The challenge of modernising tax and customs compliance in South Africa

Peter Richer
Group Executive
Strategy Risk and Segmentation

South African Revenue Services
SARS has four core outcomes that support its mandate

Our mandate is to …

1. Collect all revenues due

2. Ensure maximum compliance with tax and customs legislation

3. Provide a customs service that will maximise revenue collection, protect our borders and facilitate trade

Our core outcomes are enduring and will underscore all current and future strategies
Why is compliance important to South Africa

- Overcome Historical Legacy
- Maintain sovereignty
- Reduced dependency on donors
- Reduced borrowing requirements
- Social safety net
Why is compliance important to South Africa

Taxpayers also need to understand the importance of compliance

The tax system is a community asset that belongs to everybody

Without tax compliance our economy would crumble – think Greece

**BUT**

We know that many things influence taxpayers’ levels of compliance

The business environment they work in;
Their intellectual capacity;
Their socio-economic outlook;
Economic pressures;
Psychological propensity to risk taking, etc.
Our medium-term strategy is encapsulated by 8 key shifts

Shift from targeting eligible taxpayers to …

Building fiscal citizenship among all South Africans

Move from a gate-keeper to …

A risk management approach

Migrate from an entity and product approach to…

An integrated economic view of taxpayers and traders

Shift from a uniform service offering to …

A differentiated service offering

Move 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

Move from a high administrative burden legacy to …

A reduced administrative burden

People performing below their potential to …

Enabling our people to perform at their peak

Shift from targeting eligible taxpayers to …

Building fiscal citizenship among all South Africans

Move from a gate-keeper to …

A risk management approach

Migrate from an entity and product approach to…

An integrated economic view of taxpayers and traders

Shift from a uniform service offering to …

A differentiated service offering

Move 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

Move from a high administrative burden legacy to …

A reduced administrative burden

People performing below their potential to …

Enabling our people to perform at their peak
The Modernisation of SARS Has Yielded Amazing Results...

FROM

12 Page Static forms

Manual Data capture

Paper Processing

TO

Single Page Dynamic Form

Single Page Dynamic Form

Digital Scanning

e-Filing / e@syFile

FROM

Multi-Page Static Forms

Paper / Manual

Digitisation

Manual Paper Channels

Digital / Self-Service Channels

TO

Human intensive, non-value adding, manual processes

Automated Processes

High volume, low yield

Gate Keeping

Risk Managed

Limited Validation

3rd Party Validation

TO

Automated workflow processes, value adding only

Targeted volume, high yield

Pre-population / Verification

Manual processes

PUSH

Manual Paper Channels

Digital Scanning

Paper Processing

Human intensive, non-value adding, manual processes

Automated Processes

High volume, low yield

Gate Keeping

Risk Managed

Limited Validation

3rd Party Validation

Pre-population / Verification


From Multi-Page Static Forms to Single Page Dynamic Form.

From Paper / Manual to Digital Scanning.


From Manual processes to Automated Processes.

From Human intensive, non-value adding, manual processes to Automated Processes.

From High volume, low yield to Targeted volume, high yield.

From Gate Keeping to Risk Managed.

From Limited Validation to 3rd Party Validation.

From Manual processes to Automated Processes.

From Human intensive, non-value adding, manual processes to Automated Processes.

From High volume, low yield to Targeted volume, high yield.

From Gate Keeping to Risk Managed.

From Limited Validation to 3rd Party Validation.
The Modernisation of SARS Has Yielded Amazing Results…

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RETURN PROCESSING</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average turnaround time</td>
<td>± 55 working days</td>
<td>± 30 working days</td>
<td>± 15.8 working days</td>
<td>± 1.8 working days</td>
<td>± 1.7 working days</td>
<td>± 0.711 working days</td>
</tr>
<tr>
<td>for processing of a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>return</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REFUND PROCESSING</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average turnaround time</td>
<td>± 45% within 5 working days</td>
<td>± 78% within 5 working days</td>
<td>± 52.46% within 5 working days</td>
<td>± 83.16% within 5 working days</td>
<td>± 74.28% paid within 72 hours</td>
<td>± 85.44% paid within 72 hours</td>
</tr>
<tr>
<td>for processing of a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>refund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2010/2012 – 99.68% were processed within one day.
- No document took longer than three days to be processed.

Note:
PIT returns submitted for all tax years during specific Filing Seasons
* Efficiency increased due to the introduction of eFiling
** Reduction due to increase in IRPS Mismatch and Banking Detail control measures
Why Compliance is important to South Africa

The South African government is able to meet socio-economic needs of its citizens as a result of improved compliance and revenue collection.

![Graph showing tax revenue growth from 2004/05 to 2013/14](image)
So we developed a compliance model that explains our Philosophy towards these different behaviours.
SARS COMPLIANCE PROGRAMME

Launched - April 2012

A culmination of a vigorous and intense process of compliance analysis
to identify and understand taxpayer and trader compliance
Strategic communication tool
Systematic risk identification, prioritisation and strategic planning
Fairness and transparency of the tax and customs system
Effective resource deployment
Stakeholder relationship building mechanism
...resulting in the identification of the seven priority areas

**Our Intention**

**Improve Compliance**

**Protect local economy**

**Make it Easy**

**Regulation**

**Focus Areas**

1. Large business & transfer pricing
2. Construction sector: Government tenders
3. Wealthy South Africans & trusts
4. Illicit cigarettes
5. Clothing and textiles: Under-valued imports
6. Small business: Reduce cost of compliance
7. Tax Practitioners: Improve own and Trade Intermediaries compliance

**Our Intervention**

**Increase Enforcement focus**
- Tighten legislation
- Integrated audits
- Third party data sources

**Tighten border control:**
- Intergovernmental collaboration
- Strengthen risk identification
- Cross border collaboration
- Strengthen controls along supply chain

**Improve service focus**
- Simplify tax regime/requirements

**Improve Legislation focus**
- Strengthen ties with professional bodies
- Introduce new regulation/legislation
- Penalizing non compliant Tax Practitioners
- Effective monitoring and engagement with Tax practitioners
Taxpayers need to play a role in compliance too and understand that…

1. The tax system is a community asset
2. They can shape compliance attitude and behaviours too
3. Low Levels of compliance will have a dramatic effect on the revenue collections, which will impact everybody’s ability to better their lives
“Starbucks pays no UK taxes since 2009” – Skynews, Oct 2012

“How Apple’s phantom taxes hide billions in profit” – NDTV, July 2012

“Apple Paid Just 2% Tax On Overseas Profits” – skynews, NOV 2012

UK Tax Rate Slammed As 'Unethical' – SKYNEWS, OCT 2012

The world’s biggest social networking website pays UK corporation tax of just £238,000 - as its staff costs triple to £24m.

“The 1 trillion euro lost to tax evasion in the EU each year could have solved many problems...” – EC President JOSE Manuel barraso, EU Summit, March 2012

“...Italian taxpayers reporting incomes of less than $26,000 owned 188,000 Ferraris and Lamborghiniis, more than 500 private airplanes and about 42,000 yachts.” USA TODAY, Jan 2012
From UNCERTAINTY TO CERTAINTY

BUSINESS
Tax Strategy: Aggressive Tax Planning
Compliance

SARS Strategy
Compliance;
Enforcement;
Oversight

COMMUNITY/GOVERNMENT
Development;
Environment
WHAT ARE THE BASIC PRINCIPLES OF COOPERATIVE COMPLIANCE

1. Understanding the taxpayer
2. Building Partnerships and relationships
3. Increasing flexibility...to encourage and support compliance
4. Escalating options to enforce principles
5. Continuously improving the law...(new TAA)
6. Creating a dialogue with the judiciary
7. Responding to the globalisation of business
THE COOPERATIVE COMPLIANCE MODEL – Internationally accepted

- **Active Enforcement**: By Tax Authority
- **Assisted-Self Regulation**: By Business
- **Self-Regulation and Co-operation**: By Both

**THIS IS THE MOST DESIRED STATE**
WHAT ARE THE BASIC OBJECTIVES OF COOPERATIVE COMPLIANCE

- **Optimising Economic Growth**
- **Generating Community Confidence**
- **Building Cooperative Relationships with Business**
SARS PREFERRED TRADER PROGRAMME

Introduction of the Trusted Trader initiative - foundation for the AEO programme with Trade

Segmentation of the trade allows customised service provision and risk application

Focus efforts on the risky and facilitate the trusted - compliance vs. service

- **70%** of all *import declarations* are submitted by only **10%** (4000) of the active traders.
- **90%** by *value of declarations* of all import declarations are submitted by **10%** (4000) of traders.
- **80%** of all *export declarations* are submitted by only **10%** (4000) of the active traders.
- **80%** by *value of declarations* of all export declarations are submitted by **10%** (4000) of traders.
Launched - 2012

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
ADAPTING TO COOPERATIVE COMPLIANCE

VOLUNTARY DISCLOSURE AGREEMENTS – VDA

RIGHT FROM THE START – THE NEW SARS APPROACH

- Building closer relationships between SARS and business
- Advocate fiscal citizen for all

THE NEW TAX ADMINISTRATION ACT (TAA)

- Not every taxpayer is involved in each possible step in tax administration.
- Both Taxpayer and SARS would know when to advance over intervening possibilities until the next relevant issue is reached.
- E.g. Once a taxpayer submits a return regulated by Chapter 4 of TAA, but SARS does not audit the return, both the taxpayer and SARS would know to advance to the Assessment chapter to determine what procedures to follow

ESTABLISHMENT OF the TAX OMBUDSMAN
WHAT DOES COOPERATIVE COMPLIANCE MEAN FOR RISK MANAGERS

- TAX is about Governance not an Operational issue
- Reducing tax risks is a boardroom activity
- Tax is an Audit Committee agenda item
- Pre-determined…not post-determined
- Early disclosures…transparency…reducing surprises
- Reducing unnecessary audit time…
- Potential tax disputes are avoided or resolved early…
- Reducing company costs at a later stage

i.e. **MORE CERTAINTY EARLIER AND AT A LOWER COST**
IN CONCLUSION

- **SARS innovation ongoing**
- **Our core outcomes are enduring and will underscore all current and future strategies**
- **Serious about building relationships with business**
- **Build fiscal citizenry**
- **Reduce costs mutually**
- **Just a stage on the journey**
Thank You!