the expenditure expected to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

A provision is used only for expenditure for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The economic entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

1.12 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the criteria per GRAP 9 are met.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Measurement

Revenue from a non-exchange transaction is measured as the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Gifts and donations, including goods in-kind

Donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

1.14 Government grants

SARS' main source of income is an annual grant from Parliament to execute its mandate in terms of the SARS Act (No.34 of 1997).

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest rate method.

1.16 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date foreign currency monetary items are translated using the closing rate.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in surplus or deficit in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Research and development expenditure

Cost on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

1.19 Budget information

The controlling entity is subject to appropriations of budgetary limits, which is given effect through authorising legislation.

General purpose financial reporting by the controlling entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/04/01 to 2014/03/31.

This accounting policy applies only to the approved budget of the controlling entity.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

The statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.20 Related parties

The controlling entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Management, members of the executive committee, are those persons responsible for planning, directing and controlling the activities of the controlling entity, including those charged with the governance of the controlling entity in accordance with legislation, in instances where they are required to perform such functions.

Close family members of a person considered to be a member of management are those family members who may be expected to influence, or be influenced by each other in their dealings with the controlling entity.

1.21 Changes in accounting policy

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board on a basis consistent with the prior year.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the economic entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25: Employee benefits	01 April 2013	The adoption of this standard resulted in additional disclosure for the entity - refer note 26.
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	The adoption of this standard did not impact the results of the entity.
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	The adoption of this standard did not impact the results of the entity.
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	The adoption of this standard did not impact the results of the entity.
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	The adoption of this standard did not impact the results of the entity.
• IGRAP16: Intangible assets website costs	01 April 2013	The adoption of this standard did not impact the results of the entity.

2.2 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 April 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2014	The adoption of this standard is not expected to impact the results of the entity.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	The adoption of this standard is not expected to impact the results of the entity.

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

3. Trade and other receivables

Government departments	34 842	43 984	34 842	43 984
Other receivables	19 517	12 572	19 718	12 957
Deposits	4 568	3 152	4 553	3 137
Staff accounts receivables	2 511	4 241	2 511	4 241
Trade debtors	2 456	1 870	-	-
Advanced Tax Ruling (ATR) debtors	341	718	341	718
	64 235	**66 537**	**61 965**	**65 037**

Fair value of trade and other receivables

Trade and other receivables	64 235	66 537	61 965	65 037

Trade and other receivables are carried at original invoice amounts, which approximates fair value, less provision made for impairment of these receivables.

Trade and other receivables past due but not impaired

At 31 March 2014, R6 924 011 (2013: R10 589 169) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3 777	6 820	3 772	11
2 months past due	2 441	1 956	6	86
3 months and more past due	706	1 813	345	1 556

Included in the past due balance for the controlling entity is an amount of R 3 592 761 relating to National Treasury for security staff seconded and R2 435 022 for the controlled entity's Luxembourg debtor.

Trade and other receivables impaired

As at 31 March 2014, trade and other receivables of R822 649 (2013: R837 388) were impaired and provided for.

The ageing of these receivables is as follows:

Over 3 months	823	837	823	837

Reconciliation of provision for impairment of trade and other receivables

Opening balance	837	4 039	837	1 754
Provision for impairment	196	(2 572)	196	(287)
Amounts written off as uncollectible	(210)	(630)	(210)	(630)
Closing balance	**823**	**837**	**823**	**837**

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2 924 893	1 747 218	2 901 256	1 731 892
Cash on hand	431	487	425	483
	2 925 324	**1 747 705**	**2 901 681**	**1 732 375**

Credit quality of cash at bank and short term deposits, excluding cash on hand

Bank balances comprise cash and short-term investments that are held with registered banking institutions. The carrying amount of these assets approximate their fair value.

5. Property, plant and equipment

Economic entity	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
IT equipment	975 655	(677 631)	298 024	902 671	(628 230)	274 441
Buildings	641 996	(31 239)	610 757	615 233	(25 517)	589 716
Leasehold improvements	508 260	(376 158)	132 102	458 059	(321 500)	136 559
Furniture, fittings and office equipment	394 288	(270 296)	123 992	379 820	(244 379)	135 441
Land and water vehicles	164 964	(77 575)	87 389	163 142	(72 999)	90 143
Security equipment	138 723	(83 650)	55 073	133 345	(67 840)	65 505
Land	143 959	-	143 959	137 589	-	137 589
Generators	66 195	(22 050)	44 145	60 932	(18 122)	42 810
Assets under construction	28 997	-	28 997	42 104	-	42 104
Plant and equipment	19 089	(16 766)	2 323	19 488	(14 842)	4 646
	3 082 126	**(1 555 365)**	**1 526 761**	**2 912 383**	**(1 393 429)**	**1 518 954**

5. Property, plant and equipment (continued)

Controlling entity	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
IT equipment	967 472	(671 635)	295 837	895 964	(622 945)	273 019
Buildings	641 996	(31 239)	610 757	615 233	(25 517)	589 716
Leasehold improvements	503 697	(372 425)	131 272	453 530	(318 751)	134 779
Furniture, fittings and office equipment	393 373	(269 860)	123 513	378 932	(243 876)	135 056
Land and water vehicles	164 964	(77 575)	87 389	163 142	(72 999)	90 143
Security equipment	138 703	(83 641)	55 062	133 327	(67 835)	65 492
Land	143 959	-	143 959	137 589	-	137 589
Generators	65 991	(21 891)	44 100	60 728	(18 005)	42 723
Assets under construction	28 997	-	28 997	42 104	-	42 104
Plant and equipment	19 089	(16 766)	2 323	19 488	(14 842)	4 646
	3 068 241	**(1 545 032)**	**1 523 209**	**2 900 037**	**(1 384 770)**	**1 515 267**

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2014

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers	Revaluations	Compensation for replacement assets	Depreciation	Impairment loss	Impairment reversal	Carrying balance
IT equipment	274 441	154 544	(2 147)	7 155	-	9 715	(137 456)	(8 286)	58	298 024
Buildings	589 716	-	-	(3 594)	25 494	-	(859)	-	-	610 757
Leasehold improvements	136 559	30 734	-	25 446	-	-	(59 310)	(1 327)	-	132 102
Furniture, fittings and office equipment	135 441	30 712	(136)	2 545	-	26	(40 370)	(4 250)	24	123 992
Land and water vehicles	90 143	14 466	(922)	-	-	-	(15 942)	(356)	-	87 389
Security equipment	65 505	392	(250)	14 438	-	-	(24 584)	(429)	1	55 073
Land	137 589	-	-	-	6 370	-	-	-	-	143 959
Generators	42 810	9 410	(220)	249	-	-	(6 419)	(1 685)	-	44 145
Assets under construction	42 104	33 370	-	(46 477)	-	-	-	-	-	28 997
Plant and equipment	4 646	-	-	-	-	-	(2 255)	(68)	-	2 323
	1 518 954	**273 628**	**(3 675)**	**(238)**	**31 864**	**9 741**	**(287 195)**	**(16 401)**	**83**	**1 526 761**

Net asset transfers between property, plant and equipment and intangible assets as per note 6 contra each other.

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2013

Figures in Rand thousand

	Opening balance	Additions	Disposals	Transfers	Revaluations	Donations recieved	Compensation for replacement assets	Depreciation	Impairment loss	Impairment reversal	Carrying balance
IT equipment	316 399	111 388	(1 215)	4 017	-	-	2 443	(154 236)	(4 435)	80	274 441
Buildings	173 064	470 773	-	-	22 958	-	-	(5 146)	(71 933)	-	589 716
Leasehold improvements	131 585	57 511	(2)	622	-	-	-	(50 534)	(2 623)	-	136 559
Furniture, fittings and office equipment	148 472	33 964	(314)	-	-	6	24	(45 370)	(1 937)	596	135 441
Land and water vehicles	66 952	36 673	(1 098)	-	-	-	-	(12 357)	(27)	-	90 143
Security equipment	91 344	(219)	(253)	199	-	-	-	(25 395)	(175)	4	65 505
Land	40 030	94 021	-	-	7 981	-	-	-	(4 443)	-	137 589
Generators	35 263	12 404	-	-	-	-	-	(4 857)	-	-	42 810
Assets under construction	4 643	38 316	-	(855)	-	-	-	-	-	-	42 104
Plant and equipment	5 840	1 005	(1)	-	-	-	-	(2 198)	-	-	4 646
	1 013 592	**855 836**	**(2 883)**	**3 983**	**30 939**	**6**	**2 467**	**(300 093)**	**(85 573)**	**680**	**1 518 954**

In 2013 the controlling entity exercised a pre-emptive right as per the lease agreement of the SARS Head Office, Lehae Le SARS to purchase the building. Title transferred to the controlling entity on 10 December 2012.

The finance lease for the Alberton South Campus was settled early and title transferred to the controlling entity on 19 December 2012.

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2014

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers	Revaluations	Compensation for replacement assets	Depreciation	Impairment loss	Impairment reversal	Carrying balance
IT equipment	273 019	153 043	(2 147)	7 155	-	9 715	(136 726)	(8 280)	58	295 837
Buildings	589 716	-	-	(3 594)	25 494	-	(859)	-	-	610 757
Leasehold improvements	134 779	30 700	-	25 448	-	-	(58 328)	(1 327)	-	131 272
Furniture, fittings and office equipment	135 056	30 441	(136)	2 545	-	26	(40 202)	(4 241)	24	123 513
Land and water vehicles	90 143	14 466	(922)	-	-	-	(15 942)	(356)	-	87 389
Security equipment	65 492	390	(250)	14 438	-	-	(24 580)	(429)	1	55 062
Land	137 589	-	-	-	6 370	-	-	-	-	143 959
Generators	42 723	9 411	(220)	249	-	-	(6 378)	(1 685)	-	44 100
Assets under construction	42 104	33 370	-	(46 477)	-	-	-	-	-	28 997
Plant and equipment	4 646	-	-	-	-	-	(2 255)	(68)	-	2 323
	1 515 267	**271 821**	**(3 675)**	**(236)**	**31 864**	**9 741**	**(285 270)**	**(16 386)**	**83**	**1 523 209**

Net asset transfers between property, plant and equipment and intangible assets as per note 6 contra each other.

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2013

Figures in Rand thousand

	Opening balance	Additions	Disposals	Transfers	Revaluations	Donations recieved	Compensation for replacement assets	Depreciation	Impairment loss	Impairment reversal	Carrying balance
IT equipment	314 058	110 743	(1 215)	4 017	-	-	2 443	(152 672)	(4 435)	80	273 019
Buildings	173 064	470 773	-	-	22 958	-	-	(5 146)	(71 933)	-	589 716
Leasehold improvements	128 834	57 511	(2)	622	-	-	-	(49 563)	(2 623)	-	134 779
Furniture, fittings and office equipment	147 913	33 948	(314)	-	-	6	24	(45 181)	(1 936)	596	135 056
Land & water vehicles	66 952	36 673	(1 098)	-	-	-	-	(12 357)	(27)	-	90 143
Security equipment	91 328	(219)	(253)	199	-	-	-	(25 392)	(175)	4	65 492
Land	40 030	94 021	-	-	7 981	-	-	-	(4 443)	-	137 589
Generators	35 135	12 404	-	-	-	-	-	(4 816)	-	-	42 723
Assets under construction	4 643	38 316	-	(855)	-	-	-	-	-	-	42 104
Plant and equipment	5 840	1 005	(1)	-	-	-	-	(2 198)	-	-	4 646
	1 007 797	**855 175**	**(2 883)**	**3 983**	**30 939**	**6**	**2 467**	**(297 325)**	**(85 572)**	**680**	**1 515 267**

In 2013 the controlling entity exercised a pre-emptive right as per the lease agreement of the SARS Head Office, Lehae Le SARS to purchase the building. Title transferred to the Controlling Entity on 10 December 2012.

The finance lease for the Alberton South Campus was settled early and title transferred to the Controlling Entity on 19 December 2012.

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

5. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Furniture, fittings and office equipment	23 140	37 268	23 013	37 176

Revaluations

The effective date of the revaluations was 31 March 2014. Revaluations were performed by Mr. WJ Hewitt (NDPV, C.I.E.A., FIV (SA),MRICS), professional valuer of Mills Fitchet (TVL) cc.

The valuation of houses in Ficksburg and Fouriesburg was performed using the direct comparable method and the depreciated replacement value method.

The valuation of stand 419 Nieuw Muckleneuk was performed using the direct comparable method.

The valuation of consolidated stand 1 087 New Redruth was performed using the net annual market income method.

The carrying value of the revalued assets under the cost model would have been:

Buildings	596 565	600 629	596 565	600 629
Land	105 570	105 570	105 570	105 570

Other information

Property, plant and equipment fully depreciated and still in use (Gross carrying amount)

Property, plant and equipment	510 183	569 907	590 774	569 542

During the current year under review the useful lives of personal computers, notebooks, monitors and furniture was increased resulting in the decrease in property, plant and equipment fully depreciated still in use.

6. Intangible assets

Figures in Rand thousand

Economic entity	**2014**			**2013**		
	Cost / Valuation	**Accumulated Amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated Amortisation and accumulated impairment**	**Carrying value**
Computer software	2 180 152	(1 225 908)	954 244	1 646 608	(950 594)	696 014
Software under development	33 875	-	33 875	246 189	-	246 189
Intellectual property and other rights	73 583	(4 570)	69 013	73 583	-	73 583
	2 287 610	**(1 230 478)**	**1 057 132**	**1 966 380**	**(950 594)**	**1 015 786**

Controlling entity	**2014**			**2013**		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Computer software	2 178 265	(1 225 351)	952 914	1 645 741	(950 312)	695 429
Software under development	243 278	-	243 278	401 888	-	401 888
	2 421 543	**(1 225 351)**	**1 196 192**	**2 047 629**	**(950 312)**	**1 097 317**

6. Intangible assets (continued)

Figures in Rand thousand

Reconciliation of intangible assets - Economic entity - 2014

	Opening balance	Additions	Disposals	Transfers	Amortisation	Impairment loss	Carrying balance
Computer software	696 014	31 144	(41)	504 530	(277 359)	(44)	954 244
Software under development	246 189	291 980	-	(504 294)	-	-	33 875
Intellectual property and other rights	73 583	-	-	-	(4 570)	-	69 013
	1 015 786	**323 124**	**(41)**	**236**	**(281 929)**	**(44)**	**1 057 132**

Disposals represent a refund received for licenses returned due to the product not being suitable for the controlling entity's environment.

Net transfers between property, plant and equipment and intangible assets as per note 5 contra each other.

Reconciliation of intangible assets - Economic entity - 2013

	Opening balance	Additions	Disposals	Transfers	Amortisation	Carrying balance
Computer software	571 042	76 764	(739)	257 951	(209 004)	696 014
Software under development	219 007	289 116	-	(261 934)	-	246 189
Intellectual property and other rights	73 583	-	-	-	-	73 583
	863 632	**365 880**	**(739)**	**(3 983)**	**(209 004)**	**1 015 786**

Disposals represent a refund received for licenses returned due to the product not being suitable for the controlling entity's environment.

Reconciliation of intangible assets - Controlling entity - 2014

	Opening balance	Additions	Disposals	Transfers	Amortisation	Impairment loss	Carrying balance
Computer software	695 429	30 124	(41)	504 530	(277 084)	(44)	952 914
Software under development	401 888	345 684	-	(504 294)	-	-	243 278
	1 097 317	**375 808**	**(41)**	**236**	**(277 084)**	**(44)**	**1 196 192**

Disposals represent a refund received for licenses returned due to the product not being suitable for the controlling entity's environment.

Net transfers between property, plant and equipment and intangible assets as per note 5 contra each other.

6. Intangible assets (continued)

Figures in Rand thousand

Reconciliation of intangible assets - Controlling entity - 2013

	Opening balance	Additions	Disposals	Transfers	Amortisation	Carrying balance
Computer software	570 572	76 500	(739)	257 951	(208 855)	695 429
Software under development	310 679	353 143	-	(261 934)	-	401 888
	881 251	**429 643**	**(739)**	**(3 983)**	**(208 855)**	**1 097 317**

Disposals represent a refund received for licenses returned due to the product not being suitable for the controlling entity's environment.

Details of impairment test

An impairment test was performed by the controlled entity during the financial year to determine whether the intangible asset's value should be impaired. The effective date of the valuation was 31 March 2014. The valuation was performed by the independent valuer, KPMG. KPMG is not connected to the entity and has recent experience in valuing similar assets.

The valuation technique adopted in undertaking this valuation has been the Relief from Royalty method.

The Relief from Royalty method estimates the cost of licensing the acquired intangible asset from an independent third party using a royalty rate. Since the company owns the intangible assets, it is relieved from making royalty payments. The resulting cash flow savings attributed to the owned intangible assets are estimated over the intangible asset's remaining useful life and discounted by the calculated weighted average cost of capital to present value.

This approach focuses on the income producing capability of the intangible asset i.e. Intellectual Property (IP), that best represents the present value of the future economic benefits expected to be derived from it. It reflects the present value of the operating cash flows generated by the IP after taking into account the cost to realise the revenue, the relative risk of the revenue streams and an appropriate discount rate to reflect the time value of invested capital. The most significant assumption by management in determining the cash flow was the addition of two new customers over the next ten years. This projection was based on our best estimate considering current interest by various parties. The estimated income from new customers was minimised to ensure our projection remained conservative.

The following key inputs were used:

IP valuation 2015 to 2024 forecast	
Royalty rate	17.00%
KPMG calculated Weighted Average Cost of Capital	20.30%
Tax rate	28.00%

The impairment test did not indicate an impairment of the IP.

Useful life

It was determined that no revision is required to the useful lives and residual values of the IT Software based on the forecast commercial and economic realities and through benchmarking of accounting treatments in the industry.

The IP was not previously amortised because the asset was not yet fully available for use. The IP became fully available for use in August 2013 when amortisation started. Management assessed the useful life of the IP, based on the estimated forecast commercial and economic realities, as 10 years. Refer the reconciliation of the above amount.

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

7. Investment in controlled entity

Name of company	Held by	% holding 2014	% holding 2013	Carrying amount 2014	Carrying amount 2013
International Frontier Technologies SOC Ltd	South African Revenue Service	100 %	100 %	-	-

The carrying amount of the controlled entity is shown net of impairment loss. The controlled entity has a share capital of R1 (One Rand).

8. Loan to the controlled entity

Controlled entity

Interfront	-	-	92 712	102 712
Provision for impairment of loan to controlled entity	-	-	(18 013)	(36 153)
	-	**-**	**74 699**	**66 559**

The loan is unsecured and bears no interest. Repayment of the loan has commenced in 2014 and will be renegotiated annually.

The loan has been subordinated in favour of other creditors of Interfront until such time as the assets of the company, fairly valued, exceed its remaining liabilities.

Fair value of the loan to the controlled entity

Loan to controlled entity	-	-	102 594	94 924

The fair value of the loan was determined by discounting the future cash flows at a market related rate based on estimated probabilities as determined by management.

Impairment of the loan to the controlled entity

As at 31 March 2014, the loan to Interfront of R92 711 836 (2013: R102 711 836) was impaired by R18 012 899 (2013: R36 152 681).

The ageing of the loan, although not past due is as follows:

Over 6 months	-	-	92 712	102 712

Reconciliation of the provision for impairment of the loan to the controlled entity

Opening balance	-	-	36 153	27 494
Provision for impairment (refer note17)	-	-	(10 409)	16 152
Impairment provision	-	-	(32 032)	(6 821)
Change in estimated future cash flows	-	-	21 623	22 973
Interest income	-	-	(7 731)	(7 493)
	-	**-**	**18 013**	**36 153**

The net movement in the provision for impairment of the loan to the controlled entity have been included in operating expenses in the statement of financial performance (note 17).

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

9. Tax paid - controlled entity

Balance at beginning of the year	2 300	-	-	-
Current tax for the year recognised in surplus or deficit	(3 708)	(6 718)	-	-
Balance at end of the year	(3 582)	(2 300)	-	-
	(4 990)	**(9 018)**	**-**	**-**

Overpayment of tax is a result of the 2nd provisional payment estimation.

10. Finance lease obligation

Office equipment				
Minimum lease payments due				
- within one year	17 605	17 378	17 535	17 345
- in second to fifth year inclusive	17 837	26 102	17 732	26 102
	35 442	43 480	35 267	43 447
less: future finance charges	(11 980)	(14 653)	(11 955)	(14 652)
Present value of minimum lease payments	**23 462**	**28 827**	**23 312**	**28 795**

Non-current liabilities	11 885	17 396	11 789	17 396
Current liabilities	11 577	11 431	11 523	11 399
	23 462	**28 827**	**23 312**	**28 795**

Office equipment

Certain photocopiers and fax machines were capitalised and the corresponding finance lease liability raised in accordance with GRAP 13. The leases are payable in monthly instalments ranging from 36 to 60 months.

11. Trade and other payables

Trade accounts payables and accruals	378 672	392 051	384 036	404 789
Accruals for salary related expenses	226 151	211 852	223 468	209 318
Other payables	1 175	14 822	1 175	14 822
Donations for distributions	50	3	50	3
	606 048	**618 728**	**608 729**	**628 932**

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

12. Deferred income

Unspent conditional grants and receipts comprises of:

Tenant allowances	67	147	67	147
Tower rentals	43	-	43	-
Donor funding	-	459	-	459
	110	**606**	**110**	**606**

Current liabilities	110	539	110	539
Non-current liabilities	-	67	-	67
	110	**606**	**110**	**606**

Tenant allowances represent amounts received from landlords for improvements made by the tenant to leased properties.
Tower rentals are charged annually in advance for the installation and operation of electronic communication equipment.
Donor funding represents outstanding claims against Donor funds and membership fees of ATAF.

13. Provisions

Figures in Rand thousand

Reconciliation of provisions - Economic entity - 2014

	Opening balance	Accumulation	Utilised during the year	Adjustments during the year	Closing balance
Performance bonuses	400 320	379 372	(263 615)	(136 705)	379 372
Other sundry provisions	-	1 137	-	-	1 137
	400 320	**380 509**	**(263 615)**	**(136 705)**	**380 509**

Reconciliation of provisions - Economic entity - 2013

	Opening balance	Accumulation	Utilised during the year	Reversed during the year	Closing balance
Surrender of surplus funds	793 934	-	(794 000)	66	-
Performance bonuses	375 504	400 096	(343 352)	(31 928)	400 320
Other sundry provisions	3 273	-	-	(3 273)	-
	1 172 711	**400 096**	**(1 137 352)**	**(35 135)**	**400 320**

Reconciliation of provisions - Controlling entity - 2014

	Opening balance	Accumulation	Utilised during the year	Reversed during the year	Closing balance
Performance bonuses	399 000	376 000	(263 001)	(135 999)	376 000
Other sundry provisions	-	1 137	-	-	1 137
	399 000	**377 137**	**(263 001)**	**(135 999)**	**377 137**

Reconciliation of provisions - Controlling entity - 2013

	Opening balance	Accumulation	Utilised during the year	Reversed during the year	Closing balance
Surrender of surplus funds	793 934	-	(794 000)	66	-
Performance bonuses	374 000	399 000	(342 072)	(31 928)	399 000
Other sundry provisions	3 273	-	-	(3 273)	-
	1 171 207	**399 000**	**(1 136 072)**	**(35 135)**	**399 000**

Surrender of surplus funds

The provision for the surrender of the operating surplus in 2013 related to the possibility that SARS may have been requested by National Treasury, under section 53(3) of the Public Finance Management Act 1999, to surrender a portion of the operating surplus. The amount provided represents the operating surplus in excess of the recognised liabilities and certain projects that have been contracted for. The extent to which an outflow of funds will be required is dependent on National Treasury's consideration of pertinent facts, including SARS' future funding needs.

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

13. Provisions (continued)

Performance bonuses

Performance bonuses represent the obligation for annual performance bonuses payable to employees in terms of performance agreements. The final quantum of the performance bonus payable is uncertain.

Other sundry provisions

Other sundry provisions represent a provision for possible leave payments and interest due on re-instatement of pensionable service. The timing and final quantum of other sundry provisions payable is uncertain.

14. Asset revaluation reserve

Opening balance	92 618	61 679	92 618	61 679
Current year revaluation	33 133	31 543	33 133	31 543
Depreciation on the revalued portion of assets	(1 269)	(604)	(1 269)	(604)
	124 482	**92 618**	**124 482**	**92 618**

15. Revenue

The amount included in revenue arising from exchanges of goods or services are as follows:

Rendering of services	**8 479**	**15 422**	**-**	**-**

The amount included in revenue arising from non-exchange transactions are as follows:

Transfer from government entity	**9 534 393**	**9 149 374**	**9 534 393**	**9 149 374**

16. Other Income

Commission received	272 888	234 014	272 888	234 014
SDL training grant	12 825	26 136	12 825	26 136
Sundry receipts	18 218	18 587	18 543	18 587
Compensation for replacement assets	9 741	2 467	9 741	2 467
Donations received	-	6	-	6
	313 672	**281 210**	**313 997**	**281 210**

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

17. Impairment of assets

Impairments

Property, plant and equipment	16 363	84 894	16 347	84 893
Loan to controlled entity (refer note 8)	-	-	(10 409)	16 152
	16 363	**84 894**	**5 938**	**101 045**

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. The event is defined as the inability to verify an asset for a period of two years upon which the carrying value is impaired to zero. If the asset remains unverified, it will be written-off on the subsequent reporting date.

Impairment of land and buildings represent adjustments in terms of valuations performed. Included in 2013 impairments is an amount of R63.7 million for VAT paid on the acquisition of LeHae La SARS.

The loan to Interfront was measured at amortised cost. This resulted in an impairment reversal in the current financial year.

18. Finance costs

Finance leases	**6 567**	**15 498**	**6 556**	**15 487**

19. Taxation - controlled entity

Major components of the tax expense

Current

Local income tax - current period	2 649	6 718	-	-
Local income tax - recognised in current tax for prior periods	1 060	-	-	-
	3 709	**6 718**	**-**	**-**

Deferred

Originating and reversing temporary differences	(127)	505	-	-
	3 582	**7 223**	**-**	**-**

	Note	Economic entity		Controlling entity	
		2014	2013	2014	2013
		R '000	R '000	R '000	R '000

19. Taxation - controlled entity (continued)

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28 %	28 %	- %	- %
Accounting Profit subject to tax	10 994	30 008	-	-
Tax at 28%	3 078	8 402	-	-
Originating temporary difference	127	(505)	-	-
Utilised prior year unrecognised tax losses	-	(1 401)	-	-
Permanent differences	(556)	222	-	-
Under provision of tax in the previous year	1 060	-	-	-
	3 709	**6 718**	**-**	**-**

Current taxation for the controlled entity comprises taxation payable, calculated on the basis of the expected taxable income for the year, using the taxation rates substantively enacted at the balance sheet date.

The controlling entity is exempt from the payment of income tax in terms of section 10(1)(cA) of the Income Tax Act of 1962.

20. Cash generated from operations

	Note				
Surplus		1 222 895	854 511	1 287 325	887 094
Adjustments for:					
Depreciation and amortisation		569 124	509 097	562 354	506 180
(Profit)/Loss on sale of assets		(415)	926	(415)	926
Compensation for replacement assets		(9 741)	(2 467)	(9 741)	(2 467)
Donations received		-	(6)	-	(6)
Finance costs		6 567	15 498	6 556	15 487
Impairment loss		16 363	84 894	5 938	101 045
Movement in operating lease liabilities		(12 911)	(41 192)	(12 765)	(41 173)
Movement in employee benefits		(7 545)	18 548	(7 545)	18 548
Movement in provisions		(19 811)	(772 391)	(21 863)	(772 207)
Movement in tax receivable and payable		(1 283)	(2 300)	-	-
Annual charge for deferred tax		(127)	505	-	-
Interest income intercompany loan (fair value)	8	-	-	(7 731)	(7 493)
Changes in working capital:					
Trade and other receivables		2 302	6 036	3 072	5 525
Prepayments		29 390	(23 329)	30 357	(23 329)
Trade and other payables		(12 675)	(15 866)	(20 203)	(5 488)
VAT		535	(964)	-	-
Deferred income		(496)	216	(496)	216
		1 782 172	**631 716**	**1 814 843**	**682 858**

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

21. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

Trade and other receivables at amortised cost	64 235	66 537	61 965	65 037
Cash and cash equivalents at fair value	2 925 324	1 747 705	2 901 681	1 732 375
Loan to controlled entity at amortised cost	-	-	74 699	66 559
	2 989 559	**1 814 242**	**3 038 345**	**1 863 971**

22. Deferred tax - controlled entity

Deferred tax asset

Deferred tax asset	**1 147**	**1 021**	-	-

Reconciliation of deferred tax asset				
At beginning of the year	1 021	1 526	-	-
Reversing temporary difference on doubtful debt allowance	-	(500)	-	-
Originating/(reversing) temporary difference on property, plant and equipment	(184)	65		
Reversing temporary difference on finance lease	(16)	(25)	-	-
Reversing temporary difference on operating lease	(41)	(5)	-	-
Reversing temporary difference on prepayments	(272)	-	-	-
Originating/(reversing) movement in provision and accruals	639	(40)	-	-
	1 147	**1 021**	**-**	**-**

23. Employee benefit obligations

Defined contribution retirement fund

Entitlement to retirement benefits is governed by the rules of the pension fund. The economic entity has no legal or constructive obligation to pay for future benefits, this responsibility vests with the pension fund.

The total contribution to such schemes	376 752	355 167	374 308	352 861

24. Prepayments

Prepaid expenses	35 971	65 339	35 004	65 339
Employee costs in advance	19 390	19 412	19 390	19 412
	55 361	**84 751**	**54 394**	**84 751**

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

25. Employee benefits - leave accumulated prior to 1999

Leave pay represents the entitlements of amounts due to personnel for leave accumulated prior to 1999.

Opening balance	77 609	79 402	77 609	79 402
Accumulation	11 369	11 637	11 369	11 637
Utilised during the year	(3 930)	(3 865)	(3 930)	(3 865)
Actuarial gain	(9 856)	(9 565)	(9 856)	(9 565)
	75 192	**77 609**	**75 192**	**77 609**

26. Employee benefits - accumulated annual leave

Accumulated annual leave is the portion of 5 working days per annum that may be accumulated up to a maximum of 20 working days.

Opening balance	223 630	223 630	223 630	223 630
Movement	17 828	-	17 828	-
Present value adjustment	(22 956)	-	(22 956)	-
	218 502	**223 630**	**218 502**	**223 630**

27. Financial liabilities by category

Finance lease obligation at amortised cost	23 462	28 827	23 312	28 795
Trade and other payables at amortised cost	606 048	618 728	608 729	628 932
Employee benefits at fair value (refer notes 25 & 26)	293 694	301 239	293 694	301 239
	923 204	**948 794**	**925 735**	**958 966**

28. Auditors' remuneration

Current year fees	27 093	29 858	26 592	29 292
Prior year fees	16 314	12 359	16 314	12 359
Expenses	189	113	-	-
	43 596	**42 330**	**42 906**	**41 651**

29. Operating lease

Building rentals	430 869	410 487	429 384	410 487

The lease periods range from monthly to 15 years and the escalation rates vary between 4% and 12% per annum.

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

30. Commitments

Authorised capital expenditure				
Already contracted for but not provided for				
• Intangible assets	89 672	107 453	89 560	107 453
• Property, plant and equipment	104 750	117 917	103 951	117 917
	194 422	**225 370**	**193 511**	**225 370**

Authorised but not yet contracted for				
• Intangible assets	25 000	4 159	25 000	4 159
• Property, plant and equipment	64 534	-	64 534	-
	89 534	**4 159**	**89 534**	**4 159**

Operating leases - as lessee (expense)				
Minimum lease payments due				
- within one year	392 716	355 897	391 278	354 284
- in second to fifth year inclusive	850 116	920 138	850 116	918 700
- more than five years	183 245	336 022	183 245	336 022
	1 426 077	**1 612 057**	**1 424 639**	**1 609 006**

31. Contingencies

Employees of the controlled entity have, via an attorney, claimed a three year retention bonus. The employees allege that the claim arose prior to their transfer to the controlled entity in 2010. The controlled entity has obtained independent legal advice and have been advised that the claim is without merit and should be contested.

Contingent assets

It is virtually certain that discretionary grants to an amount of R1 442 500 will be received from the Finance and Accounting Services Sector Education and Training Authority (FASSET) for claims submitted against money allocated within the relevant Skills Education Training Authorities (SETA).

32. Related parties

Relationships	
Interfront	Refer to note 7
Close family member of the executive committee	Ms. BJ Hore
	Ms. ME Hargreaves

SARS is a Schedule 3A Public Entity in terms of the PFMA. Related parties include other state owned entities, government departments and all other entities within the spheres of Government.

The Government provided SARS with a grant to cover its operating expenditure and to fund specific projects.

	Controlling entity	
	2014	2013
	R '000	R '000

32. Related parties (continued)

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. No provision for doubtful debt relating to outstanding balances has been made and no expense has been recognised during the period in respect of bad or doubtful debts due from related parties. In terms of IPSAS 20 - Related Party Disclosure, SARS is not required to disclose any of the above transactions.

Related party balances - controlling entity		
Loan accounts - owing by related parties		
Interfront	74 699	66 559
Amounts included in trade receivables regarding related parties		
Department of Home Affairs (DHA)	643	24 571
Interfront	206	385
Amounts included in trade and other payables		
Interfront	6 691	13 333
Related party transactions - controlling entity		
Rendering of services to related parties		
Department of Home Affairs (DHA)	105 958	24 571
Interfront	-	426
Rendering of services by related parties		
Interfront	73 649	82 253

The controlling entity continues to assist the Department of Home Affairs (DHA) in maintaining and rolling out its electronic movement control system as well as assisting DHA in the implementation and maintenance of its new smart ID card and live passport capture platform ("Who Am I Online" project).

Compensation to close family member of key management		
Ms. BJ Hore (GE: Enterprise Business Enablement)	2 169	2 219
Ms. ME Hargreaves (Executive: Advisory)	2 404	1 863
	4 573	**4 082**

33. Executive committee members emoluments

Figures in Rand thousand

2014

	Salary	Bonus	Allowances including leave payments	Contributions medical & pension	Total
Commissioner for SARS (4 months)	1 823	-	538	12	2 373
Commissioner for SARS (Acting) (8 months)	1 371	-	173	17	1 561
Deputy Commissioner for SARS (4 months)	686	439	87	8	1 220
Chief Officer: Operations	2 994	615	271	34	3 914
Chief Officer: Legal and Policy	2 144	473	2 073	197	4 887
Chief Officer: Tax & Customs Enforcement Investigations	2 028	400	301	24	2 753
Chief Officer: Finance (9 months)	1 889	525	208	22	2 644
Chief Officer: Finance (Acting) (3 months)	736	-	54	8	798
Chief Officer: Human Resources (Acting) (10 months)	1 121	323	178	144	1 766
Chief Officer: Human Resources (2 months)	308	-	24	33	365
Group Executive: LBC	2 119	400	394	25	2 938
Special Advisor: Commissioner (9 months)	2 209	450	161	25	2 845
Chief Officer: Strategy, Enablement and Communications (Acting) (9 months)	1 359	400	150	183	2 092
	20 787	**4 025**	**4 612**	**732**	**30 156**

2013

	Salary	Bonus	Allowances including leave payments	Contributions medical & pension	Total
Commissioner for SARS	2 950	800	496	25	4 271
Deputy Commissioner for SARS	1 948	660	244	25	2 877
Chief Officer: Operations	2 821	900	194	26	3 941
Chief Officer: Legal & Policy	1 783	680	427	239	3 129
Chief Officer: Tax & Customs Enforcement Investigations	1 928	520	285	25	2 758
Chief Officer: Finance	2 373	700	258	25	3 356
Chief Officer: Human Resources (8 months)	1 236	620	340	157	2 353
Chief Officer: Human Resources (Acting) (4months)	428	-	74	58	560
Group Executive: LBC	2 033	606	296	25	2 960
Special Advisor: Commissioner	2 796	-	212	24	3 032
	20 296	**5 486**	**2 826**	**629**	**29 237**

34. Change in estimate

Property, plant and equipment

The useful life of the vehicle tracking systems was estimated in 2013 to be 8 years. In the current period management has revised their estimate to 5 years. The revision increased the depreciation charges for the current period by R 317 585.

In the current year seating related furniture was split from the furniture class. The useful life of the furniture class was changed from 6 years in 2013 to 10 years in 2014. The useful life of seating related furniture is estimated at 5 years. The revision decreased the depreciation charges for the current period by R7 991 195.

The useful lives of personal computers, monitors and notebooks was changed from 3 years to 5 years in the current year. The revision decreased the depreciation charges by R21 954 293.

35. Prior period adjustments

The corrections of errors pertaining to 2013 result in adjustments as follows:

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000
Statement of Financial Position				
Trade and other receivables	(3 362)	-	(3 362)	-
Assets under construction	(14 615)	-	(14 615)	-
Revaluation reserve	850	-	850	-
Accumulated surplus	17 127	-	17 127	-
Statement of Financial Performance				
Impairments building	13 765	-	13 765	-
Administrative expenses	3 362	-	3 362	-
Effect of reclassification	-	-	-	-
Administrative expenses	(75)	-	-	-
Employee cost	75	-	-	-

Building improvements were incorrectly classified as assets under construction. The classification was corrected by impairing building components for LeHae la SARS to the value of R13 765 126 and by reducing the revaluation reserve for a component of the Alberton building to the value of R850 139.

In 2013, the controlled entity incorrectly classified employee cost of R425 708 as administrative expenses.

In 2013, Ekurhuleni municipality netted off a water & electricity deposit against the outstanding water and electricity account and as a result refundable deposits were overstated and water and electricity expense understated by R3 361 420.

36. Risk management

Capital risk management - controlled entity

The entity's objectives when managing capital are to ensure the entity's ability to continue as a going concern.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 10, 11 & 30 cash and cash equivalents disclosed in note 4 and equity as disclosed in the statement of financial position.

The entity monitors capital on the basis of the debt: equity ratio.

The entity's strategy is to work towards a debt: equity ratio of less than 1 to 1. Currently the controlled entity is geared mainly with a shareholder's loan. To mitigate the risk associated with this type of financing the loan is interest free, has no fixed term of repayment and is subordinated to other creditors.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

The economic entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The economic entity's risk to liquidity is a shortfall in funds available to cover commitments. The economic entity manages liquidity risk through an ongoing review of all commitments and maintaining sufficient cash and cash equivalents.

The controlling entity's chief source of income is an annual grant from the National Treasury for funding of its operational and capital requirements. This grant is allocated in accordance with the provisions governing the Medium Term Expenditure Framework (MTEF). The economic entity follows an extensive planning and governance process to determine its operational and capital requirements.

The following table analyses the economic entity's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period calculated from the first of the statement of financial position to the contractual maturity date.

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

36. Risk management (continued)

Economic entity				
At 31 March 2014	**1 year**	**2 - 5 years**	**Beyond 5 years**	**Total**
Finance lease obligation	17 605	17 837	-	**35 442**
Trade and other payables	606 049	-	-	**606 049**
Employee benefits	-	-	293 694	**293 694**
Operating lease liability	392 716	850 116	183 245	**1 426 077**

At 31 March 2013	1 year	2 - 5 years	Beyond 5 years	Total
Finance lease obligation	17 378	26 102	-	**43 480**
Trade and other payables	618 727	-	-	**618 727**
Employee benefits	-	-	301 239	**301 239**
Operating lease liability	355 897	920 138	336 022	**1 612 057**

Controlling entity				
At 31 March 2014	**1 year**	**2 - 5 years**	**Beyond 5 years**	**Total**
Finance lease obligation	17 535	17 732	-	**35 267**
Trade and other payables	608 729	-	-	**608 729**
Employee benefits	-	-	293 694	**293 694**
Operating lease liability	391 278	850 116	183 245	**1 424 639**

At 31 March 2013	1 year	2 - 5 years	Beyond 5 years	Total
Finance lease obligation	17 345	26 102	-	**43 447**
Trade and other payables	628 932	-	-	**628 932**
Employee benefits	-	-	301 239	**301 239**
Operating lease liability	354 284	918 700	336 022	**1 609 006**

It is worth noting that the table above includes the controlling entity recognised employee benefits for:

- Leave accumulated prior to 1999. At the reporting date the fair value of this liability is estimated to be R75 192 283 (2013: R77 609 420) in comparison to a nominal value of R86 724 686 (2013: R93 928 392).
- Accumulated annual leave. At the reporting date the fair value of this liability is estimated to be R218 502 054 in comparison to a nominal value of R241 458 422 (2013: R 223 629 171).

Over and above the amounts disclosed in the table, the controlling entity also has housing guarantees that are recovered from the employee's salary and/or pension when the guarantees are claimed. The full liquidity risk associated with these guarantees as at 31 March 2014 was R1 221 232 (2013: R1 149 843).

36. Risk management (continued)

Interest rate risk

Exposure to interest rate risk on financial assets and liabilities is monitored on a continuous and proactive basis.

The economic entity's exposure to interest rate risk is limited. Interest rates implicit to the finance leases are not varied over the term of the lease contracts.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The economic entity is exposed to credit-related losses in the event of non-performance by counter-parties to financial instruments.

The economic entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Staff debts are recovered directly from the employee's salary and/or pension in terms of the applicable policy and procedures.

Management has evaluated the probability of non repayment of the loan by the subsidiary and have determined that in the case of default the loan could be restructured or converted into equity.

Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The controlling entity has limited exposure to various foreign currencies. The controlled entity utilises various foreign currencies and consequently may be exposed to exchange rate fluctuations that may have an impact on cash flows. Foreign exchange risks are mainly managed by the controlled entity's policy on foreign exchange transactions.

37. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

38. Fraudulent activities

The fraudulent activity reported in 2010 of staff members colluding with outside suppliers to the value of eleven million five hundred thousand rand (R11.5 million) has been transferred to the High Court with a revised trial date set for January 2015.

Management is committed to the process and continues to investigate and report all fraudulent activities identified. In the interest of improved disclosure, a fraudulent activity to the value of one hundred and fourty four thousand, two hundred and thirty four rand (R144 234) was investigated and recovery thereof implemented after conclusion of the disciplinary process.

The supplementary information does not form part of the financial statements and is unaudited.

ANNEXURE 1

Tax Computation - Controlled Entity

	R
Net income per income statement	10 993 724
Add back	
Impairment on redundant assets	11 565
Leave accrual	1 685 260
Bonus provision	3 372 221
Depreciation and interest on finance lease	11 499
Lease payments deducted in the statement of financial performance	1 467 622
Depreciation on PPE excluding non deductable leasehold improvements	1 218 612
Depreciation on non-deductable leasehold improvements	983 420
Non-deductable amortisation portion	4 569 244
	13 319 443
Less	
Leave accrual for the previous year	(1 417 120)
Bonus provision for the year	(1 320 000)
Finance lease payments	(68 569)
Operating lease payments	(1 613 048)
Wear and tear allowance	(1 887 462)
Credit note not allowed as deduction in 2013 assessment	(4 342 958)
Non executive director fees paid in 2014 for 2013	(36 424)
Amortisation deductable	(3 196 556)
Prepayments	(971 268)
	(14 853 405)
Taxable income	**9 459 762**
Tax thereon @ 28%	**2 648 733**
Tax liability	
Amount owing at the beginning of year	2 300 245
Prior year adjustment	(1 240 635)

Tax owing for the current year

Normal tax	
Per calculation	2 648 733
1st provisional payment	(3 468 443)
2nd provisional payment	(1 521 890)
	2 341 600
Amount prepaid at the end of year	**(3 582 235)**

	Economic entity		Controlling entity	
	2014	2013	2014	2013
	R '000	R '000	R '000	R '000

The supplementary information does not form part of the financial statements and is unaudited.

ANNEXURE 2

Donation in kind - Controlling Entity

1)	World Customs Organisation (WCO)	290	72	290	72

Travel, accommodation and subsistance to attend and participate in various WCO events (projects, capacity building support, workshops and training)

2)	Southern African Development Community (SADC)	117	-	117	-

Attendance of SADC Customs Training Rules and seminar to Develop Guidelines for the coordination of Excise Taxes in the SADC region

3)	International Monetary Fund (IMF)	102	-	102	-

Travel, accommodation and subsistance to attend a seminar on exchange of information for Customs and Tax Officials hosted by the Africa Regional Technical

4)	United Nations	95	23	95	23

Travel, accommodation and subsistence to attend the Committee of Experts meeting on international cooperation in Tax matters and travel and accommodation to attend the Technical Meeting on the UN course on practical issues in Transfer pricing for Developing countries

5)	International School of Transparency (IST)	93	-	93	-

Transport, travel, accommodation and subsistence for attending the Open Governance Leadership Programme.

6)	Southern African Customs Union (SACU)	77	-	77	-

Travel, accommodation and subsistance to attend the Preferred Trader Expert meetings and the SACU Project Management meeting, the 9th Steering Committee meeting and the launch of the SACU Regional Customs to Business Forum

7)	International Association of Gambling Regulators (IAGR)	72	-	72	-

Travel, accommodation and subsistance for attending the International Association of Gambling Regulators (IAGR) and International Association of Gambling Attorneys (IAGA) Conferences and Interactive Gambling Study on Behalf of The National Gambling Board (NGB)

8)	Triparitite	50	-	50	-

Travel, accommodation and subsistance for attending the 2nd Triparitite Customs Capacity Building Meeting, the Rule of Origin Technical Working Group and the 8th Triapartite Trade Negotiation Forum (TTNF) meeting.

9)	World Bank	50	-	50	

Transport, travel, accommodation and subsistence for attending the Joint Technical Assistance mission with the World Bank to the Vietnamese Tax Administration on Risk Management.

		Economic entity		Controlling entity	
		2014	2013	2014	2013
		R '000	R '000	R '000	R '000
10)	African Tax Administration Forum	48	19	48	19

Accommodation, subsistence and travel to do a presentation on behalf of the African Tax Administration Forum (ATAF), attendance of the ATAF Tax Treaties and the African Tax Administration Forum Technical Seminar on Taxpayer Service-Taxpayer Orientation and Communication.

11)	European Union	40	-	40	-

Travel, Accommodations and subsistence to attend the Africa-EU Partnership on Migration, Mobility and Employment Study Visit

12)	SARS/World Customs Organisation (WCO)	35	-	35	-

Travel, accommodation and subsistence to conduct a Joint SARS/WORLD CUSTOMS ORGANISATION (WCO) classification infrastructure development mission

13)	International Fiscal Association International	34	-	34	-

Travel, transport, accommodation and subsistence for attending the International Tax Conference.

14)	Turkish Industrialists and Businessmen Association (TUMSIAD)	30		30	-

Accommodation, subsistence and travel to attend the International Small Medium Enterprise (SME) Workshop

15)	Tax Justice Network	20	-	20	-

Travel, accommodation and subsistance to make a presentation at the Tax Justice Network Seminar on Transfer Pricing.

16)	COMESA	19	-	19	-

Travel, accommodation and subsistance to attend the COMESA workshop on double taxation.

17)	World Intellectual Property Organisation (WIPO)	15	-	15	-

Travel, accommodation and substance to attend the WIPO Regional Workshop on building respect for intellectual property

18)	ZIMRA - Zimbabwe Revenue Authority	10	-	10	-

Attendance of the conference on effectively taxing the Telecommunication Industry

19)	Belgian Development Cooperation & Belgian Development Agency	-	248	-	248

Travel, accommodation and subsistence for attending the APEC Customs, Taxes and Trade Affairs Training Course.

20)	ACBPS - Australian Customs and Border Protection Service	-	52	-	52

Transport, accommodation and subsistence for attending the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) Trade Facilitation workshop.

21)	OPCW - Organisation for the Prohibition of Chemical Weapons	-	48	-	48

Travel and accommodation for attending the OPCW Training Course: Chemical Weapons Convention in East and Southern Africa on Technical Aspects of the Transfers Regime.

		Economic entity		Controlling entity	
		2014	2013	2014	2013
		R '000	R '000	R '000	R '000
22)	USAID - United States Agency for International Development ARREST Programme	-	47	-	47

Travel, accommodation and subsistence for attending the Special Investigation Group (SIG) on Pangolins, Elephant Ivory and Rhino Horn.

23)	ILEA - International Law Enforcement Academy	-	46	-	46

Travel, accommodation and subsistence to attend the ILEA Detect Managers course.

24)	Swedish Government	-	42	-	42

Travel and accommodation to attend the WCO Project GAPIN II workshop for front line customs officers.

25)	IAEA - International Atomic Energy Agency	-	36	-	36

Travel, accommodation and subsistence for attending the Regional Training Course on Security in the Transport of Radioactive Material.

26)	AUSTRAC - Australian Transaction Reports and Analysis Centre	-	27	-	27

Travel, accommodation and subsistence for attending the AUSTRAC Typologies Workshop for the ESAAMLG TWG.

27)	SRC - Seychelles Revenue Commission	-	22	-	22

Accommodation and subsistence to present and facilitate a technical training intervention on Tax Agreements with SRC.

28)	Tax Justice Network	-	20	-	20

Travel and accommodation for attending the Seminar on Transfer Pricing and "The Future of Taxing Multinational Corporations" event.

29)	MTA - Malaysian Tax Academy	-	16	-	16

Accommodation and subsistence for attending the Advanced Seminar on Transfer Pricing at the Malaysian Tax Academy.

30)	Malaysian Government	-	16	-	16

Accommodation and subsistence for attending the Seminar on Anti-Money Laundering and Tax Evasion organised by the Inland Revenue Board of Malaysia in collaboration.

31)	MRA - Mauritius Revenue Authority	-	12	-	12

Travel, accommodation and subsistence to conduct the 3rd quarter on-site assessment of the detector dog programme.

32)	UNDP - United Nations Development Programme	-	6	-	6

Travel, accommodation and subsistence for attending the Regional Workshop on the Enforcement of Intellectual Property Rights for the Judiciary and Law Enforcement Officials (World Intellectual Property Organisation).

ABBREVIATIONS AND ACRONYMS

ACB	Automatic Clearing Bureau
ACM	Automated Cargo Management
ATAF	African Tax Administration Forum
ATP	Automatic Tax Processor
AVS	Account Verification Service
BCOCC	Border Control Operations Co-ordinating Committee
ACB	Automatic Clearing Bureau
BEPS	Base Erosion and Profit Shifting
BLF	Bilateral Legal Framework
BLNS	Botswana, Lesotho, Namibia and Swaziland
BMA	Border Management Agency
BOE	Branch Operations Engagements
BQM	Branch Queue Management
CCMA	Commission of Conciliation, Mediation and Arbitration
CCO	Contact Centre Operations
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
CIT	Corporate Income Tax
CMS	Customs Management System
CSR	Corporate Social Responsibility
DHA	Department of Home Affairs
DP	Duty Paid
DSD	Department of Social Development
DT	Dividends Tax
DTA	Double Taxation Agreement
EDI	Electronic Data Interchange
EE	Employment Equity
ER	Employee Relations
EXCO	Executive Committee
FATCA	Foreign Account Tax Compliance Act
GDP	Gross Domestic Product
GNC	Globally Networked Customs
HNWI	High Net Worth Individuals
HYEF	Help You eFile
IACF	Inter Agency Clearing Forum
IBSA	India-Brazil-South Africa
IRS	Internal Revenue Service
IT	Information Technology
LBC	Large Business Centre
LEI	Leadership Effectiveness Index
MAA	Mutual Administration Assistance
MCS	Movement Control System
MPRR	Mineral and Petroleum Resources Royalty
MTBPS	Medium Term Budget Policy Statement
NHBRC	National House Builders Registration Council
NCOP	National Council of Provinces

ABBREVIATIONS AND ACRONYMS

NPA	National Prosecuting Authority
OECD	Organisation for Economic Co-operation and Development
OTP	One-Time Password
OSBP	One Stop Border Post
PAYE	Pay-As-You-Earn
PBO	Public Benefit Organisation
PDP	Personal Development Plan
PIF	Payment Identification Failures
PIT	Personal Income Tax
PPS	Passenger Processing System
PT	Preferred Trader
RAF	Road Accident Fund
RD	Refer to Drawer
SACU	Southern African Customs Union
SAICA	South African Institute of Chartered Accountants
SAPS	South African Police Service
SARS	South African Revenue Service
SASSA	South African Social Security Agency
SCOF	Standing Committee on Finance
SMR	State Miscellaneous Revenue
SSMO	SARS Service Monitoring Office
STC	Secondary Tax on Companies
TAA	Tax Administration Act
TCEI	Tax and Customs Enforcement Investigation
TCC	Tax Clearance Certificate
TIEA	Tax Information Exchange Agreement
UIF	Unemployment Insurance Fund
UN	United Nations
USA	United States of America
VAT	Value-Added Tax
VDP	Voluntary Disclosure Programme
WCO	World Customs Organisation