

SOUTH AFRICAN REVENUE SERVICE
STRATEGIC PLAN
2012/13 -2016/17



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Abbreviations

| | |
|---------|--|
| AEO | Accredited Economic Operator |
| APA | Advanced Transfer Pricing Agreements |
| BBSDP | Black Business Supplier Development Programme |
| BCOCC | Border Control Operational Co-ordinating Committee |
| BMA | Border Management Agency |
| CBCU | Customs Border Control Unit |
| CIT | Corporate Income Tax |
| CIPC | Companies and Intellectual Property Commission |
| DDU | Dog Detection Unit |
| DoL | Department of Labour |
| dti | Department of Trade and Industry |
| eFiling | Electronic Filing of Returns |
| EIP | Enterprise Investment Programme |
| EMCS | Enhanced Movement Control System |
| FATF | Financial Action Task Force |
| FIC | Financial Intelligence Centre |
| GDP | Gross Domestic Product |
| GPAA | Government Pensions Administration Agency |
| JSE | Johannesburg Stock Exchange |
| IACF | Inter-Agency Clearing Forum |
| IDC | Industrial Development Cooperation |
| IFRS | International Financial Reporting Standards |
| IVR | Interactive Voice Response |
| LBC | Large Business Centre |
| MAWG | Multi-Agency Working Group |
| MTEF | Medium-Term Expenditure Framework |
| MTSF | Medium-Term Strategic Framework |
| NHI | National Health Insurance |
| NPA | National Prosecuting Authority |
| OECD | Organisation for Economic Co-operation and Development |
| PAYE | Pay As You Earn |
| PICC | Presidential Infrastructure Coordinating Commission |
| PIT | Personal Income Tax |
| PPS | Passenger Processing System |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| SARS | South African Revenue Service |
| SCM | Supply Chain Management |
| SDL | Skills Development Levy |
| SETA | Sector Education and Training Authority |
| SANDF | South African National Defence Force |
| UN | United Nations |
| TAT | Turnaround Time |
| VAT | Value Added Tax |
| WCO | World Customs Union |



01

Foreword by the Minister of Finance

01 Foreword by the Minister of Finance



This year President Jacob Zuma tabled a set of ambitious infrastructure development programmes in his State of the Nation Address that will direct South Africa's progress over the medium term towards higher levels of economic growth, job creation and reducing poverty.

The 2012 Budget policy framework supports these initiatives.

Faster economic growth must go hand in hand with job creation and generate tax revenue that can enable government to pursue policies towards growth and development in a manner that is fiscally sustainable.

The interventions proposed by President Zuma aim to expand economic opportunities through investing in infrastructure, diversifying exports, strengthening South Africa's links to faster-growing economies, enacting reforms to lower the cost of doing business, reducing constraints to growth in various sectors, moving to more efficient and climate-friendly production systems and encouraging entrepreneurship and innovation.

Improving infrastructure and network services that support industries such as mining and agriculture, as well as new, dynamic industries, will be the focus of a more labour-absorbing growth path. Guided by the work of the Presidential Infrastructure Coordinating Commission (PICC) and the National Planning Commission, R844.5 billion has been budgeted for public sector infrastructure projects over the next three years.

The full list of mega-infrastructure projects for the country that is under consideration at this time is estimated to be worth around R3.2 trillion. These proposals will be subjected to rigorous assessment to determine their feasibility. Providing financing for social and economic infrastructure that support development will remain a priority for budgets in future years. Over the next three years, our focus will be guided by the principles expressed in South Africa's fiscal guidelines – a counter-cyclical policy stance, sustainability and intergenerational fairness.

This implies that government will continue to increase public expenditure to stimulate economic growth, even during periods of slower global growth. It also implies that there will be a determination to get better value for the tax money government spends, while shifting public resources from consumption towards infrastructure investment. Our expenditure commitments and expected borrowing will be done responsibly, without leaving a debilitating burden of public debt for future generations.

Consolidated government expenditure for 2012 is projected to exceed R1 trillion for the first time – an 8.8% increase from 2011. This represents a doubling in expenditure since 2002/03 in real terms.

Our ability to generate and collect sufficient tax revenue to fund public expenditure will remain a key determinant of how successful we continue to be in managing public finances responsibly. Tax revenues are derived directly from economic activity and higher levels of tax compliance. Any successful developmental state needs a proficient tax and customs administration that is capable of collecting the required revenue.

For the medium term it is anticipated that the demands on revenue collection growth will be between 10% and 12% per annum, which represents another challenge for SARS.

This SARS Strategic Plan is presented to Parliament towards this end. The SARS Strategic Plan was developed within the context of government's continuing determination to expand and improve the delivery of vital services to all South Africans and to enhance the productive base of the country through improved infrastructural development.

In order for SARS to provide the means for government to deliver on these goals, the cornerstone of all SARS's plans must be to improve the levels of compliance to tax and customs legislation. To this end SARS has, over the past few years, embarked on a sustained programme to improve its services, educate the public on their obligations and to detect and deter non-compliance in line with its compliance philosophy.

Revenue collection follows shifts in economic cycles and potential risk to tax revenue stems from the continued uncertainty in the global economy. During the period of global uncertainty since 2008, the South African economy has shown resilience, while revenue collection performed remarkably well. Over the short term, global uncertainty is likely to hold back higher growth, but South Africa, in this environment, has to move forward by building on the inherent strengths of our economy to achieve higher levels of inclusive growth.

To do this, government will continue to build on its record of prudent fiscal management while institutions like SARS will continue to demonstrate adaptability and a responsiveness to changing economic conditions on the one hand, and the public finance requirements from government on the other hand.

Success in these areas will lay a strong foundation for sustainable growth and job creation for years to come. South Africa has considerable strengths on which to build.



Pravin Gordhan
Minister of Finance

02

Message from the Commissioner



The year 2012 marks the 18th anniversary of the birth of our young democracy. As South Africa continues to mature and overcome its problems such as its legacy of racial segregation, health, education, the fight against crime, human settlements, energy, water provision and rural development, the triple challenge of unemployment, poverty and inequality still persist, despite all the progress made.

As a youthful nation, we all have a responsibility to work hard to overcome these challenges, to make South Africa a better place for our children. As SARS we are both proud and humbled by our role in making this happen. The revenue that we collect provides a solid and enduring foundation to accelerate progress in our country.

At the heart of the social contract, between the state and its citizens, lies compliance on the one hand and accountability on the other. These are the two pillars of the democratic state we have built in which citizens participate and contribute to the common good and the state accounts for how it will – and has – used those contributions to meet the needs of its people.

In support of this ambition, SARS has developed this Strategic Plan for the medium term ahead. In it we have distilled our mandate into four core outcomes that we believe will stand the test of time – namely: increasing customs compliance, increasing tax compliance, increasing the ease and fairness of doing business with SARS and to increase cost effectiveness, internal efficiency and institutional respectability.

All four outcomes are interdependent and mutually beneficial, as the pursuit of one outcome frequently enables the achieving of another outcome. Increasing the ease and fairness of doing business with SARS encourages economic growth, which in turn supports job creation and ultimately leads to greater revenue collection. Similarly, maximising the cost effectiveness of SARS builds confidence and accountability that government is utilising tax effectively, and thus a greater willingness to comply with obligations is encouraged.

The SARS five-year strategy that will guide us and support the delivery against our outcomes are:

- ◆ Shifting from targeting eligible taxpayers to building fiscal citizenship among all South Africans to contribute to nation building and institutional sustainability
- ◆ Moving from a gate keeper to a risk manager approach
- ◆ Migrating from an entity and product approach to an integrated economic view of the taxpayer and trader
- ◆ Shifting from a uniform service offering to a differentiated service offering
- ◆ Migrating from manual processes to an automated, digital and self service environment

- ◆ Moving from an isolated departmental view of SARS's efficiency to a whole of government view to enhance the value chain activities before and after they enter the SARS domain
- ◆ Migrating from a high administrative burden legacy to a reduced administrative burden environment
- ◆ Enabling our people to perform at their peak

We believe that the strategic choices we have made will create a strong, moral foundation for tax and customs compliance and build a credible, accountable, efficient, effective and values-based institution which all South Africans can be proud of and have faith in.



Oupa Magashula
SARS Commissioner

03

This plan at a glance

03 This plan at a glance

As an organ of state, SARS's mandate outlines its obligations towards the state and its people: to ensure maximum compliance with tax and customs legislation, to collect all revenues due and to facilitate legitimate trade

SARS's overall vision is informed by its legislative mandate. As an organ of state, its mandate outlines its obligations towards the state and its people: to ensure maximum compliance with tax and customs legislation, to collect all revenues due and to facilitate legitimate trade. This mandate supports a higher purpose, namely to contribute directly to the economic and social development of the country through collecting the revenue needed by government to meet its policy and delivery priorities and by building a compliant society through achieving tax and customs compliance.

3.1 Our mandate

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

- ◆ Collect all revenues due
- ◆ Ensure optimal compliance with tax and customs legislation
- ◆ Provide a customs service that will optimise revenue collection, protect our borders and facilitate legitimate trade

3.2 Our vision

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

3.3 Our values

Our values are:

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

3.4 Our core outcomes

The four core outcomes that will underscore current and all future strategies are:

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

3.5 Our strategy to achieve our outcomes

The primary approach to achieve our outcomes is to shift resources, particularly human capacity, away from routine low value-adding activity into service, education and enforcement areas with high-value adding activity.

Our five-year strategy to achieve our outcomes is to:

- ◆ Shift from targeting eligible taxpayers to building fiscal citizenship among all South Africans to contribute to nation building and institutional sustainability
- ◆ Move from a gate keeper to a risk manager approach
- ◆ Migrate from an entity and product approach to integrated economic view of the taxpayer and trader
- ◆ Shift from a uniform service offering to a differentiated service offering
- ◆ Migrate from manual processes to an automated, digital and self service environment
- ◆ Move from an isolated departmental view of SARS efficiency to a whole of government view to enhance the value chain activities before and after they enter the SARS domain
- ◆ Migrate from a high administrative burden legacy to a reduced administrative burden environment
- ◆ Enable our people to perform at their peak

The primary approach to achieve our outcomes is to shift resources, particularly human capacity, away from routine low value-adding activity into service, education and enforcement areas with high-value adding activity

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Our environment

SARS's strategy is built on a deep understanding of the economic environment that it operates in, the need to align and support government's broader objectives and as a response to the risks that it faces currently and into the future.

4.1 Economic trends

Global trends

There is a link between tax revenue, the fiscus and the economy. This link becomes even more apparent during periods of slow economic recovery – similar to the conditions that South Africa is facing now. Government is required to play a greater role in building, sustaining and stimulating the economy. Tax revenue is critical to make this happen. Where tax revenue does not adequately cover the critical spending requirements of the country, money must be borrowed, often at high cost, reducing the amount available to spend and with a risk of a loss of fiscal sovereignty to international creditors.

South Africa is described as a medium-sized open economy and is significantly impacted by global economic events, especially since a large amount of our trade is with the United States, Europe and Japan. As we move into an environment of two-speed global growth, where advanced economies will grow at approximately 2%, and developing Asia and sub-Saharan Africa grow at more than 5%, South Africa will need to diversify its trading partners, particularly into Africa.

The United States remains the biggest economy in the world, and is forecast to grow at a maximum of 2% over the next few years. It faces huge debt challenges, and political deadlock means that no easy solutions will be found.

In Europe, the crisis that began with Greece has now spread to Portugal, Ireland, Italy and Spain. Furthermore, nine countries, including Austria and France, had their debt ratings downgraded by ratings agencies from AAA to AA, increasing the fiscal pressure on these countries.

Even among the BRIC countries, the impact of a sustained economic slowdown is being felt. China's double-digit growth has now slowed to 8%, India is experiencing an outflow of funds, and Brazil's growth rate is also cooling, placing the growth rate of the broader Latin America region under pressure.

Domestic trends

The domestic economy continued to show signs of improvement in the first half of 2011, with real GDP accelerating to 4.6% in the first quarter of 2011. However, in the second quarter, the impact of the sovereign debt crises filtered in from the global economy, and, coupled with a reduction in aggregate domestic demand, caused growth to falter with the rate of growth dropping to 1.3% in this quarter. In the third quarter of 2011, GDP

The link between tax revenue, the fiscus and the economy becomes even more apparent during periods of slow economic recovery. Government is required to play a greater role in building, sustaining and stimulating the economy. Tax revenue is critical to make this happen

expanded at a moderate rate of just 1.4%, resulting from poor performance in the mining and manufacturing sectors, which performed poorly due to hesitant global demand, as world trade stagnated and domestic consumption declined.

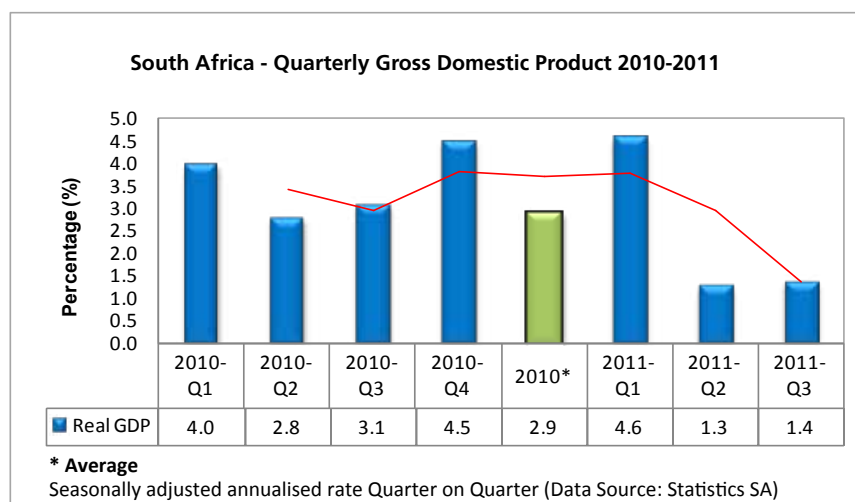


Figure 1: South Africa GDP growth 2010-2011

Gross domestic expenditure, a measure of the level of spending in South Africa, accelerated to 4.2% in the third quarter of 2011 from 1.1% in the second quarter, but still remains well below the level of 8.0% recorded in the same period in 2010. Household consumption increased marginally to 3.7% in the third quarter of 2011 from 3.3% in the second quarter, but remained well below the 6.5% recorded in the same period in 2010. The moderation in consumer spending is due to the fact that consumers remain highly indebted.

Table 1: Gross consumption expenditure

| Components | 2010 | | | | | 2011 | | |
|-------------------------------|---------|---------|---------|---------|-------|---------|---------|---------|
| | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | Year | 1st qtr | 2nd qtr | 3rd qtr |
| Final consumption expenditure | | | | | | | | |
| Households | 6,10 | 2,90 | 6,50 | 5,60 | 3,70 | 6,40 | 3,30 | 3,70 |
| General government | 8,00 | 8,00 | -0,60 | 4,30 | 4,90 | 9,30 | -0,30 | 4,70 |
| Gross fixed capital formation | 2,80 | 2,30 | 1,80 | 4,20 | -1,60 | 4,80 | 5,00 | 5,60 |
| Domestic final demand | 5,80 | 3,80 | 4,20 | 5,10 | 2,90 | 6,70 | 2,90 | 4,30 |
| Change in inventories (Rbn)* | -9,20 | -8,20 | 4,80 | 5,70 | -1,80 | 8,20 | 4,20 | 5,00 |
| Gross domestic expenditure | 6,30 | 3,80 | 8,00 | 3,90 | 4,20 | 5,00 | 1,10 | 4,20 |

*At constant 2005 prices
Source: Reserve Bank Quarterly Bulletin 2011

Unemployment still remains a challenge, with the economy struggling to create new jobs and unable to sustain existing jobs. Unemployment declined from 25.7% in the second quarter of 2011, to 25.0% in the third quarter of 2011, amounting to a decline of 96 000 in the number of unemployed people. This was a slight improvement from the 25.3% registered in the same period in 2010. The high rates of unemployment experienced in South Africa has led to the narrowing of the tax base, thereby putting added pressure on public finances to sustain a growing social burden.

Table 2: Macroeconomic Projections, 2008-2014 (Calendar year)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Calendar year | Actual | | | Estimates | Forecast | | |
| <i>Percentage change</i> | | | | | | | |
| Final household consumption | 2.2 | -1.6 | 3.7 | 4.9 | 3.6 | 3.8 | 4.2 |
| Final government consumption | 4.5 | 4.7 | 4.9 | 4.6 | 4.1 | 4.1 | 4.1 |
| Gross fixed capital formation | 13.3 | -3.2 | -1.6 | 4.3 | 4.1 | 4.5 | 6.0 |
| Gross domestic expenditure | 3.5 | -1.6 | 4.2 | 4.1 | 3.9 | 4.2 | 4.9 |
| Exports | 1.8 | -19.5 | 4.5 | 6.0 | 2.9 | 5.8 | 6.6 |
| Imports | 1.5 | -17.4 | 9.6 | 9.4 | 7.2 | 7.1 | 8.3 |
| Real GDP growth | 3.6 | -1.5 | 2.9 | 3.1 | 2.7 | 3.6 | 4.2 |
| GDP inflation | 8.3 | 7.7 | 7.9 | 7.2 | 6.1 | 6.2 | 6.1 |
| GDP at current prices (R billion) | 2 263 | 2 398 | 2 661 | 2 941 | 3 204 | 3 526 | 3 897 |
| Headline CPI inflation | 9.9 | 7.1 | 4.3 | 5.0 | 6.2 | 5.3 | 5.1 |
| Current account balance (% of GDP) | -7.2 | -4.0 | -2.8 | -3.3 | -4.3 | -4.5 | -4.4 |

Table 3: Macroeconomic projections, 2008/09-2014/15 (Fiscal year)

| | 2008/09 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Fiscal year | Actual | | | Estimates | Forecast | | |
| <i>Percentage change</i> | | | | | | | |
| Real GDP growth | 2,5 | -0,8 | 3,1 | 2,7 | 3,0 | 3,8 | 4,3 |
| GDP inflation | 8,3 | 6,8 | 9,4 | 5,9 | 7,0 | 5,7 | 5,8 |
| Headline CPI inflation | 9,9 | 6,4 | 3,8 | 5,7 | 5,9 | 5,3 | 4,9 |
| GDP at current prices (R billion) | 2 304 | 2 440 | 2 754 | 2 996 | 3 301 | 3 622 | 3 997 |

Overall, the domestic economy is forecasted to grow by an estimated 2.7% in 2011 and projected to grow at 3.0%, 3.8% and 4.3% over the next three years. Growth in the latter years would be as a result of expected world economic recovery, stronger domestic consumption and investment support.

Exports are projected to accelerate over the medium-term. However, imports are projected to grow at a much faster rate as a result of robust domestic demand. Over the medium term, growth in exports and imports is projected to grow at an average of 5.1% and 7.5% respectively. This will contribute to the current account deficit widening from an estimated -3.3% of GDP in 2011 to -4.4% of GDP in 2014. Headline consumer price index (CPI) inflation is projected to increase from an average of 5.0% in 2011 calendar year to 6.2% in 2012 as a result of high food prices, rising administered prices and higher prices of imported goods. However, inflation is forecast to moderate to an average of 5.3% in 2013 and 5.1% in 2014.

4.2 Government priorities

Government priorities and policy include the enabling of job creation in South Africa, supporting government's social infrastructure and to accelerate the fight against corruption

South Africa will need to react to the uncertainties in the global environment and the challenges and opportunities it presents. The government of South Africa, through its State of the Nation Address and the recent Budget Speech, has outlined its approach to do this, namely, through creating jobs, reducing poverty, building infrastructure and expanding the economy.

SARS has a direct and critical role to play in supporting government's priorities. Below we outline a selection of government's priorities that link to our mandate, and outline the implications for SARS in the medium term. The State of the Nation Address, delivered by the President on the 9th of February 2012, spoke of the elimination of poverty and inequality as critical points that must be attended to.

Enable job creation in South Africa

High unemployment, poverty and inequality persist as primary social challenges in South Africa. South Africa's problem of structural unemployment dates back into the 1970s and unemployment continued to deteriorate in the early 2000s due to slow growth and declining employment in gold mining and agriculture. Although jobs grew rapidly during the boom of 2003 and 2008, unemployment did not fall below 20%. Unemployment received a further setback in the recession of 2009.

Government has committed itself to higher growth and job creation to reduce and ultimately eradicate poverty and inequality, and has launched the New Growth Path framework and identified the major job drivers as infrastructure development, tourism, agriculture, mining, manufacturing and the green economy.

SARS has a direct role to play in supporting this immediate challenge. The tax revenue and customs duties it collects provide the much-needed funds for government's job creation incentive funds, such as the Job Fund (R1 billion committed already), R20 billion worth of incentives under the Income Tax Act, and the R10 billion pool set aside by the Industrial Development Corporation (IDC) for job creation. Aside from revenue collection, SARS also has a responsibility to reduce the burden of compliance, so as not to stifle growth. This is particularly true for small businesses, widely recognised as the engine of job creation in South Africa.

Supporting government's social infrastructure projects

Government has launched a huge campaign of building nationwide infrastructure to boost the level of the economy and stimulate the creation of job opportunities. The projects include five major geographically focused programmes, as well as projects focusing on health and basic education infrastructure, information and communication. These include integrated rail, road and water infrastructure in Limpopo, the expansion of rail transport in Mpumalanga (to connect coalfields to power stations), the strengthening of the Durban–Free State–Gauteng logistics and industrial corridor, the increase in capacity of the iron-ore rail line between Sishen and Saldanha and the expansion of port capacity. These projects will require an investment of well over R800 billion over the next three years and places a significant responsibility on SARS to ensure tax compliance to deliver the funds required and minimise South Africa's borrowing requirements.

Accelerate the fight against corruption

The South African government has made an explicit commitment to accelerate the fight against corruption. SARS, as part of its role in the Multi-Agency Working Group, and in partnership with National Treasury and the Financial Intelligence Centre, is reviewing the entire state procurement system to ensure better value for money from state spending.

The National Treasury has already issued new regulations which require departments to submit annual tender programmes, limit variations to orders, and it has made the requirement for full disclosure compulsory.

Further steps that will be taken include:

- ◆ Reducing fragmentation in the system and strengthening of the national procurement architecture
- ◆ The appointment of a Chief Procurement Officer who will have overall responsibility for monitoring procurement across government
- ◆ Strict vetting of all procurement officers
- ◆ The development of a national price reference system, to detect deviations from acceptable prices
- ◆ Strengthening of the tax clearance system to ensure that those who have defrauded the state cannot do business with the state again

4.3 Risks facing SARS

The risks that SARS faces stem from its exposure to the uncertain global economic climate, the compliance behaviour of taxpayers and traders in response to this climate and the risks stemming from its own operations. This strategic plan will aim to address and mitigate these risks.

Fiscal pressures exacerbate revenue collection pressure on SARS

Uncertainties in the global economic environment, a widening budget deficit and an increasing public debt-to-GDP ratio place increasing pressure on SARS to meet challenging revenue targets. The existing tax base continues to be placed under pressure to help deliver economic relief, provide assistance to the unemployed, and help fund government's expenditure requirements.

The illicit economy continues to threaten the local economy and have a negative impact on the fiscus

The illicit economy usually grows during periods of slow economic recovery and this continues to have negative social and revenue effects for South Africa. Proceeds from the illicit economy (e.g. smuggling and the sale of contraband cigarettes) are often channelled into funding organised crime. Furthermore, there is a double impact on tax revenue: firstly, entities involved in the illicit economy are often non-compliant with respect to taxes, and secondly, there is a knock-on effect on revenue collected from traders involved in the sale

The risks that SARS face, stem from its exposure to the uncertain global economic climate and the compliance behaviour of taxpayers and traders in response to this climate, as well as the risks stemming from its own operations

of legitimate goods due to the decreased consumption of these goods. For example, it is estimated that there is a loss of between R2 billion and R4.5 billion to the fiscus due to the smuggling and consumption of contraband cigarettes.

Unfavourable public and media perception of poor state service delivery and corruption pose the largest compliance risk to SARS

Research and empirical evidence show that taxpayers' attitude towards compliance, that is their willingness to comply, is influenced by how they perceive that money to be spent. Concerns about corruption in the public sector remains an issue. Recent surveys show that corruption has replaced crime as the number one issue concerning South African citizens.

Perception about the quality of service delivery is equally on the decline. Recent articles in the media question the need for citizens to fulfil their tax obligations when parts of the State are allegedly corrupt or incompetent.

These factors impact SARS's ability, as an organ of state, to achieve compliance.

Potential changes to the mandate of SARS as part of government's efforts to improve service delivery

Government, however, remains committed to improving service delivery to its citizens. In order to achieve this in a cost efficient manner, a high degree of coordination and collaboration is required among different state organs, and distinctive capabilities residing within one state organ should be used to improve entire state processes or to deliver new services to the South African public.

SARS's mandate may potentially be impacted over the medium-term planning period. The reasons for this are outlined below:

- ◆ Government aims to balance trade facilitation to enable economic growth with improved border security to combat the illicit movement of goods and people. To achieve effective border security, a Border Management Agency model has been proposed to ensure greater operational synergies among the different processes at the border and provide clear delineation of responsibility and accountability for all the required aspects of border management. Under this model, the aspects of SARS's mandate pertaining to the protection of South Africa's borders will be impacted.
- ◆ The National Health Insurance scheme proposed by government aims to ensure that all citizens have access to primary health care through a state-funded health insurance scheme. SARS will need to cater for any additional taxes that may need to be collected to fund this scheme. Furthermore, SARS may be required to administer the payment of claims, through leveraging the risk management principles, platforms and systems it has developed for the tax and customs environment. This would mean a significant shift in SARS's mandate and will require a rethink of how we do business.
- ◆ In addition, as part of the SARS strategy to pursue a 'whole of government view approach', SARS has been involved in collaboration efforts with other government departments (e.g. the Department of Home Affairs and CIPC).

Any changes to the SARS mandate will need to be adequately planned and capacitated for, to ensure that execution against its current core mandate is not adversely affected.

Businesses are increasingly using sophisticated and complex financial schemes to evade their tax obligations and minimise the impact of slow economic recovery on profitability

SARS has detected an evolution from businesses utilising domestic loopholes to evade tax to now take advantage of cross-border structuring and transfer pricing manipulations. The reasons are outlined below:

- ◆ Global economic uncertainty has resulted in multinational companies seeking 'innovative' ways to protect profitability and their returns to shareholders.
- ◆ Growing presence of multinational corporations in South Africa, due to the emergence of large local-origin players and the positioning of South Africa as an investment destination into Africa. The top 500 multinational companies account for nearly 70% of world-wide trade and have the greatest ability to shift profits from high tax jurisdictions to low tax jurisdictions.
- ◆ Developing countries, such as South Africa, are likely to be the most impacted by transfer pricing manipulations, as the current OECD and UN transfer pricing frameworks are seen to favour developed countries (e.g. due to the use of comparable data that is more relevant in developed countries) and the relative shortage of transfer pricing skills and expertise in these jurisdictions.

Compliance risk posed by high-net worth individuals and the use of trusts to conceal their income

Analysis shows that a significant number of high-net worth individuals are under-declaring their income, resulting in significant revenue losses. Collaboration with banks have indicated that there are a significant number of people that meet the high-net worth threshold, i.e. either R7 million in annual income or R75 million in assets. Of this number, only a fraction have actually declared their income to SARS.

Continued growth in the taxpayer debt book, mainly due to poor accounts maintenance and the impact of the slow economic recovery on taxpayers' ability and willingness to pay

The SARS debt book continues to grow at an undesirable rate. At the end of 2010, the debt book (excluding debt not yet due) was R79.5 billion, while at the end of 2011, the debt book had grown to R86.1 billion. While part of the growth was attributable to a worsening economic climate, legacy manual paper-based processes posed challenges to the integrity of taxpayer accounts. The planned modernisation of the debt environment will aid greatly in improving the maintenance of taxpayer accounts and improve debt collection and management efforts.

VAT processes will be under pressure as businesses deal with the impact of the slow economic recovery on their business

The VAT system and processes within SARS will be placed under pressure as businesses respond to the impact of the slow economic recovery on their businesses.

The strategic risks that SARS faces, stem from its a) exposure to the uncertain global economic climate, b) compliance behaviour of taxpayers and traders in response to this economic climate c) as well as the risks that stem from our own operations

This impact is two-fold:

- ◆ Firstly, there is an increased chance of VAT fraud, i.e. over-claiming of input VAT to protect the profitability of the trading concern.
- ◆ Secondly, SARS will need to rapidly process legitimate refunds to ensure that vendors have positive cash flow to sustain their businesses during these challenging times.

Inadequate complaints management

Taxpayers and traders continue to experience the impact of modernisation, as legacy paper-based processes and systems are being modernised. These changes can sometimes result in unintended service glitches being experienced by the taxpayer and trader. SARS is committed to the highest levels of service to its valued taxpayers and traders, and aims to provide a highly efficient complaints management system as a means of obtaining the feedback necessary to continually improve its service delivery.

Succession Risk

Delivery of the SARS Strategic Plan is heavily contingent on the continuity and stability of organisational leadership. Much of SARS's success in the past has been as a result of the relatively long tenure of the current and previous Commissioner (including members of the senior leadership team), as well as the long tenure of the current and previous Minister of Finance.

However, approximately 20% of the senior leadership could potentially be leaving in the next five years, either due to retirement or the expiration of contracts. Many of the skills concerned are extremely scarce resources in South Africa, as well as critical to SARS. This will require a carefully planned transition to the new leadership through careful identification of the potential successors and ensuring an adequate grooming and handover process. The development of a competitive value proposition and remuneration framework that will attract and retain these scarce and critical skills will be required to mitigate this risk.



05

SARS's four core outcomes

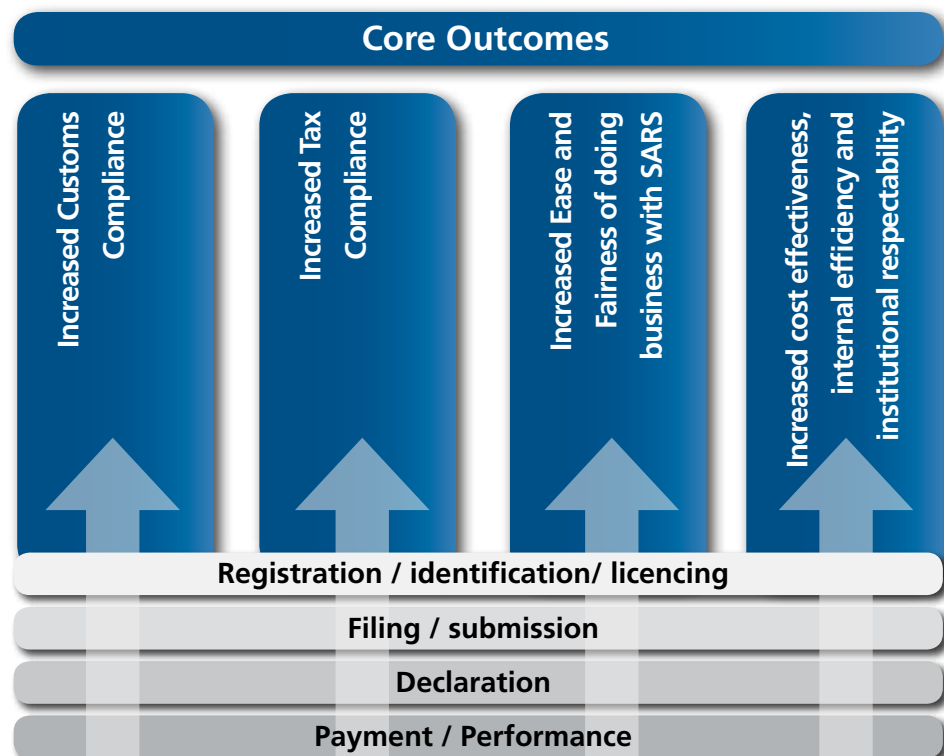
In this section, SARS's four core outcomes are outlined, as well as the philosophy and approach to achieving these outcomes.

5.1 Core outcomes: How SARS will create value

SARS's mandate is to ensure maximum compliance to all the laws that SARS administers in order to ensure a sustainable revenue stream for government and a controlled and safe flow of goods across the country's borders. At the same time, such compliance must be achieved in a manner that does not unduly impede trade, economic growth and development by imposing an excessive and unfair administrative compliance burden on taxpayers, traders and businesses. In addition, SARS must achieve compliance in the most efficient and cost effective manner possible, as well as in a context of building institutional respectability for SARS and its related government entities.

Given this objective, SARS has established four core outcomes for the organisation that will serve as the foundation for all current and future strategies. The four core outcomes of SARS are to increase customs compliance, to increase tax compliance, to increase ease and fairness of doing business with SARS and to increase the cost effectiveness, internal efficiency and institutional respectability of its operations.

The core outcomes for SARS are: increased customs compliance, increase tax compliance, increased ease and fairness of doing business with SARS, as well as increased cost effectiveness, internal efficiency and institutional respectability



All four outcomes are interdependent, as the pursuit of achieving one outcome frequently enables achieving another outcome. For example, increasing the ease and fairness of doing business with SARS encourages greater compliance. Similarly, maximising the cost effectiveness of SARS builds confidence amongst taxpayers that government is utilising taxes effectively, and thus greater compliance is encouraged.

All four of these outcomes apply equally to all the main steps in the SARS value chain from registration through filing and full declaration to payment. For example, compliance with registration must be achieved in a way that makes compliance easy (not only to achieve greater levels of compliance, but also to make it easier to start a business in South Africa) and this needs to be carried out efficiently and cost effectively. The overall goal of SARS is to maximise these four outcomes and the organisation will hold itself accountable by measuring its performance against targets for each of these outcomes.

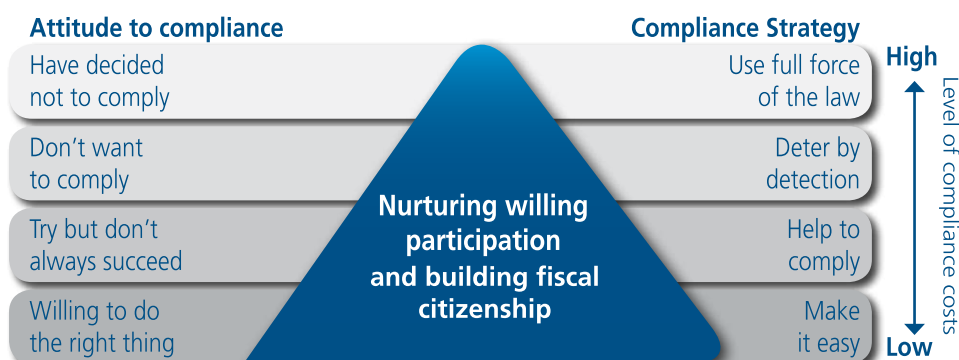
5.2 Our philosophy on taxpayer and trader compliance

Compliance refers to the degree to which taxpayers and traders meet their obligations in terms of the legislation administered by SARS. This is not merely an issue of technical compliance, but the building of a behavioural level of compliance in which compliance to the spirit of legislation is popularly perceived as a positive social value. In most instances, this compliance manifests along the entire value chain, which for most of the legislation that SARS administers, includes 'on-time registration', 'on-time filing', 'full and honest disclosure', and 'on-time payment'.

Compliance is brought about by ensuring that all taxpayers are aware of their legal obligations (education), that it is reasonably easy to meet these obligations (service), and by having a credible deterrent and consequence for those who seek to avoid their obligations (enforcement). SARS's function is to obtain compliance to a range of legislation, much of which serves to finance the fiscus, but which also includes important legislation regarding economic protection (e.g. customs duties and restrictions), social protection (e.g. taxes on cigarettes, prohibitions on import and export of goods such as drugs, firearms and endangered species) and national security (e.g. customs controls at ports of entry).

Compliance to legislation needs to be perceived as a positive social value

In this regard it is recognised that compliance is a continuum that ranges from conscious and determined non-compliance through 'grudging' compliance to unwitting non-compliance (due to a lack of knowledge of legal requirements) and finally to willing and purposeful compliance. Thus, it is recognised that a certain number of people will always do the right thing, a certain number will always do the wrong thing and most people fit between these two extremes, i.e. they will do the right thing if the circumstances are right for them. The aim of the compliance actions of SARS is to move as much of the population as possible up the continuum into the willing and purposeful compliance range. This movement is done primarily through education of taxpayers and traders, providing a streamlined and friendly service, as well as by full enforcement of the law for non-compliant taxpayers and traders.



The factors affecting compliance behaviour are an intersection of individual and societal values and norms: the belief in the justice and fairness of the system, the ease of compliance, the accuracy of non-compliance detection, the speed and accuracy of corrective measures and the severity of the deterrent measures

The factors affecting compliance behaviour are an intersection of individual values and norms, societal values and norms, the belief in the justice and fairness of the system, the ease of compliance, the speed and accuracy of detection of non-compliance (i.e. the likelihood of getting caught), the speed and accuracy of corrective measures and the severity or impact of the deterrent measures.

Historical factors, particularly the past political environment, fostered a legacy of widespread non-compliance. SARS plays an important role in building respect for the law and in creating a culture of compliance in South Africa.

SARS believes that non-compliance is most meaningfully dealt with by addressing the root causes of non-compliance and strengthening the factors that promote compliance. SARS sees a necessary and essential role for taxpayer education, enhancements to taxpayer services and enforcement interventions in mitigating causes of non-compliance, as well as encouraging taxpayer compliance.

Non-compliance may be due to ignorance, inability or intent. Each of these non-compliance elements may have legal, economic, regulatory, system or behavioural drivers. Because of this complexity, it is necessary to determine the root causes of the non-compliance with precision in order to determine the most effective action to address the non-compliance. Inappropriate responses may exacerbate non-compliance rather than reduce it.

Non-compliance is addressed through a range of educational, service, deterrence or fool-proofing measures. One key element of deterrence is effective detection of non-compliance.

In order to be cost effective in bringing about greater compliance, SARS focuses on high risk areas with minimal intervention in low risk areas. In order to bring about precision in this focus, the emphasis is on being data-rich and on being able to model compliance effectively.

By segmenting the population appropriately, SARS is able to apply the best combinations of measures to improve the compliance levels of any particular group

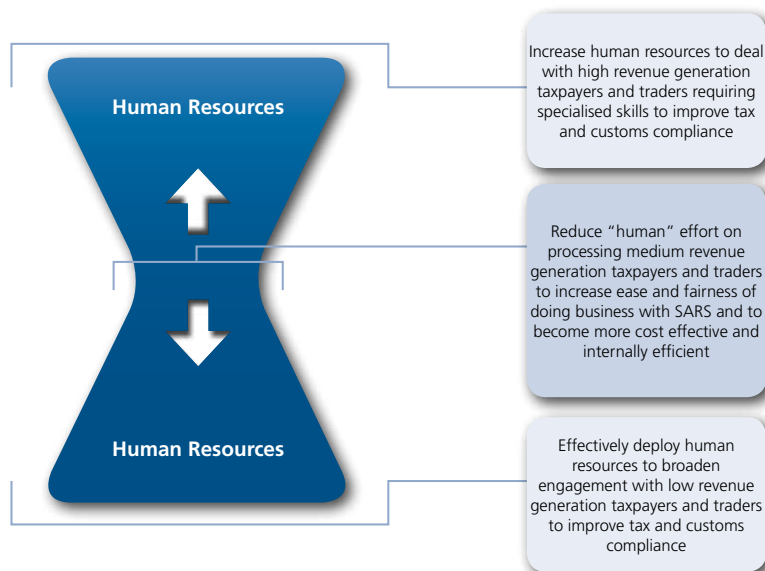
By segmenting the population appropriately, SARS is able to apply the best combinations of measures to improve the compliance levels of any particular group. By profiling the compliance behaviour of any segment of the population (by industry, geographic area, income level, etc.), SARS is able to match its response to the risk profile of the segment. Thus, an understanding of the compliance landscape and the compliance profile of each segment of that landscape is essential to most effectively treat compliance risk and utilise SARS resources most effectively.

In carrying out enforcement or deterrence measures, a principle of proportionality is applied. This matches the severity of the enforcement or deterrent action to the nature of the non-compliance. In other words, enforcement moves along a continuum from soft enforcement (for unwitting non-compliance and for lesser degrees of non-compliance, first offences, etc.) to hard enforcement (for conscious, deliberate non-compliance, e.g. multiple offenders, recalcitrant non-compliers, etc.).

SARS's action needs a combination of coverage (the need to ensure sufficient likelihood of detection of non-compliance), depth (sufficient thoroughness where it is necessary to detect the full extent of non-compliance) and leverage (utilisation of the detection of non-compliance to encourage other non-compliers to become compliant).

5.3 Our approach to achieving these four core outcomes

The primary approach to achieve these outcomes is to shift resources, particularly human capacity, away from routine low value-adding activity into service, education and enforcement areas with high value-adding activity.



In order to increase customs and tax compliance:

- ◆ SARS is building a reality of fiscal citizenship in which every South African and all businesses operating in South Africa are included in the scope of SARS's view, even if at any particular point in time they are not eligible to pay tax or submit returns. This also includes building a relationship with all South Africans to educate them on the importance of their tax contribution.
- ◆ SARS has shifted from an ineffectual gate keeping approach to a focused risk management approach to compliance. This involves focusing enforcement activity on areas of highest risk while automating areas of lesser risk. This has been largely achieved by increasing access to third party data and by increasing third party validation of declarations. Through the pre-population of declarations from third party data, it is possible to reduce the opportunity for false or inaccurate declarations. This has been mainly achieved by SARS becoming data and information rich, in order to identify trends and specifics of non-compliance.
- ◆ By increasing and integrating data from multiple sources, SARS will be increasingly able to gain a complete economic understanding of the taxpayer and trader across all tax types and all areas of economic activity. By moving from a transactional to an economic view of the taxpayer and trader, SARS will be able to detect inaccuracies in declarations as well as identify those who have attempted to stay outside the tax net, but at the same time provide a more appropriate service.
- ◆ The shifts from gate keeper to risk management as well as from transactional to an economic view enables SARS to focus enforcement activity more effectively on cases of highest risk and to proportion the level of enforcement activity to the scale of the risk.

The primary approach to achieve our outcomes is to shift resources, particularly human capacity, away from routine low value-adding activity into service, education and enforcement areas with high value-adding activity

Additional to these compliance strategies and in order to ensure consistency in compliance behaviour – SARS increasingly uses administrative penalties to deter administrative non-compliance (e.g. failing to file on time)

The taxpayer and trader's ease and fairness of doing business with SARS are being addressed by:

- ◆ Segmenting the requirements of specific categories of taxpayers and traders in order to provide a service appropriate to taxpayer and trader needs.
- ◆ The application of risk-based processing which avoids the need to examine every taxpayer and trader or every transaction in favour of those where a high risk of non-compliance is detected. This speeds up service delivery to 90-plus percentage of taxpayers and traders for whom little risk is identified.
- ◆ Converting manual paper based processes to electronic digital and self-service channels resulting in quicker processing with fewer errors.
- ◆ Converting long and complex forms into dynamic flexible forms suitable to the specific requirements of the individual taxpayer and trader.
- ◆ Converting multiple forms/applications into a single form/application (e.g. registration).
- ◆ Reducing errors and the administrative burden on taxpayers and traders by pre-population of forms from third party data, resulting in quicker processing with fewer errors.

The cost effectiveness, internal efficiency and institutional respectability of SARS and its related government entities will be increased by:

- ◆ Driving values consistent with the objectives/outcomes in order to achieve alignment, eliminate corruption and achieve a commitment to service.
- ◆ Moving from low skill, low value-adding activity to high skill, high value-adding activity for the majority of SARS personnel.
- ◆ Moving from an isolated departmental view of SARS efficiency to a whole of government view, which sees SARS assisting in the enhancement of value chain activities both before and after it enters SARS domain, in order to build a chain of institutional respectability in the pursuit of service delivery excellence for SARS and its other government partners.
- ◆ Reducing manual processes and receiving taxpayer and trader data in electronic form, which both speeds up the processing of information and reduces the likelihood of errors and the need for rework.
- ◆ Moving to standardised internal processes, automated routine activities and moving staff to value adding activities closer to the taxpayer and trader – either in service functions or in enforcement functions.

- ◆ Automating queue management and reporting in order to optimise taxpayer and trader contact and in order to process more taxpayers/traders without increasing the number of personnel.
- ◆ Introducing blended inbound and outbound contact centre capability in order to optimise the utilisation of contact centre personnel.

Summary of our strategy to achieve our outcomes:

| | FROM | TO |
|---|--|--|
| A | Targeting eligible taxpayers | Building fiscal citizenship among all South Africans to contribute to nation building and institutional sustainability |
| B | Gate keeper | Risk management approach |
| C | Entity and product approach | Integrated economic view (multi-product and transactional value chain) |
| D | Uniform service offering | Differentiated service offering (based on compliance behaviour and segment needs) |
| E | Manual | Automated/digital/self-service |
| F | Isolated departmental view of SARS efficiency | Whole of government view with enhancement of value chain activities before and after it enters the SARS domain in order to build a chain of institutional respectability in the pursuit of service delivery excellence for SARS and its other government partners |
| G | High administrative burden due to multiple registrations, multiple channels and manual forms | Reduced administrative burden through, for example, single registration, integrated channels and dynamic forms |
| H | People performing below potential due to non-standardised internal processes, no value alignment and low skill/low value-add | People performing at their peak through, for example, values alignment and high skill/high value-add |

06

Our five-year priorities for each core outcome

6.1 Increased customs compliance

ASPIRATION

Develop partnerships with all supply chain stakeholders to facilitate legitimate trade, while combating illicit trade.

SARS seeks to further government's aim of growing the economy and creating employment through trade facilitation and combating illicit trade activities. SARS believes that trade is facilitated through reducing compliance barriers to process the movement of goods in a far more efficient manner than before, while preventing the movement of illegal goods.

SARS also aims to improve the information flow relating to trade, to positively affect turnaround times and assist in managing inspections better through more timely and accurate identification of compliance risks. This will also be done by using its tax information base more effectively, to validate information and to reduce the requirements on traders.

The Border Customs Operational Coordinating Committee (BCOCC) will strive for greater operational coordination among government agencies at the border, providing a clear delineation of responsibility, while ensuring accountability for all required aspects of border management.

The different agencies are gradually moving towards full integration of the technology platforms in use, allowing all the role players at the country's ports of entry to have access to the same information. This will enhance SARS's own risk management, ultimately secure the borders, and improve trade facilitation and compliance.

SARS will deliver the following to achieve this outcome:

6.1.1 Differentiated service offering in the customs environment

Roll-out of the preferred trader programme

Although approximately 230 000 entities are registered with SARS Customs (equating to approximately 450 000 client type records), only a small number (~10%) of these traders and clearing agents are responsible for the majority of declarations submitted for processing. SARS has introduced the Preferred Trader programme for traders and clearing agents responsible for the bulk of processing requirements.

Traders are required to meet the strict compliance criteria in return for the following benefits:

- ◆ A dedicated customs relationship manager from SARS
- ◆ A reduction in the amount of security required for compliance with a customs procedure
- ◆ Fewer routine documentary and physical inspections
- ◆ Priority access to tariff and valuation determinations
- ◆ Priority access to non-intrusive inspection techniques when goods are stopped or detained for inspections

SARS seeks to further government's aim of growing the economy and creating employment through trade facilitation and combating illicit trade activities

The Preferred Trader programme aims to address the risk posed by the illicit economy through ensuring that the bulk of transactions processed are by traders whose internal compliance controls have been vetted by SARS, allowing SARS to focus its compliance and service efforts on those entities and transactions that are not part of the Preferred Trader programme

Over the five-year period, SARS will be aiming to enrol as many of the identified traders onto the Preferred Trader Programme as possible and monitor their compliance behaviour on an ongoing basis. This programme aims to address the risk posed by the illicit economy through ensuring that the bulk of transactions processed are by traders whose internal compliance controls have been vetted by SARS, allowing SARS to focus its compliance and service efforts on those entities and transactions that are not part of the Preferred Trader programme. This programme will serve as a precursor to aligning with the worldwide Accredited Economic Operator standard and enable South Africa's alignment to WCO SAFE framework of standards, support the establishment of Preferred Trader programmes in each of the SACU countries, and build and pilot Preferred Trader infrastructures for key excise products and manufacturing clients.

6.1.2 Adopting a whole of government view at border posts

Strengthen border control and inter-governmental coordination at border posts

The President's 2009 State of the Nation address emphasised the need for a suitably authorised and funded Border Management Agency (BMA). Subsequent work on the BMA concept involving agencies and departments active in the border environment, including SARS, resulted in a BMA framework adopted at the 2010 Cabinet Lekgotla.

Some challenges in the border environment have been addressed. The enhanced Movement Control System (EMCS) has automated some of the border processes and improved overall border security.

To accelerate progress further, a whole of government safety and security response at the border needs to be developed that comprises:

- ◆ An integrated safety and security operational response
- ◆ Development of cross-cluster and inter-agency intelligence
- ◆ A command and control capability to prioritise areas of intervention
- ◆ A modernisation and development component to develop the required automation, process reengineering, legislative reform and facility needs

Over the next five years, SARS will continue to support a seamless transition to an integrated border management model, developed together with other government departments.

6.1.3 Automating and digitising the customs environment

Deployment of cargo and container scanners at border posts

Analysis has shown that the true potential of the scanner solution can only be realised when it is based upon a standardised and stable declaration processing and inspection environment. As the customs environment becomes modernised, it provides the ideal opportunity to fully exploit the potential of non-intrusive inspection capability provided by a scanner.

In 2012/13 SARS plans to roll out a cargo scanner to the Beitbridge border post as it represents a substantial portion of land modality volumes and has been identified as a smuggling 'hotspot'. The roll-out of the scanner will bolster enforcement activities at the border and across the region, and help to address the risk posed by illicit smuggling of goods through our ports of entry.

Over the next few years, SARS will roll out additional scanners to other border posts, based on the learnings from the initial deployment.

6.1.4 Strengthening our risk management in customs

Development of a customs risk screening tool

Risk management lies at the heart of SARS's Compliance model. SARS will develop a customs risk screening tool that will:

- ◆ Identify risks for follow up, based on transactional information and the profiles of the entities involved
- ◆ Prioritise and allocate risks to the most appropriate follow-up mechanism
- ◆ Continually self-optimize, based on feedback

SARS's planned VAT and CIT risk screening tools provide an opportunity for third party data to be used for customs, risk and assessment purposes. The availability of the three sets of data will enhance the SARS audit and investigation ability. For the first time integrated information is available, allowing for integrated audits, investigations across tax types and help in the detection of cross-border illicit transactions.

Over the next five years, SARS will develop an integrated view of each taxpayer and trader, through a single registration system for tax and a consolidated view of all customs transactions.

Interfront SOC Ltd

International Frontier Technologies SOC Ltd (Interfront) was incorporated as a software development house to design and build a customs and border solution, primarily for its principal, SARS. Interfront is a wholly owned state entity.

Through its relationship with the private sector, more comprehensive tax and modernisation solutions can be offered to SADC and SACU countries to harmonise our joint efforts to promote customs compliance.

Interfront is an integral part of SARS. Its strategic priorities relate to:

- ◆ Engaging in the design and development of a customs and border management solution for SARS
- ◆ Expanding its African and global footprint
- ◆ Improving its business model and governance

Through Interfront SOC Ltd's relationship with the private sector, more comprehensive tax and modernisation solutions can be offered to SADC and SACU countries to harmonise our joint efforts to promote customs compliance

6.1.6 Strengthening international agreements and links with other tax jurisdictions

Given the level of interconnectivity in global trade, it is important to build and maintain good relations with other tax and customs jurisdictions. SARS will collaborate with the FATF (Financial Action Task Force) to support its mandate in implementing global safeguards to protect the integrity of the financial system to meet the objectives of tackling money laundering. This is particularly relevant to SARS as tax crime is considered a predicate offence to money laundering and smuggling offences. Customs and Excise duties offences are also included.

Furthermore, SARS will look to strengthen and leverage South Africa's international treaty network to cooperate and exchange information with other tax and customs jurisdictions.

6.2 Increased tax compliance

ASPIRATION

To consistently increase voluntary compliance across a broader taxpayer base through targeted and informed outreach, education, service and enforcement interventions.

SARS believes that compliance is promoted and ensured through providing service of high quality to taxpayers and traders, engagement with the emerging tax base and through targeted enforcement actions

SARS operates on a voluntary compliance basis, requiring a balance between service, education and enforcement. SARS believes that compliance is promoted and ensured through providing service of high quality to taxpayers and traders, engagement with the emerging tax base and through targeted enforcement actions. Enforcement is called for in the interest of ensuring the equitable treatment of all who pay tax, and to avoid overburdening those who do contribute willingly.

6.2.1 Strengthening risk management in the tax environment

Targeted compliance interventions in high risk areas

SARS has developed a compliance programme, which is a set of compliance-improvement strategies that aim to increase the compliance of target taxpayer groups with processes and tax products in a systematic manner over a multi-year period. It carefully balances the need to achieve revenue targets (which would encourage targeting of high-revenue generating taxpayer groups) with the principle of equity (which means that even the smallest taxpayer is treated fairly and appropriately). A compliance culture cannot be built by focusing on a select few, as this will erode the trust placed in the revenue authority by the country's citizens and inhibit fiscal citizenship.

SARS aims to target the following compliance areas:

- ◆ **Large Business – Transfer Pricing:** Transfer pricing remains a significant tax issue for revenue administrations around the world. The top 500 multinational enterprises account for nearly 70% of the world-wide trade and this percentage has increased significantly over the past 20 years. South Africa's approach to transfer pricing is not as aggressive as other jurisdictions (e.g. India). Despite the fact that South Africa was the third country in the world

to introduce transfer pricing legislation, we have had a limited number of transfer pricing assessments and successes. Reasons for this are outlined below:

- ◆ The lack of a comparable database that is relevant in the South African context. South Africa currently conforms to the OECD framework for transfer pricing which favours developed countries, and there is increasing debate as to its appropriateness in serving the interests of developing countries.
- ◆ Limited information on company income tax returns and the foreign party being investigated.
- ◆ A shortage of transfer pricing skills and expertise in South Africa and in SARS.

SARS will address this through providing input to the new reporting standard (xBRL) roll-out to ensure that the new format of the company tax return provides the detail required by the transfer pricing unit. Using this more accurate data, a database of local companies and their goods and services will be developed. This will enable the comparability analysis to be better geared to the South African context and reduce the uncertainty created when using foreign databases. SARS will also continue its approach of using third party data (e.g. from the Reserve Bank, banks, etc.) to validate the information declared by the taxpayers.

Other efforts include exploring the possibility to offer bilateral and multilateral Advanced Transfer Pricing Agreements (APAs) to South African multinational enterprises, adopting the use of multiple year data (in line with OECD guidelines) and introducing statutory documentation and disclosure requirements. Transfer pricing capability will need to be strengthened within SARS, through intensive practical training courses and exploring secondment options to and from other tax jurisdictions (e.g. India).

- ◆ **High-net worth individuals – Trusts:** The compliance issues faced in this area are the large number of high-net worth individuals who are under-declaring their income and the use of trusts as a means to evade tax. The interventions will focus on SARS's efforts on the auditing and risk profiling of individuals and associated companies together, as well as the expansion of the use of third party data to identify individuals with disproportionately expensive assets, as well as to prioritise trust reform.
- ◆ **Small Business – Cost of Compliance:** For the small business segment, the cost of compliance to the taxpayer remains high, with an approximate average cost of R63 328 being incurred per annum. A total of 69% of small businesses make use of tax practitioners in order to comply with their tax obligations. The VAT registration process is too complex and the use of tax concessions has added to the overall compliance burden. In order to minimise the challenges experienced in this sector, we will embark on a series of targeted interventions. These include the education of small businesses through the outreach programme and tax practitioners – especially in rural and outlying areas. We will review the filing threshold for small businesses, which should reduce the compliance requirement and widen the eligibility criteria for tax concessions to be granted. We also plan to develop a database of all small businesses through door-to-door visits, and collaborate with other government departments to establish a 'one-stop' shop where small businesses can have their regulatory needs serviced.

In order to minimise the challenges experienced in the small business sector, SARS will embark on a series of targeted interventions. These include the education of small businesses through the outreach programme and tax practitioners – especially in rural and outlying areas. We will review the filing threshold for small businesses, which should reduce the compliance requirement and widen the eligibility criteria for tax concessions to be granted

- ◆ **Tax practitioners** – Analysis shows that the compliance of tax practitioners is low. For example, tax practitioners owe more than R260 million to SARS in their own personal capacities. Furthermore, tax practitioners who are not registered with a professional body have worse compliance levels than those that are. For example, the average debt per case for a non-registered tax practitioner is four times higher than for those who are registered. In order to minimise the compliance issues currently being experienced in this area we will introduce legislative amendments which will compel all practitioners registered with SARS to belong to a professional organisation. We also aim to develop an accreditation/preferred status scheme that will acknowledge the low risk practitioners, reframe tax practitioners as ‘ethical go-betweens’ between SARS and the taxpayer and pursue automation of typical queries that are frequently received from tax practitioners.
- ◆ **Illicit cigarettes** – South Africa is currently experiencing a high loss in excise revenue (estimated to be between R2 billion and R4.5 billion per annum), with over 10 million kilograms of raw tobacco entering our warehouses for export unaccounted for. Our compliance efforts in this area will be to modernise the warehousing management and acquittal systems, together with complementary changes to imports and export risk processes.
- ◆ **Construction Sector** – The construction industry has one of the poorest compliance rates of all industries. Besides being the most non-compliant, this industry is also a major beneficiary of government spending in relation to planned infrastructure programmes. Our compliance initiatives in this area will be to strengthen and dedicate our audit focus in selected regions where the highest risk is indicated.
- ◆ **Clothing and Textiles Sector** – Recent statistics indicate that the continued undervaluation of imports of clothing and textiles continue to damage the South African economy quite significantly. In order to improve the success rate in this area, and to minimise the damage caused to the economy, SARS will implement valuation based targeting, which includes a reference pricing database developed together with partners in industry, to detect undervalued imports. We will also strengthen and enhance our current inspection process and systems, while also introducing legislative amendments in the form of the draft Customs Control Bill which will serve to further combat the illicit trade in this sector.

Recent statistics indicate that the continued undervaluation of imports of clothing and textiles continue to damage the South African economy quite significantly. In order to improve the success rate in this area, and to minimise the damage caused to the economy, SARS will implement valuation based targeting, which includes a reference pricing data base developed together with partners in industry to detect undervalued imports

Improved risk management in PIT, PAYE, CIT and VAT

PIT

Risk management in PIT is fairly advanced and will focus on the following enhancements:

- ◆ Incorporation of the compliance history of taxpayers in assessment and audit (avoid repeat audits where no prior risk is identified).
- ◆ Performing of initial and residential risk evaluation to support the automated escalation of cases.
- ◆ Potential collaboration with credit bureaus to obtain third party information on taxpayers.
- ◆ The design of a system that allows third party suppliers to register, interact and submit data via secure connections.

PAYE

The PAYE risk-screening tool will be introduced to select taxpayers' cases for follow-up based on employers PAYE submissions and IRP5s corrected by taxpayers during the PIT filing season.

CIT

The CIT risk engine will be completed and implemented. This risk-screening tool will use ratio analysis, be sector specific, and will be built on a CIT data model that uses a standard for financial information reporting used on the JSE and international stock exchanges (xBRL).

VAT

A new risk identification methodology will be developed to address key risks and gaps in the VAT refund process. This includes a reduction of screening volumes to increase the effectiveness of screeners and the introduction of new criteria in the VAT risk tool to increase the probability of predicting risk.

Expansion of the administrative penalty platform

The SARS penalty administration capability will be enhanced and accommodate levying additional administration penalties for income tax and other tax types. SARS also intends expanding administrative penalties to other products being modernised, such as PAYE, where non-submission of reconciliations and the supplying of insufficient and incorrect data complicates the PIT filing season. This will include employers who omit mandatory information on income tax certificates or repeatedly submit incorrect PAYE returns. Part of this development will explore the gradation of the current 10% PAYE penalty scale and apply less harsh penalties for minor infringements.

Strengthening of risk management in debt

In addition to the risk work aimed at specific tax types, credit screening will be introduced to address low value, high volume debt. SARS will leverage the credit screening system developed by credit bureaus to inform the risk criteria applied in the debt environment.

6.2.2 Continue outreach programmes to all South Africans in order to build a culture of fiscal citizenship

SARS's strategic intent is to build fiscal citizenship among all South Africans and future taxpayers. It aims to achieve this through various education and awareness initiatives, including:

- ◆ Automatically registering all employed South Africans for tax regardless of income, using employer data.
- ◆ Automatically registering all businesses for tax, as soon as they have received a licence to operate.
- ◆ The rolling out of additional Thusong Service Centres (joint government centres established to bring government service to the people) to provide tax information and offer tax assistance to all those that need it.

- ◆ Incorporation of tax education into our schools' life skills curriculum, through, for example, developing a tax workbook and e-materials.
- ◆ Partnering with the media to broadcast the message of tax morality, through for example, agreements signed with Primedia and etv/enews, to spread the message of good citizenship and tax morality.
- ◆ Partnering with academic institutions (e.g. University of Johannesburg's Centre for Small Business Development) and industry partners (e.g. Greater Alexandra Chamber of Commerce and Industry; Edward Nathan Sonnenberg) to provide relevant tax assistance to small business owners.

6.2.3 Implement the Tax Administration Bill

Over the medium-term, SARS will need to update its current policies and procedures and ensure that its staff is adequately geared to adapt to the changes outlined in the Tax Administration Bill.

6.3 Increased ease and fairness of doing business with SARS

ASPIRATION

Deliver cost-efficient, rapid and reliable service to all taxpayers and traders.

6.3.1 Reduce the administrative burden of the CIT process

The CIT returns process will be streamlined through various interventions which include:

- ◆ Rationalisation of the CIT return forms to minimise the burden on the taxpayer/trader.
- ◆ Pre-population of data using VAT201 information and PAYE reconciliation.
- ◆ Single registration for Corporate Income Tax through collaboration with the Companies and Intellectual Property Commission (CIPC).

6.3.2 Digitising of taxpayer and trader records and transactions

SARS aims to have modernised all its major tax products in the medium-term. This means that all major transactions will be conducted through an electronic medium. Where manual input by a taxpayer is still necessary (e.g. at branches) the transaction will be converted into digital form. Additionally, existing taxpayer records are being digitised through a scanning project, to save on office space and to ensure that historical records are stored in electronic format.

6.3.3 Reducing the administrative burden in Customs

Over the medium term, SARS will continue to develop a system to prioritise and expedite Customs inspections with the use of additional data sources and non-intrusive inspection capability to improve our ability to inspect goods crossing our ports of entry.

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The Customs inspections process will be re-engineered to enable SARS to identify mismatches in data between cargo documents and goods documents. This automated mismatch identification process will eliminate data quality issues over time and vastly increase the identification of actual fraud.

A new integrated Customs Management System is being implemented that will consolidate current disparate imports, exports and SACU declaration processing systems into a single processing platform. This will permit centralised processing of all clearances – import, export and cross border, while being WCO data model 3 compliant, WCO SAFE compliant and Kyoto compliant.

Various solutions that were developed for use within the tax environment can now be leveraged for Customs. These include contact centres, service manager, eFiling, e@syfile and adobe forms. Over the next five years, SARS will continue to improve the ease and speed of declaration processing and inspections, through modernising processes and systems.

6.4 Increased cost effectiveness, internal efficiency, and institutional respectability

ASPIRATION

To exercise maximum prudence with resources made available to SARS and to build service delivery excellence for SARS and its government partners.

6.4.1 Creation of a dedicated enforcement capability within SARS

SARS will group all customs and tax enforcement functions to create a single accountability for enforcement within SARS. This move is in support of the new operating model, launched in 2010, which signalled a new way of working in which all aligned and similar activities were centralised under new portfolios. This is expected to improve the efficiency and productivity of our enforcement actions by optimising cooperation and coordination between investigative capabilities across customs and tax areas.

6.4.2 Adopting a whole of government view to achieve value chain efficiencies

Significant efficiency and effectiveness improvements have been gained through addressing SARS's historical operational bottlenecks. These bottlenecks have been overcome by investing in new capabilities, ranging from human capital through to systems infrastructure.

To achieve even further improvements, SARS will need to optimise its entire value chain and try to get greater operational and systems integration between its own activities and those of its state partners. SARS's value chain include government entities that are custodians of vital taxpayer, trader and industry information (e.g. the Department of Home Affairs, Department of Trade and Industry (dti), Department of Labour (DoL), Government Pensions Administration Agency (GPAA) and the Companies and Intellectual Property Commission (CIPC) entities that are involved in supporting its compliance activities (e.g. National Prosecuting Authority, Department of Justice) and entities involved in security, particularly at our border posts and along the border lines (e.g. SARS, South African National Defence Force (SANDF), etc).

In order to optimise the entire value chain, and to further enable SARS to execute its mandate effectively and efficiently, SARS will seek to collaborate with entities that are part of its value chain. This collaboration aims to save taxpayer money by leveraging the investments made by the government into SARS's modernisation programme for the interest of the state as a whole. All collaboration will need, however, to be in line with all existing legislation to prevent any conflict of interest or contravention of the law and good governance.

Examples of where this collaboration has started to deliver value include the joint effort in the roll-out of the movement control system with the Department of Home Affairs, that will enable SARS to better track the length of time that taxpayers spend in the country, the collaboration with SARS, the South African National Defence Force (SANDF) and others as part of the Border Control Coordinating Committee (BCCOC) and the Inter-Agency Clearing Forum (IACF) to improve the security response at the borders and the ongoing collaboration with National Treasury's Financial Intelligence Centre as part of the Multi-Agency working group (MAWG) to improve the integrity of the state procurement system.

6.4.3 Continue to integrate internal and external (third) party data across multiple tax types

SARS will continue to redesign its registers and information systems to gain a holistic perspective of the taxpayer and trader, rather than being limited by the fractured view that emerges from viewing taxpayer/trader transactions through disparate tax type lenses. SARS will leverage data submitted by a taxpayer for one tax product to validate information submitted by that taxpayer on another tax product. For example, customs declarations are a useful means to validate costs of goods sold on an income tax return. Furthermore, we will continue to expand the use of third party data across all tax types. In addition to the sources used currently (e.g. banks), new sources (e.g. credit bureaus) will also be used to validate information submitted by the taxpayer. The work that SARS is doing with other government departments (e.g. Department of Home Affairs, Department of Trade and Industry, Department of Labour) will also greatly increase the amount of third party information available to SARS.

6.4.4 Enabling our people to perform at their peak through compensating critical skills differently

SARS understands that changes in the operating model and the modernisation of its systems will impact the manner in which it currently performs certain business functions. For instance, it envisages that the elimination of the routine processing of large volumes of work through automation will free up capacity in some areas of the business, while new skills sets will emerge for areas where a more 'human' touch is required, such as engagement with potential or new taxpayers and traders. Where employees are affected by these changes, SARS will endeavour to support the impacted employees with change management and wellness interventions re-skilling initiatives and redeployment opportunities.

Critical skills, that is, skills that are either in extremely short supply in South Africa will need to be identified. SARS will build its workforce planning methodology to identify critical skills and to ensure that they receive market-related compensation and the appropriate levels of training and development to ensure their retention.

We will continually strive to attract, engage and retain competent employees who always deliver their best

SARS believes that peak performance requires that staff be fully engaged and that performance be managed effectively across the organisation. The organisation will continually enhance its employee value proposition to ensure that it enables itself to attract, engage and retain competent employees who deliver their best. Enhancement of the employee value proposition will also ensure employee wellbeing, rigorous performance management, aligned remuneration practices, as well as contemporary employee development and growth. Also critical to SARS's success, is uprooting corruption and non-compliance to organisational policies.

We will also review our institutional architecture with a view to giving better effect to the I-SARS model, by:

- ◆ Extending our footprint to becoming more visible to the South African people. Ensuring dedicated capacity for the effective policing of our major trade routes and the strengthening of our presence in the major commercial ports.
- ◆ Move towards greater emphasis of the 'door-to-door' tax inspectors becoming more visible.

All these initiatives will require us to ensure that our people have the requisite knowledge and skills to be able to perform at their peak, and support our desire to have a diversified workforce. Over the medium term, SARS will explore an innovative remuneration policy that is competitive in the market place for critical skills and that better links performance to remuneration. We will continue to optimise the SARS Learning Academy to ensure development of technical skills to meet individual career and organisational needs and to build an external skills pipeline.

SARS recognises the need to develop its people's technical and leadership capability

We will also extend our vision of the higher purpose to the rest of our partners in government, as we embark on a journey to building a more capable state.

6.4.5 Enabling our people to perform at their peak through delegating authority effectively

SARS aims to increase the level of accountability of its managers and speed up decision-making, while still maintaining the requisite levels of governance and good management. It has therefore implemented a delegation of authority which allows managers to be more accountable for the recruitment of people, procurement decisions (within set criteria) and supports the push to have our people perform at their peak.

6.4.6 Improve internal service through the re-engineering of core processes for human resources, procurement and asset management

SARS intends to improve the efficiency and transparency of its internal processes, particularly Procurement and Human Resources. We aim to do this by improving our workflow and throughput, eliminating non-value adding processing and ensuring consistency in our operations. By improving our internal workflows and with the appropriate allocation of resources, we can improve our productivity by eliminating internal delays due to inefficiencies in our processes, or mismatches in capacity. We believe that eliminating non-value adding steps and ensuring consistency in our processes will make us more effective in achieving our intended outcomes.

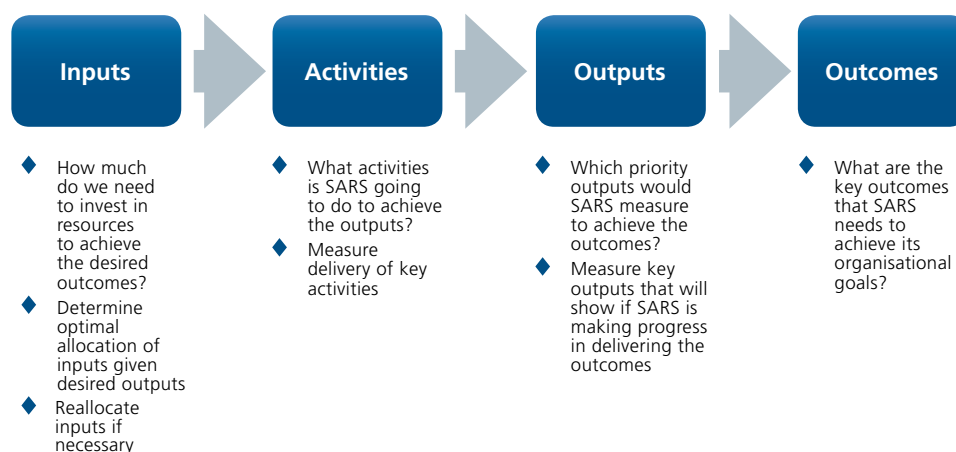
07

Measuring delivery against
our four core outcomes

7.1 Alignment with government and best practice

SARS needs to align its performance management approach to that of the government's new planning, performance monitoring and evaluation approach, with the emphasis on delivery. This new planning approach emphasises the need for SARS to set and achieve against clear outcomes measures for each of the core outcomes.

Measurement Approach



In addition, SARS has researched the measurement and reporting approaches of global revenue administrations. Lessons from this research were also used to inform the planning and performance management approach. Key lessons included:

- ◆ Historically, revenue administrations have tended to focus their reporting for accountability purposes on 'outputs' (e.g. number of returns filed, audits completed, etc.) more so than 'outcomes'.
- ◆ Many revenue bodies have now taken steps to increase the focus of their planning and performance evaluation towards the 'outcomes' to be achieved from their administration.
- ◆ For some revenue administrations, this has included the use of direct and indirect measures of taxpayer compliance, measures that reflect the quality of services delivered to the taxpayer and tax professional, reduction in the taxpayer's compliance burden and measures that reflect the taxpayer's satisfaction with, and confidence in, the revenue administration.
- ◆ A number of revenue administrations derive a comprehensive performance management framework that includes the practice of setting 'targets' that focus on the outcomes to be achieved and which are made public, against which progress is reported in annual performance reports.

SARS aims to hold itself accountable in the eyes of the government and its people against associated targets

SARS aims to hold itself accountable in the eyes of the government and its people against associated targets. However, moving towards an outcomes-based approach is no easy task. A recent OECD report (*Tax administration in OECD and selected non-OECD countries: 2010*) showed that even countries that have been using this approach for over 15 years continue

to struggle with issues of measurement and target setting. This is especially the case for 'outcomes'. A key challenge for all countries is obtaining good quality information which is valid, reliable and timely.

Other numerous challenges are also encountered, for example:

◆ **Finding accurate measures of performance**

Outcome measures are technically more difficult to measure, they are complex and involve the interaction of many factors, planned and unplanned. Also, there are problems with time lag issues and in some cases the results are not completely within the control of the revenue administration. Most countries have adopted a combination of outputs and outcomes.

◆ **Establishing and maintaining systems of data collection**

To ensure quality, there needs to be a process by which data is verified and validated. However, setting up and maintaining these systems can be both complex and costly. It is especially challenging to assure the quality of the data when revenue administrations are dependent on third parties to provide the information.

◆ **Setting and using performance targets**

Performance targets help clarify performance expectations for a given time period. Other revenue administrations continue to struggle with the issues of target levels and numbers. There are problems with setting targets too high and/or too low. Setting targets too low means that revenue administrations are not challenged to improve performance. Setting targets too high, while it can serve as a motivation, also creates unrealistic expectations and situations where revenue administrations can fail. It takes time to get the right balance and to get the comparative data to indicate that targets are set at too high or too low a level. There is also an issue about how many targets to have. Too many targets create information overload and make it difficult to select the most effective targets. Too few targets create distortion effect again.

Too many targets create information overload and too few targets create distortion effects again. It takes time to achieve the right balance

7.2 SARS's outcome measures and five-year targets

The measures and targets for 2012/13 – 2016/17 are

| Measures | Baseline ¹ | Targets | | | | | |
|------------------------------|--|--------------------------------|---|---|--|---|---|
| | | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | |
| Increased Customs compliance | Customs revenue collected (R bn) | Actual collections for 2011/12 | As per agreed target with Minister of Finance | | | | |
| | % Trade volume coverage by Preferred Traders [Number of Preferred Traders declarations processed vs. total number of declarations processed] | 0 | 5 | 12 | 25 | 30 | 35 |
| | % Of cargo declarations targeted [Number of declarations alerted vs. total number of declarations] | 12 | 12 | 12 | 11 | 11 | 11 |
| | % Uptake in electronic manifest submissions (Number of electronic manifest submissions vs. total number of manifest submissions) | 88 | 90 | 90 | 95 | 95 | 95 |
| | Interfront deliverables | Not defined currently | Develop and sign-off product sales strategy | Implement agreed strategy | | | |
| | Interfront governance | Not defined currently | Unqualified audit report for Interfront | Unqualified audit report for Interfront | Unqualified audit report for Interfront | Unqualified audit report for Interfront | Unqualified audit report for Interfront |
| | % Increase in Customs compliance index | Measure and baseline developed | Track against baseline | | Introduce into SARS performance management | | |
| | % Decrease in size of illicit economy | Not defined currently | Develop measure and baseline | Track against baseline | | | |

¹Baselines provided are 2011/12 3rd quarter actual

| Measures | Baseline ¹ | Targets | | | | | |
|--------------------------|--|--------------------------------|---|------------------------|--|---------|----|
| | | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | |
| Increased Tax compliance | Total revenue (excluding Customs revenue) collected (R bn) | Actual collections for 2011/12 | As per agreed target with Minister of Finance | | | | |
| | % PIT filing compliance [Number of PIT returns submitted in tax year due vs. Total number of PIT returns required in tax year] | 83 | 83 | 84 | 85 | 85 | 85 |
| | Cash recovered from debt book (R bn) | 9.6 | 11 | 11 | 11 | 11 | 11 |
| | % Audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) above the threshold | 2.4 | 3 | 4 | 5 | 5 | 5 |
| | % In-depth audit coverage of registered taxpayers (PIT, CIT, VAT/EXCISE & PAYE) above the threshold | 0.2 | 0.4 | 0.6 | 0.8 | 1 | 1 |
| | % Increase in the Small Business register | Measure and baseline developed | Track against baseline | | Introduce into SARS performance management | | |
| | Debt book as a % of tax revenue | Measure and baseline developed | Track against baseline | | Introduce into SARS performance management | | |
| | % CIT filing compliance [Number of CIT returns submitted in tax year due vs. Total number of CIT required in tax year] | Measure and baseline developed | Track against baseline | | Introduce into SARS performance management | | |
| | Tax compliance index for each tax product | Not defined currently | Develop measure and baseline | Track against baseline | | | |
| | % VAT filing compliance | Measure and baseline developed | Track against baseline | | Introduce into SARS performance management | | |

¹Baselines provided are 2011/12 3rd quarter actual

| | Measures | Targets | | | | | |
|--|---|-----------------------|------------------------------|------------------------|---------|--|---------|
| | | Baseline ¹ | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| Increased cost effectiveness, internal efficiency and institutional respectability | % Uptake in electronic filing, declaration and payment submissions for all tax products [No. of electronic filing, declaration and payment submissions vs. total filing, declaration and payment submissions] | 93 | 94 | 94 | 95 | 95 | 95 |
| | % Uptake in electronic customs bills/ declarations (EDI) | 96 | 96 | 96 | 96 | 97 | 97 |
| | Average processing turnaround time for PIT returns (working days) | 0.54 | <1.0 | <1.0 | <1.0 | <1.0 | <1.0 |
| | Average processing turnaround time for CIT returns (working days) | 1.92 | <2.0 | <2.0 | <2.0 | <2.0 | <2.0 |
| | Average processing turnaround time for VAT refunds (working days) | 45.82 | 21 | 21 | 21 | 21 | 21 |
| | Average processing time for VAT registrations (working days) | Not defined currently | Develop measure and baseline | Track against baseline | | Introduce into SARS performance management | |
| | % First contact resolution in contact centre and branches | Not defined currently | Develop measure and baseline | Track against baseline | | Introduce into SARS performance management | |
| | % Reduction in escalated service queries | Not defined currently | Develop measure and baseline | Track against baseline | | Introduce into SARS performance management | |
| | Taxpayer and trader compliance burden | Not defined currently | Develop measure and baseline | Track against baseline | | Introduce into SARS performance management | |

¹Baselines provided are 2011/12 3rd quarter actual

| | Measures | Targets | | | | | |
|--|---|--------------------------------|------------------------|---------|---------|--|---------|
| | | Baseline ¹ | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| Increased cost effectiveness, internal efficiency and institutional respectability | Employee Engagement | 49.50% | 50.5% | 51% | 51.2% | 51.5% | 51.5% |
| | Leadership Effectiveness Index | 86% | 86.5% | 87% | 87.5% | 87.7% | 88% |
| | Employment Equity: Demographics | 69.66% | 70.50% | 71.00% | 71.50% | 72.00% | 72.00% |
| | Employment Equity: Gender on Management Level | 40% | 41.50% | 42.00% | 43% | 44% | 45% |
| | Employment Equity: Disability | 2.04% | 2.3% | 2.5% | 2.7% | 3% | 3% |
| | Treasury allocation to revenue percentage | Not available | Between 1.0 and 1.2 | | | | |
| | Unqualified report by Auditor-General | Unqualified report | Unqualified report | | | | |
| | Unit cost per process | Measure and baseline developed | Track against baseline | | | Introduce into SARS performance management | |
| | Productivity per employee | Measure and baseline developed | Track against baseline | | | Introduce into SARS performance management | |

¹Baselines provided are 2011/12 3rd quarter actual



Resource plan

08 Resource plan

8.1 Expenditure estimates over the medium-term expenditure framework

Our projected revenue and expenditure for 2012/13 to 2014/15 are given below.

| Expenditure Estimates (Rm) | 2012/13 | 2013/14 | 2014/15 |
|----------------------------------|--------------|--------------|---------------|
| National Treasury Grant | 9 194 | 9 682 | 10 242 |
| Interest income | 60 | 60 | 60 |
| Other Income | 238 | 250 | 250 |
| | | | |
| Total Funds Available | 9 492 | 9 992 | 10 552 |
| | | | |
| | | | |
| Funding Allocation | | | |
| Baseline Expenditure (BAU) | 8 755 | 9 258 | 9 831 |
| Initiatives and Projects | 737 | 734 | 721 |
| | | | |
| Total Allocation (Budget) | 9 492 | 9 992 | 10 552 |

8.2 Projected human resource capacity

To deliver on its mandate SARS will require a diverse skill set. A provisional SARS workforce plan, which is based upon our strategic aspirations and operating model, indicates a need to build capability in certain core, critical and scarce roles such as in audit, transfer pricing, forensic and investigation, compliance risk analysis, border protection, and trade facilitation areas.

SARS has adopted a multipronged sourcing strategy that will support its need for these core, critical and scarce skills and the drive to create employment in the country, particularly the youth.

SARS endeavours to:

- ◆ Build and retain core, critical and scarce skills through recruitment and building a learner pipeline at tertiary institutions.
- ◆ Create opportunities for youth through learnerships and graduate programmes in the identified core, critical and scarce skills categories.
- ◆ Implement learnerships for an external pipeline that will allow learners to exit with portable qualifications in the fields supported by the relevant Sector Education and Training Authorities (SETA) in South Africa.

- ◆ Review SARS's skills mix in line with its changing organisational profile as a result of modernisation and redeploy resources to where they are required.
- ◆ Retrain and redeploy existing employees to areas of the business where new or emerging skills and capabilities are required.

The SARS headcount is envisaged to remain fairly stable with a slight steady growth over the next three years of between 0.25% and 0.49% as reflected below:

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|--|---------|---------|---------|---------|
| Permanent employees | 14 990 | 15 015 | 15 030 | 15 040 |
| Temporary employees | 520 | 420 | 380 | 250 |
| % Net Growth Excluding Temporary employees | 0.25% | 0.32% | 0.42% | 0.49% |
| Total | 15 510 | 15 435 | 15 410 | 15 290 |

09

Conclusion

Conclusion 09

This plan is developed within the context of government's continuing determination to expand and improve the delivery of vital services to all South Africans and to enhance the productive base of the country through improved infrastructural development.

In order for SARS to provide the means for government to deliver on these goals, the cornerstone of all SARS plans must be to improve the levels of compliance to tax and customs legislation. To this end SARS has, over the past few years, embarked on a sustained programme to improve its services, educate the public on their obligations and to detect and deter non-compliance in line with its Compliance Model.

At the heart of these efforts over the past three years has been a modernisation programme, which, along with other significant enhancements within SARS, is already paying strong dividends. Compliance gains – both in respect of registration, filing and payment – have positioned South Africa to withstand the full effects of the global economic crisis including through a counter-cyclical fiscal policy. Where many developed and developing economies are being forced to initiate significant expenditure reduction and tax hikes at exactly the time the reverse is needed to sustain the momentum of economic recovery, South Africa's fiscal discipline and growing revenue has provided the space for a more tempered and measured response.

The five-year strategy and the supporting compliance programme will build on this foundation to provide sustainable support for government's programme of action to reduce poverty, create jobs and provide a better quality of life for all South Africans.

09

Annexure

ANNEXURE: MATERIALITY and significant FRAMEWORK

| PFMA Section OWN ACCOUNTS | Qualitative | Quantitative |
|---|---|---|
| <p>S55 (2)(b)(i-iii)</p> <ul style="list-style-type: none"> a) Any material losses through criminal conduct. b) Disciplinary steps taken and/or criminal charges laid as a result of material losses (refer materiality amounts) through criminal conduct. c) Any irregular, fruitless and wasteful expenditure (as defined). d) Disciplinary steps taken and/or charges laid as a result of any irregular, fruitless and wasteful expenditure. e) Any losses written off or recovered. | <p>All of the qualitative indicators to be subjected to the materiality levels as indicated in the Quantitative measures:</p> <ul style="list-style-type: none"> a) Losses to be reported when all of the conditions below are satisfied: <ul style="list-style-type: none"> - The loss has been quantified or can be reasonably estimated - A case has been opened with the SAPS when of a criminal nature; b) Disciplinary steps taken and/or criminal charges laid as a result of material losses through criminal conduct c) Confirmed and reported irregular, fruitless and wasteful expenditure that meets the definition of such expenditure. This will include transactions and contractual arrangements not necessarily incurred but entered into; d) Any losses written off or recovered that have not specifically been addressed as a result of criminal conduct, irregular expenditure, fruitless and wasteful expenditure. This will include events not falling within the ambit of the above e.g. natural disasters, vendor failure, disaster recovery expenditure; | <ul style="list-style-type: none"> a) Total number of incidents relating to criminal conduct and fruitless and wasteful expenditure b) Total value of losses relating to criminal conduct and fruitless and wasteful expenditure |
| <ul style="list-style-type: none"> a) Any establishment or participation in the establishment of a company b) Any participation in a significant partnership, trust, unincorporated joint venture or similar arrangement c) Acquisition or disposal of a significant shareholding in a company d) Acquisition and or disposal of a significant asset; e) The commencement or cessation of business activity (the commencement or cessation thereof) f) Any significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement; | <ul style="list-style-type: none"> a) Any of the transactions or actions to be entered into Par (2) (a)-(c) will qualify to be included as these are not the normal business of SARS; b) Any acquisition or disposal contemplated in Par (2) (d) and approved by the Accounting Authority for the total Fixed asset category c) Any business activity Par (2) (e) (the commencement or cessation thereof) that would impact on the ability of the Accounting authority to meet his mandate; d) Any significant change, the nature to be defined by the Accounting authority to fall under Par (2) (f); | <p>Unless exempted in terms of Sec 55(4) the following will apply:</p> <ul style="list-style-type: none"> a) Par (2) (a)-(c) – Any activities or transactions that meet the requirements of the said provisions b) Acquisition of a single tangible or intangible asset to the value of 15% of the cost of the total fixed assets for the financial year prior to the year in which the acquisition takes place c) Disposal of tangible assets individually or cumulatively to the value of 10% or more of the cost price of total tangible assets for the financial year prior to the year in which the disposal takes place. d) Scrapping of intangible assets, individually or cumulatively to the value of 10% or more of the cost price of total intangible assets for the financial year prior to the year in which the scrapping takes place. e) Par (2) (e) as defined by the Accounting Authority f) Par (2) (f) any change as defined by the Accounting Authority |

