SOUTH AFRICAN REVENUE SERVICE

ANNUAL PERFORMANCE PLAN 2012/13

South African Revenue Service

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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

Pravin Gordhan
Minister of Finance

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Message from the Commissioner

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 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

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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 achieving our outcomes is to shift resources, particular human capacity, away from routine low value-adding activity into service, education and enforcement areas with high-value adding activity.

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- 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

04

Our Environment

Our Environment

04

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 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.

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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 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.

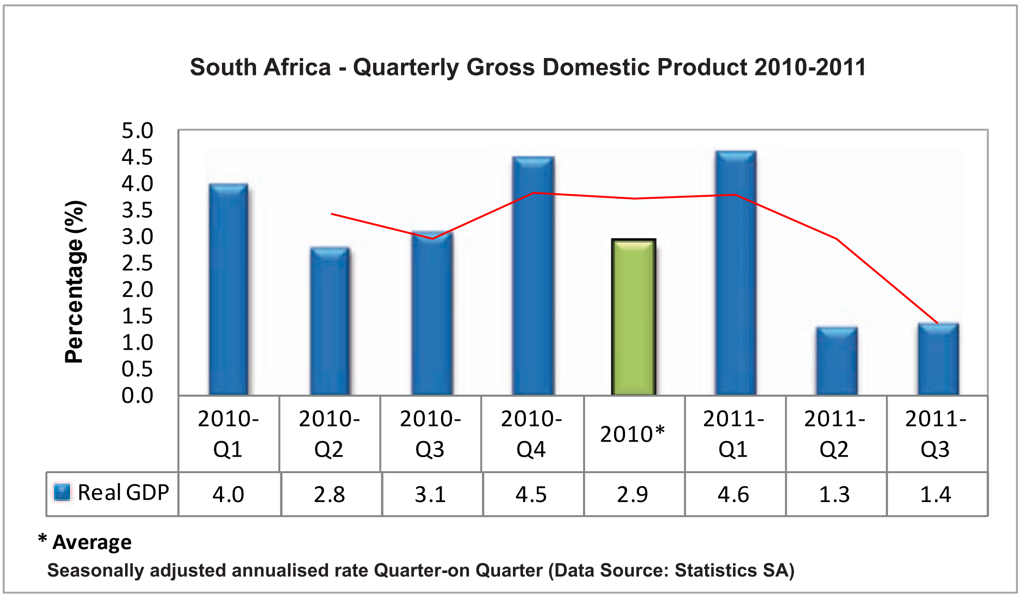

Figure 1: South Africa GDP growth 2010-2011

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**	
Percentage change							
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**	
Percentage change							
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 because 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

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 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 Annual Performance plan will aim to address and mitigate these risks over the next 12 months.

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

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 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 SARS's strategy to pursue a 'whole of government approach', SARS has been involved in collaboration efforts with other government departments (e.g. the Department of Home Affairs and the Companies and Intellectual Properties Commission (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 the 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 Organisation for Economic Cooperation and Development (OECD) and United Nations (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.

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

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 between 10 000 to 20 000 individuals that meet the high-net worth threshold, i.e. either R7 million in annual income or R75 million in assets. Only between 2 000 and 3 000 of these high-net worth individuals have declared this 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.

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

Our deliverables for each of SARS's four core outcomes

05 Our deliverables for each of SARS's four core outcomes

5.1 Increased Customs Compliance

SARS will deliver the following in 2012/13 to achieve this outcome:

5.1.1 Differentiated service offering in the customs environment

Roll-out of the preferred trader programme
The project aims to complete the roll-out of the importer and exporter solution by building a new relationship management function for clients that are formally awarded Preferred Trader status. This function will provide service oversight, as well as a monitoring functionality for the large trader segment to ensure companies maintain high standards of internal systems and compliance to customs legislation.

In 2012/13, SARS aims to deliver the following:

- Implement relationship management function to serve and maintain compliance of Preferred Traders.
- Develop a SARS Accredited Economic Operator (AEO) programme, including safety and security standards, and pilot with key exporters.
- Assist each Southern African Customs Union (SACU) country to establish and pilot their own Preferred Trader programmes.
- Build Preferred Trader infrastructures for excise products, and pilot with key manufacturing clients.
- Develop competency testing, with supporting guides for key customs client types, and perform testing of key client personnel (importers, exporters, warehouse operators, agents / brokers).

5.1.2 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 re-engineering, legislative reform and facility needs

In 2012/13, SARS will continue to collaborate with other government agencies at the border through the BCOCC and Inter-Agency Clearing Forum (IACF) to improve operational efficiencies at the borders.

5.1.3 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 the 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.

5.1.4 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-optimise, 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 contribute in enhancing the SARS audit and investigation ability. For the first time, integrated information is available allowing for integrated audits and investigations across tax types.

In 2012/13, SARS will continue to refine its customs risk engine, through collaboration with industry partners.

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.

In 2012/13, SARS aims to deliver the following, through Interfront:

- **Service Manager**
  The Service Manager roll-out will continue this year to the Botswana, Lesotho, Namibia, Swaziland (BLNS) offices and will see the replacement of the current Common Customs Area system (CCA) with Customs Automated Processing of Entries (CAPE) and the Export Systems. A phased approach, during the first half of 2012, will be followed, starting with Kopfontein border post on 10 February 2012. Service Manager will be rolled out first and PPS (Passenger Processing System) will subsequently be rolled out at the same port.

- **Declaration Processing System (Release 4)**
  This release will see the introduction of the new declaration processing system (Interfront CMS). This new system will replace all legacy processing systems.

- **Service Manager Dashboard**
  The current operational environment relies heavily on manual reporting and statistical gathering for management information. The current Service Manager dashboard function will be expanded to enable authorised officers to interrogate the number of cases that are in the system, being worked on, pended, finalised, etc. and provide the ability for them to proactively plan their interventions and monitor turn-around times. Automated escalations will also be included into the workflow to highlight anomalies and report on exceptions.

- **Re-engineered Refunds Process**
  The refunds process is currently paper driven and largely inefficient. By automating the (corrected) declaration submission, the refunds process can be incorporated into the case management process ensuring faster turnaround time and enhanced efficiency.

- **Customs Declaration Form**
  The advances and success of the Adobe form technology in the tax environment has paved the way for Customs to adopt the same capability. As such, Customs has developed a new declaration form (CD1) that utilises the dynamic technology presented by Adobe for form capturing and display. This form will enable up-front validation, thus reducing the need for downstream rework. It will further enhance the trader experience as it provides a user-friendly interface and experience.

- **Customs Notification Form**
  Similarly, a new notification form has been developed for non-EDI channels. This form will become the foundation of all customs notification and correspondence and will replace a number of existing notification messages whilst standardising and tracking all correspondence.

- **Service Manager front-end for declaration capturing**
  The Service Manager front end, utilising Adobe forms, will be used face-to-face with commercial clients who cannot be accommodated in Passenger Processing System (PPS) to capture declarations at the branches. This facility will enable clients to complete declarations at the borders prior to exiting or entering the country. This trade facilitation function will ensure a better client experience and enhanced level of service.

5.2 Increased Tax Compliance

5.2.1 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, 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 their jurisdictions (e.g. India). Despite the fact that South Africa was the third country in the world to introduce transfer pricing legislation, it has 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, and 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, 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. 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.

- **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 who 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 import 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.

In 2012/13, SARS will launch these compliance interventions, including releasing a public version of its Compliance Programme.

Improved risk management in PIT, PAYE, CIT and VAT

PIT

SARS aims to deliver the following enhancements to filing season in 2012/13:

- Changes to accommodate legislation amendments (phasing out of SITE).
- Amendments to invalid and missing bank detail case processes restricting eFiling functions.
- ITS enhancement to enable statements to be generated by processing date. This will enable IT statements of account to be provided on demand without requiring reprocessing of the account.
- Adjustment to provisional tax rules applied at time of assessment.
- Enhancement of the SARS eFiling platform to modernise the underlying technology, improve usability through the regrouping of functions and improving navigation, and introducing additional instrumentation to enable proactive monitoring of the eFiling service.
- Introduction of mobile aware eFiling web pages that will be added to the eFiling services, to enable the taxpayer to monitor progress and to effect simple transactions.
- Real-time processing of the ITR12 return.
- Addition of tax practitioner contact information on the ITR12 return.

CIT

The CIT risk engine design 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).

In 2012/13 the SARS modernisation will deliver:

- A new IT14 return that, as far as possible, will align the declared information reported to SARS to the International Financial Reporting Standards (IFRS). This will also be used to obtain information that will improve the ability of the SARS risk platform to identify areas of potential non-compliance. A dynamic return, using the same technology as used for the ITR12 return, will ensure only those information containers relevant to the entity will be displayed and require completion.
- An enhancement to the CIT risk engine will be to include assessment of the IT14 supplementary declaration. This declaration provides corporate entities an opportunity to reconcile their income tax to their VAT and PAYE declarations made during the year, and justify discrepancies for SARS's consideration. Assessment of this information by the CIT risk engine will assist SARS in the identification and prioritisation of audit interventions.

- A new method for CIT filing in which company financial information is supplied to SARS using a dynamic form with a hierarchy of data elements that can be expanded or collapsed to suit the nature of the company's financials. This form may be used to generate a subset of the xBRL dictionary and would serve as a 'bridge' in the interim until companies are able to report in xBRL.

- Extension of the assessment dispute processes for CIT.

- Platform for administrative penalties for corporate taxpayers.

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. 2012/13 delivery will include:

- e@syFile Vendor Software to enable VAT vendors to electronically submit invoice information in support of their VAT201 return. The VAT201 serves a reconciliation document of all filed input and output invoices.

- A direct electronic submission channel that will allow business information systems to supply electronic data to SARS automatically, through an iterative request process.

- Enhancements to the risk engine – change to the risk assessment method to interrogate provided data, assess the need for further corroborating data as necessary, and cross-match invoice information between VAT vendors to identify discrepancies prioritised for compliance and enforcement activities.

- Consolidation of VAT filing cycles unified to monthly VAT filing requirements to ensure more regular submission of invoice-level supporting data used for risk analysis.

Expansion of the administrative penalty platform

In 2012/13, SARS will deliver:

- Improved automation of the penalty imposition process.

- Integration of the current monthly 'campaign-style' penalty imposition process into a daily process in order to spread system processing times.

- Support for additional notification channels such as sms and outbound telephone calls to inform taxpayers of penalties that they may have incurred, both as an additional means to alert and as a mechanism to establish contact with taxpayers where postal information may be incorrect or obsolete.

- Automated reconciliation of penalty imposition, recurrence and remedy events, as well as generated correspondence between SARS systems involved in the penalty administration processes.

5.2.2 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 school's 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.

In 2012/13, SARS will begin selected initiatives against the interventions laid out above.

5.2.3 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. In 2012/13, SARS will begin modifying these policies and procedures that are deemed most critical.

5.3 Increased ease and fairness of doing business with SARS

5.3.1 Reduce the administrative burden of the CIT process

CIT

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, using VAT201 information and PAYE reconciliation

5.3.2 Digitising of taxpayer and trader records and transactions

SARS aims to have modernised all its major tax products. 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.

5.3.3 Reducing the administration burden in SARS

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.

In 2012/13, SARS aims to deliver the following:

- **Cargo related data take-on**
  Since the imposition of mandatory electronic manifest declarations, there has been a substantial increase in the number of manifests received electronically. However, this increase is limited to the sea and air modalities and does not include other cargo-related documents. To achieve better risk management and end-to-end processing, additional focus will be placed on increasing the electronic volumes of other required documentation, as well as the remaining modalities (e.g. land).

- **Risk analysis of cargo related data**
  To improve risk management, cargo related data will be included in the holistic risk analysis of consignments. The consolidated (declaration and manifest) risk analysis will present a single risk outcome for further assessment and examination and will include both revenue and security related risks. The consolidated risk approach will have the advantage of imposing a single intervention per consignment for trade and enhance the overall risk coverage of the customs systems.

- **Service Manager front-end for inspection case management**
  The Service Manager case management solution will provide the platform for all future customs operational activity. It will provide a graphical user interface for Customs and also provide the case flow management and tracking for all cases that are worked on by customs operational personnel.

- **Scanning of Supporting Documents**
  The current process of submitting supporting documents is manual and cumbersome. A scanning facility will be provided at all branches to enable traders to submit their documents electronically. These documents will be matched to the cases for which they

were requested and officers will have immediate access to them. This is a substantial improvement from the current process and lays the groundwork for the future solution of direct electronic supporting document submission.

5.4 Increased cost effectiveness, internal efficiency, and institutional respectability

5.4.1 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.

5.4.2 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, Department of Labour, the Government Pensions Administration Agency and the Companies and Intellectual Property Commission), entities that are involved in supporting its compliance activities (e.g. the National Prosecuting Authority, Department of Justice) and entities involved in security, particularly at our border posts and along the border lines (e.g. South African Revenue Service, South African National Defence Force 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, SANDF and others as part of the BCCOC and the IACF to improve the security response at the borders and the ongoing collaboration with National Treasury's Financial

Intelligence Centre (FIC) as part of the Multi-Agency Working Group (MAWG) to improve the integrity of the state procurement system.

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

SARS will continue to redesign its tax 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.

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

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 of 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.

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.

In 2012/13, SARS will consult with relevant stakeholders and research best practice to inform this initiative.

5.4.5 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 support the push to have our people perform at their peak. In 2012/13, SARS will update relevant policies and procedures impacted by the new delegation of authority.

5.4.6 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.

In 2012/13, SARS will launch this effort and scope the design of the proposed solution.

06

Measuring delivery against our four core outcomes

06 Measuring delivery against our four core outcomes

6.1 SARS's outcome measures – annual and quarterly targets

The measures and targets for 2012/13 are

	Measures	Baseline[1]	Annual Targets 2012/13	Quarterly Targets			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Increased Customs compliance	Customs revenue collected (R bn)	Actual collections for 2011/12	As per agreed target with Minister of Finance				
Increased Customs compliance	% Trade volume coverage by Preferred Traders [Number of Preferred Traders declarations processed vs. total number of declarations processed]	0	5	0	0	0	5
Increased Customs compliance	% Of cargo declarations targeted [Number of declarations alerted vs. total number of declarations]	12	12	12	12	12	12
Increased Customs compliance	% Uptake in electronic manifest submissions (Number of electronic manifest submissions vs. total number of manifest submissions)	88	90	88	88	88	90
Increased Customs compliance	Interfront deliverables	Not defined currently	Develop and sign-off product sales strategy	N/A	N/A	N/A	Develop and sign-off product sales strategy
Increased Customs compliance	Interfront governance	Not defined currently	Unqualified audit report for Interfront	N/A	N/A	N/A	Unqualified audit report for Interfront
Increased Customs compliance	% Increase in Customs compliance index	Measure and baseline developed	Track against baseline	N/A	N/A	N/A	Track against baseline
Increased Customs compliance	% Decrease in size of illicit economy	Not defined currently	Develop measure and baseline	N/A	N/A	N/A	Develop measure and baseline

[1]Baselines provided are 2011/12 3rd quarter actual

	Measures	Baseline[1]	Annual Targets 2012/13	Quarterly Targets			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Increased Tax compliance	Total revenue (excluding Customs revenue) collected (R bn)	Actual collections for 2011/12	As per agreed target with Minister of Finance				
Increased Tax compliance	% PIT filing compliance [Number of PIT returns submitted in tax year due vs. Total number of PIT returns required in tax year]	83	83	83	83	83	84
Increased Tax compliance	Cash recovered from debt book (R bn)	9.6	11	2.75	2.75	2.75	2.75
Increased Tax compliance	% Audit coverage of registered taxpayers (PIT, CIT, VAT/Excise and PAYE) above the threshold	2.4	3	3	3	3	3
Increased Tax compliance	% in-depth audit coverage of registered taxpayers (PIT, CIT, VAT/EXCISE & PAYE) above the threshold	0.2	0.4	0.2	0.2	0.2	0.4
Increased Tax compliance	% Increase in the Small Business register	Measure and baseline developed	Track against baseline	N/A	N/A	N/A	Track against baseline
Increased Tax compliance	Debt book as a % of tax revenue	Measure and baseline developed	Track against baseline	N/A	N/A	N/A	Track against baseline
Increased Tax compliance	% 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	N/A	N/A	N/A	Track against baseline
Increased Tax compliance	Tax compliance index for each tax product	Not defined currently	Develop measure and base-line	N/A	N/A	N/A	Develop measure and base-line
Increased Tax compliance	% VAT filing compliance	Measure and baseline developed	Track against baseline	N/A	N/A	N/A	Track against baseline

[1]Baselines provided are 2011/12 3rd quarter actual

	Measures	Baseline[1]	Annual Targets 2012/13	Quarterly Targets			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Increased ease and fairness in doing business with SARS	% 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	93	93	93	94
	% Uptake in electronic customs bills/declarations (EDI)	96	96	96	96	96	96
	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	N/A	N/A	N/A	Develop measure and baseline
	% First contact resolution in contact centre and branches	Not defined currently	Develop measure and baseline	N/A	N/A	N/A	Develop measure and baseline
	% Reduction in escalated service queries	Not defined currently	Develop measure and baseline	N/A	N/A	N/A	Develop measure and baseline
	Taxpayer and trader compliance burden	Not defined currently	Develop measure and baseline	N/A	N/A	N/A	Develop measure and baseline

[1]Baselines provided are 2011/12 3rd quarter actual

	Measures	Baseline[1]	Annual Targets 2012/13	Quarterly Targets			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Increased cost effectiveness, internal efficiency and institutional respectability	Management Index: Employee Management	49.50%	50.50%	N/A	N/A	N/A	50.50%
	People Management: Leadership effectiveness	86	86.50%	N/A	N/A	N/A	86.50%
	Employment Equity: Demographics	69.66%	70.50%	N/A	N/A	N/A	70.50%
	Employment Equity: Gender	40%	41.50%	N/A	N/A	N/A	41.50%
	Employment Equity: Disability	2.04%	2.3%	N/A	N/A	N/A	2.3%
	Treasury allocation to revenue percentage	Not available	Between 1.0 and 1.2	N/A	N/A	N/A	Between 1.0 and 1.2
	Unqualified report by Auditor-General	Unqualified report	Unqualified report	N/A	N/A	N/A	Unqualified report
	Unit cost per process	Measure and baseline developed	Track against baseline	N/A	N/A	N/A	Track against baseline
	Productivity per employee	Measure and baseline developed	Track against baseline	N/A	N/A	N/A	Track against baseline

[1]Baselines provided are 2011/12 3rd quarter actual

07

Resource plan

7.1 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**

7.2 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

Annexure

ANNEXURE: MATERIALITY and significant FRAMEWORK

PFMA Section	Qualitative	Quantitative
OWN ACCOUNTS		
S55 (2)(b)(i-iii) 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.	All of the qualitative indicators to be subjected to the materiality levels as indicated in the Quantitative measures: a) Losses to be reported when all of the conditions below are satisfied: - 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;	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
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;	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);	Unless exempted in terms of Sec 55(4) the following will apply: 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

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