Media Releases 2011

Media Statement by the Minister of Finance, Mr. Pravin Gordhan, on the Preliminary Outcome of Revenue Collection for the 2010/2011 Fiscal Year

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Pretoria, 1 April 2011 – The preliminary outcome of revenue collection by the South African Revenue Service (SARS) for the 2010/11 fiscal year is an important indicator of our country's economic recovery.

Positive economic growth over successive quarters in 2010 and a modest recovery in revenue indicate that our economy is regaining its growth momentum.
Looking ahead the South African economy is expected to continue to recover over the medium term, with projected GDP growth of 3.4% this year, rising to 4.4% in 2013.

We expect that that tax revenues will continue to improve and that revenue collection by SARS will continue to provide a sound basis for our developmental goals.

By midnight last night, SARS had collected R674.2 billion in tax revenue which is R2 billion higher than the revenue target set in the 2011 Budget in February.
This represents nominal growth in revenue of 12.6% or R75.6 billion more than the previous fiscal year.

The preliminary spending outcome of R891.3 billion is 0.2% of GDP lower than anticipated in the 2011 Budget. Combined with higher than anticipated revenue, the preliminary budget deficit is 5% of GDP – 0.3% lower than in the 2011 Budget

1. Revenue Performance

The preliminary revenue outcome increases the tax-to-GDP ratio from 25.2% for 2010/11 to 25.3% of GDP. Prior to the recession was tax-to-GDP was 27.6% in 2007/08

The revenue target for 2011/12 is R741.6 billion.

2. Performance of different tax types

2.1 Personal Income Tax (PIT)

- The year-on-year growth of R21.8bn (10.6%) was driven by wage settlements in excess of inflation.
- Average wage settlements in 2010 were estimated at 8.2% vs. 9.3% in 2009.
- The one million job losses in the previous two years showed limited impact on the upward trajectory of PIT.
- The main contributors to the growth are the finance, public administration and agencies sectors.
- Against the revised 2011 Budget estimate PIT was below by R1.1bn (-0.5%).

2.2 Corporate Income Tax

- Collections declined by R1.5bn (-1.1%) showing that CIT continues to lag.
- Corporate returns in South Africa are submitted 12 – 18 months after their financial year-end
- Positive signs going forward are the recovery in demand, commodity prices (notwithstanding the strengthening currency) as well overall growth in gross
- perating surplus from 4% to 11% which indicates improvements in business profitability.
- Sectors still lagging the recovery are agriculture, mining, construction and petroleum (mainly due to capital investment by a major oil company).
- Sectors that proved to be more resilient and performing better are telecoms, transport, wholesale and retail trade as well as medical.

CORPORATE INCOME TAX (including interest)							
R'million	2008/09	2009/10	2010/11 *	Growth '11 vs '10	%	Growth '11 vs '09	%
Agriculture	2,106	2,301	1,881	-420	-18.2%	-225	-5.3%
Mining	22,370	10,658	8,606	-2,052	-19.2%	-13,764	-30.8%
Telecom	8,332	11,138	9,963	-1,175	-10.5%	1,631	9.8%
Banks	9,691	9,227	8,378	-849	-9.2%	-1,313	-6.8%
Insurance	19,286	10,185	10,088	-97	-1.0%	-9,198	-23.8%
Other Financial Service	19,152	15,952	12,146	-3,806	-23.9%	-7,006	-18.3%
Total Fin Services	***48,129***	***35,364***	***30,612***	***-4,752***	**-13.4%**	***-17,517***	**-18.2%**
Manufacturing	34,187	28,562	33,016	4,454	15.6%	-1,171	-1.7%
Petroleum	10,382	6,954	4,520	-2,434	-35.0%	-5,862	-28.2%
Total Manufacturing	***44,569***	***35,516***	***38,036***	***2,520***	**7.1%**	***-6,533***	**-7.3%**
Wholesale & Retail	14,717	14,287	15,337	1,050	7.3%	620	2.1%
Business Services	12,042	11,321	12,193	872	7.7%	151	0.6%
Medical & Health	1,914	3,327	4,029	702	21.1%	2,115	55.3%
Transport	3,140	2,885	4,263	1,378	47.8%	1,123	17.9%
Construction	4,587	5,982	3,373	-2,609	-43.6%	-1,214	-13.2%
Catering & Acc	1,435	1,466	1,082	-384	-26.2%	-353	-12.3%
Recr. & Cultural	1,812	2,380	2,475	95	4.0%	663	18.3%
Other	2,049	353	908	555	157.2%	-1,141	-27.8%
Total	**167,202**	**136,978**	**134,711**	**-2,267**	**-1.7%**	**-32,491**	**-9.7%**
***Note: Allocations for 2010/11 are preliminary.**							

- CIT payments were R0.9bn (0.7%) above the revised estimate.

2.3 VAT

- VAT collections of R184.2bn showed an improvement of R36.2bn (24.5%) compared to the collections of R147.9bn in the previous year.

Domestic VAT

Domestic VAT collections showed moderate recovery with a year on year growth of 4.8% in 2010/11. Domestic VAT collections were R2.5bn (-1%) below estimate.

This recovery in collections reflects improved domestic demand, which rose sharply from -1.7% in 2009 to 4.2% in 2010. Retail and vehicle sales improved year-on-year by 5.2% and 25% respectively.

Import VAT

Import VAT collections were R12.6bn (17.9%) above previous year by. The rise in collections is mainly due to increased imports of vehicles, automotive parts and machinery.

Import VAT collections are R0.4bn (0.4%) above estimate.

Refunds

SARS has recently introduced stricter validation rules to eliminate increasing abuse in the refund environment

Refunds are R5bn (5%) below the revised estimate. VAT Refunds were R14bn (12%) below the previous year.

The improvement in VAT refunds stems mainly from the Finance, Agriculture, forestry and fishing, Vehicle, Mining and Municipalities. As profit margins on these sectors improved, the vendors moved to a net VAT payment situation.

The savings also stemmed from reduced capital expenditure and the conclusion of World Cup 2010 infrastructure spending.

2.4 Customs duties

Customs duty collections were R0.2bn (0.7%) against revised estimate. In the main this is attributable to vehicles imports, electrical equipment and footwear and clothing.

Table 1: Tax collections per tax year

Rm	2008/09	2009/10	2010/11	Var '11- '10	Var '11- '10	Var '11- '09	Var '11- '09
Persons and individuals (excl int)	195,146	205,145	226,936	21,791	10.6%	31,790	8.1%
Companies (excl int)	165,539	134,883	133,421	-1,462	-1.1%	-32,118	-9.7%
Secondary tax on companies	20,018	15,468	17,017	1,549	10.0%	-3,001	-7.5%
Value-added tax	154,343	147,941	184,165	36,223	24.5%	29,822	9.7%
Specific Excise Duties	20,185	21,289	21,472	183	0.9%	1,288	3.2%
Fuel levy	24,884	28,833	35,050	6,218	21.6%	10,166	20.4%
Customs duties	22,751	19,577	26,573	6,996	35.7%	3,822	8.4%
Other taxes	22,235	25,569	29,585	4,016	15.7%	7,350	16.5%
TOTAL TAX REVENUE	**625,100**	**598,705**	**674,220**	**75,515**	**12.6%**	**49,120**	**3.9%**

Table 2: Tax collections versus Budget 2011 Estimate

Rm	Budget 2011 Estimate	Actual 2010/11	Var	Var %
Persons and individuals (excl int)	228,000	226,936	-1,064	-0.5%
Companies (excl int)	132,500	133,421	921	0.7%
Secondary tax on companies	16,500	17,017	517	3.1%
Value-added tax	181,335	184,165	2,830	1.6%
Specific Excise Duties	22,900	21,472	-1,428	-6.2%
Fuel levy	34,300	35,050	750	2.2%
Customs duties	26,400	26,573	173	0.7%
Other taxes	30,265	29,585	-680	-2.2%
TOTAL TAX REVENUE	672,200	674,220	2,020	0.3%

Table 3: Contribution per tax type 2008/09-2010/11

Rm	2008/09	2009/10	2010/11
Persons and individuals (excl int)	31.2%	34.3%	33.7%
Companies (excl int)	26.5%	22.5%	19.8%
Secondary tax on companies	3.2%	2.6%	2.5%
Value-added tax	24.7%	24.7%	27.3%
Specific Excise Duties	3.2%	3.6%	3.2%
Fuel levy	4.0%	4.8%	5.2%
Customs duties	3.6%	3.3%	3.9%
Other taxes	3.6%	4.3%	4.4%
TOTAL TAX REVENUE	100.0%	100.0%	100.0%

3. Government expenditure

Higher spending on wages and other unanticipated priorities required an additional R6 billion to be added to the adjustments budget in October last year. Despite this, our contingency reserve combined with savings and cut-backs in non-priority areas means that departments have been able make these adjustments without increasing the size of the expenditure envelope.

The provisional expenditure outcomes for the 2010/11 year indicate that again, we have been able to deliver on government's commitments without having to increase expenditure. As of this morning, our accounts show total expenditure of R891.3 billion – R6.1 billion lower than the revised estimate published in the 2011 Budget Review.

While we have been able to stay within our expenditure envelope, it remains concerning that under-spending continues to occur in some priority programmes. In particular, given the commitment of this government to the effective delivery of services and inclusive economic growth, under-spending in certain infrastructure related programmes must continue to receive urgent attention.

4. The Global Economic Outlook

The global economic growth remains uneven with developing economies, especially China and India, experiencing higher growth than developed economies. The global economic outlook, however remain uncertain with risks associated with geo-political uncertainties in the Middle East and North Africa, the crisis in Japan and the sovereign debt risks in the Eurozone. Other factors are high unemployment and inflationary pressure due to high oil and food prices.

5. Improving Tax Compliance

GDP growth in itself is not a guarantee for higher revenue collection. This year's revenue performance is again a major credit to the work of SARS and its ability to meet and exceed revenue expectations, even during periods of constrained growth.

The preliminary revenue outcome is also a huge credit to the growing body of compliant taxpayers in South Africa who diligently submit their annual tax returns on time.

South African continue to improve their compliance with approximately 10% more individual taxpayers filing their tax returns for this tax year compared to the previous year.

I want to thank them for their contribution to help SARS to grow our tax base!

The improved revenue performance for 2010/11 can also be attributed to SARS's administrative reforms and its Modernization programme. Significantly more taxpayers are becoming aware that we have improved our capability to detect non-compliance and non-disclosure through improved third party data verification and the pre-population of taxpayer data on returns.

There was a significant shift from taxpayers towards e-channels when submitting returns. The shift to electronic filing continued in the last Tax Season when 96% of all returns were submitted electronically.

6. New Compliance initiatives —

- More than 900 000 calls were made to taxpayers in 500 000 debt collection cases during the financial year.
- By November 2010 that PAYE Debt book peaked at R46.2 billion. Through an integrated effort across all tax types, taxpayer accounts were managed better through improved reconciliations. By March this year PAYE Debt was reduced to R18.4 billion
- More than 43 000 final demands were issued during the year to taxpayers with outstanding tax debt
- For the month of March the SARS Call Centre made 270 429 calls to 182 293 taxpayers yielding revenue of R6.3 billion
- SARS has issued 265 000 administrative penalty notices – IT 88 notices in terms of which SARS appoints agents to recover tax debts - for outstanding personal income tax returns to the value of R485 million. This resulted in R130 million in penalties being paid.
- The SARS Large Business Centre investigated 14 270 large corporate and non-corporate taxpayers for underpayments of provisional tax. These intervention yielded provisional tax revenue of R4.9 billion
- The SARS Large Business Centre investigated 456 taxpayers for under-declarations of VAT and claiming undue VAT refunds while 725 taxpayers have been investigated for Income Tax regularities. These interventions yielded revenue of more than R10.5 billion

Still there remains worrying trends about the levels of compliance amongst certain segments of taxpayers, particularly high income earners. There are still too many instances of fraud and abuse of the tax system and impermissible methods some businesses use to manipulate their cash flow position and minimize their tax liabilities.

SARS has become aware about these schemes and SARS will improve its ability to act more decisively against a blatant disregard for tax and customs laws through the under-declaration of income.

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Overview of High-Net worth Indivisuals

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