

ANNUAL REPORT
SOUTH AFRICAN REVENUE SERVICE
2009



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4. MODERNISATION AGENDA

SARS MANDATE PROMOTES COMPLIANCE WITH THE LEGISLATION

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

- Collect all revenues due
- Ensure the efficient and effective collection of revenue
- Ensure the efficient and effective control over movement and manufacturing of goods
- Advise the Ministers of Finance and Trade

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5. SARS's RESPONSE TO ECONOMIC CRISIS

ECONOMY WORSENERD DRAMATICALLY DURING SECOND HALF OF 2008/09 FISCAL YEAR

During the **fiscal year** 2008/09 the South African economy began to slow down:

- Real GDP declined steeply from 5% in Q1 to -6.4% in Q4
- Similarly Domestic demand declined to -0.4% in Q4 – mainly durable goods

Key trends during fiscal year in the main sectors illustrating the decline:

- Manufacturing declined from 14.3% in Q1 to -22.1% in Q4
- Mining declined from 19.2% in Q1 to -32.8% in Q4
- Tertiary sector declined from 1.6% in Q1 to -0.5% in Q4

Trade volumes declined compared to previous year

- Exports declined by -4% year on year
- Imports declined by -5% year on year

REVENUE COLLECTED IN 2008/09 GREW BY 9.1% FROM PREVIOUS FISCAL YEAR

Collected R625.1 billion, fell short of the revised February 2009 Budget estimate by R2.6 billion (99.6% attainment of target):

- Corporate income tax (CIT) – R167.2 billion (R3.7 billion above estimate)
- Secondary tax on companies (STC) – R20.0 billion (R0.02 billion above estimate)
- Personal income tax (PIT) – R196.1 billion (R3.8 billion below estimate)
- Value-added tax (VAT) – R154.3 billion (R0.6 billion below estimate)
- Customs duty – R22.8 billion (R1.0 billion below estimate)

THE MODERATION OF THE RATE OF GROWTH OF THE TAX REGISTER REFLECTED THE SLOWING ECONOMY

- Change in register approach
- Modernisation process: clean up of register starting with VAT
- Income Tax - for Individual taxpayers - grew at 6.5 %
- Trusts – decreased by 2.8%
- VAT - decreased by 1%
- PAYE - increased by 3.8% year on year
- CIT – increased by 3% year on year

IMPROVING TRADE ADMINISTRATION AND BORDER SECURITY REMAINED A PRIORITY

Strengthening of trade facilitation and border security through use of risk management tools such as: risk profiling , detector dog unit and scanner offering accredited traders faster and cheaper means to get their goods into the global markets.

Visible enforcement response to detect and deter illicit trade resulting in:

7,951 anti-smuggling seizures including:

- 731 counterfeit goods seized (valued at R379 million);
- 2,824 contraband and counterfeit cigarettes seized (valued at R 216 million);
- 87 Cocaine seizures (valued at R328 million);
- 494 cash seizures (valued at R3.3 billion).

PERFORMANCE AGAINST KEY SERVICE TARGETS

- **Income tax returns processed within 34 days:**
Target was exceeded by 9% due to increased use of electronic channels
- **Income tax returns processed within 90 days:**
Multiple channels introduced increased processing speed, exceeding the performance target by 8%.
- **Income Tax refunds processed within 30 working days:**
Refunds paid without audit intervention resulted in 94% being released within 5 days
- **VAT refunds processed within 21 days:**
81% of refunds were released within a 21 day period

IMPROVING TAXPAYER SERVICE LEVELS REMAINED A HIGH PRIORITY

SERVICE VOLUMES

- Taxpayers visiting branches experienced a high level of first time contact/query resolution (96.3%) with an average of 10-minute average service time.
- Returns captured in the front office during filing season 2008 increased by 49,62% from 718 535 (2007) to 1 075 046 (2008).
- The total number of queries handled increased by 20%
- Significant improvement in use of electronic channels
- Outreach and Education -
 - ✓ **960** Points of service where there are no permanent branch offices
 - ✓ **4464** Outreach activities conducted at employers premises (largely for filing season)
 - ✓ **20 000** people attended education workshops

AND CONSIDERABLE MODERNISATION EFFORTS IN THE CALL CENTRES STARTED TO PAY OFF

SERVICE VOLUMES

Pain points:

- Taxpayers getting engaged signal
- High Call Abandonment Rate
- E-filing Call volumes increased

Despite this:

- Answered 1.4 million calls more than the previous year
- Improved the number of calls answered within 20 seconds by 5 %
- Decreased the number of calls abandoned by the taxpayer by 3 %

What we are doing to improve:

- Increase incoming lines from 900 to 3600
- Appointment of 230 additional staff for tax season
- Training provided to all agents on E-filing
- Introduction of a Knowledge tool
- Multi-skilling of all agents

USE OF ELECTRONIC CHANNELS GREW DRAMATICALLY AND SIGNIFICANTLY REDUCED TURNAROUND TIME

Comparison: First 27 weeks of filing season	2007	2008	% Change
Income tax returns assessed	2 352 647	3 293 991	40.01%
Income tax returns received	3 283 690	3 714 658	13.12%
Income tax returns received manually	2 044 550	633 352	-69.02%
Income tax returns received via BFE	718 535	1 075 046	49.62%
Income tax returns received via eFiling	445 101	1 856 646	317.13%
Turnaround time: one day (in %)	13%	62%	383.16%

THE SARS COMPLIANCE MODEL



STRENGTHENING ENFORCEMENT

- Enforcement strategy - coverage, depth and leverage
 - Increased coverage: Increase the possibility of audit
 - Improved depth: Deep legal, audit and investigative capability to pursue non-compliance effectively
 - Leverage: Partnering stakeholders to foster a multiplying impact
- Automated risk engines with feedback to continuously enhance case selection for audits
- Enforcement Program focus areas
 - Tax : VAT and PAYE
 - Industry focus areas: Clothing & Textile, Cash & Carry, Government Tenders, Illicit Economy

INCREASED SUCCESS RATE OF ENFORCEMENT CASES

Audit coverage ratio - 0.94% coverage of 7.7 million taxpayers, - 72 926 audits

Success Rate of Enforcement Cases –78% against a target of 70%

Enforcement Investigations

- More than 800 tons of illegal tobacco taken off the street. A significant syndicate was neutralised
- 102 320 items of counterfeit products seized.
- 41 tons clothing and textile seized

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HEADCOUNT STATISTICS REFLECTED SARS ABILITY TO RETAIN A VALUABLE AND COMMITTED WORKFORCE

- Headcount Total: 15 307 with Permanent Employees: 14 751 and Temporary Employees: 556
- Average Age 37
- Average years of service is 10 years
- Attrition rate is 6.68% (Resignations, dismissals, retirements and deaths)
- Recruitment rate is 8.03%
- Net Staff turnover is 1.35% (growth)
- Sick Absence Rate is 1.78%

OUR HUMAN RESOURCE PROFILE REFLECTED THE DIVERSITY OF OUR NATION

Workforce profile with regard to Employment Equity												
Occupational Levels	Designated*							Non Designated			Total	
	Male				Female			White Male	Foreign Nationals			
	A	C	I	W	A	C	I		M	F		
Top Management	8	4	4	2	5	2	0	2	10	0	1	36
Senior Management	216	42	72	169	107	19	40	242	4	5	916	
Professionals	397	83	105	331	335	66	94	321	1	11	1744	
Skilled and Junior	1885	338	191	2248	2552	576	314	655	7	6	8772	
Semi-Skilled	508	90	28	776	1139	294	69	79	5	3	2991	
Unskilled	81	19	0	0	163	20	0	8	0	1	292	
Total	3095	576	400	3526	4301	977	517	1315	17	27	14751	

(Note: A=Africans, C=Coloureds, I=Indians and W=Whites. *"Designated" refers to those groups previously disadvantaged in national legislation.)

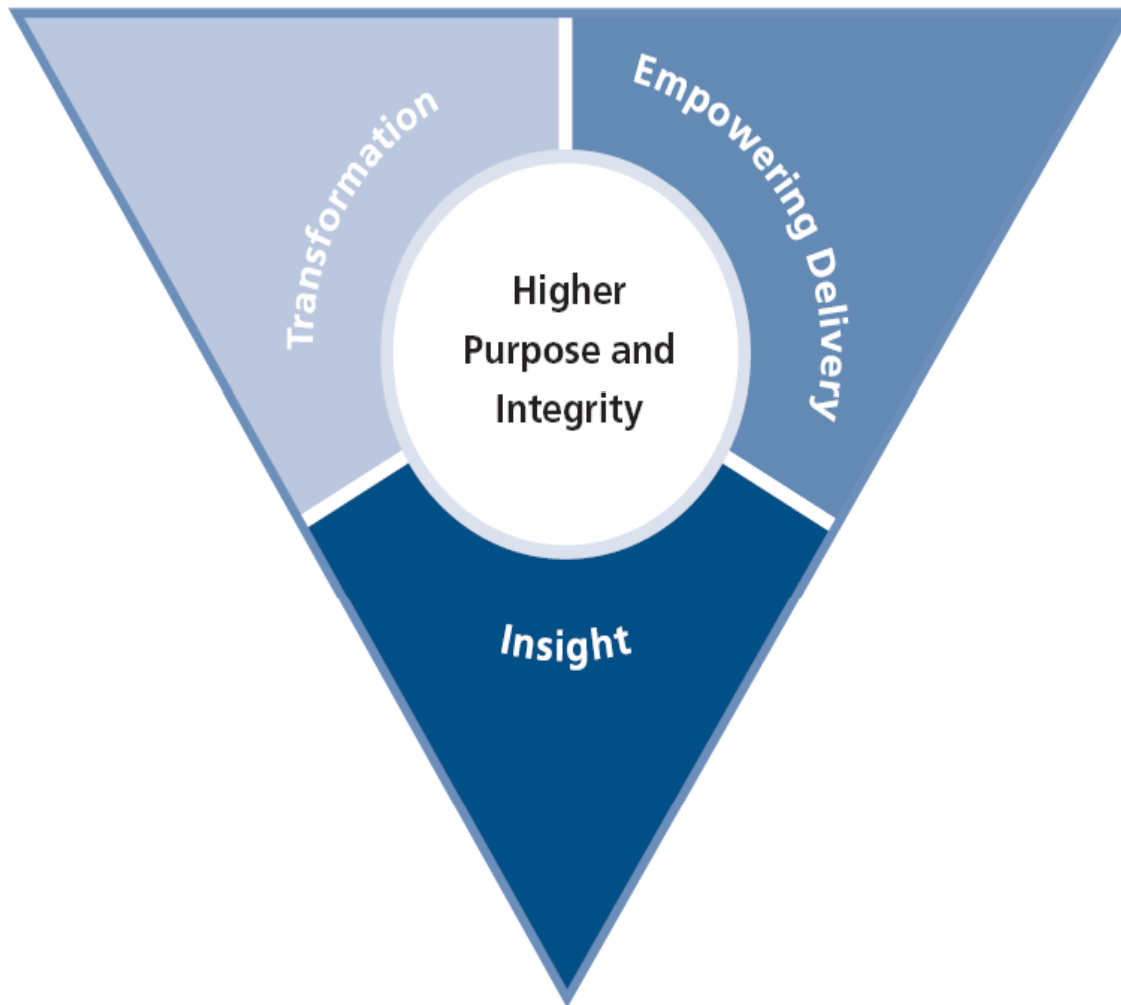
AND OUR EMPLOYMENT EQUITY TARGETS SHOWED A STEADY INCREASE IN BLACK REPRESENTATION

EE	End March 2008	End March 2009	Target 2008/2009
Black	64.92%	66.88%	67%
Female	64.23%	63.19%	63%
Disability	1.47%	2.40%	2%

SARS VALUES

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

The new Leadership Model is aimed at Improving Core Competencies...



Higher Purpose and Integrity

- Championing the Mandate
- Responsibility for Social Impact

Empowering Delivery

- Driving Excellence
- Mobilizing Teams

Transformation

- Developing others
- Building Sustainability
- Leveraging Diversity
- Influencing Others

Insight

- Conceptual Thinking
- Accurate Understanding
- Humility

FINANCIAL HIGHLIGHTS

- **Unqualified AG audit opinions** on SARS Own Accounts and SARS Administered Revenue – 8th year in succession.
- Systems of internal control found effective and efficient by the **Audit Committee** for the period under review
- **Accounting policy on revenue recognition** to be migrated from cash accounting as it is currently to Accrual Accounting by 2013
- Significant increase in internal audit capacity
- Increased reliance by AG of work done by internal audit

INTERNATIONAL RELATIONS CONTRIBUTED TO SARS IMAGE AS A DYNAMIC AND FORWARD-LOOKING ORGANISATION

- **Establishment of African Tax Administration Forum**
- **Hosted 5 International events including:**
 - WCO Customs in the 21st Century
 - OECD Regional Forum on Trade Facilitation
 - CIAT Annual Technical Conference
- **Bilateral Agreements signed with:**
 - Australia, Mozambique, Netherlands, Portugal, Nigeria, Saudi Arabia & Switzerland
India & Sudan
- **Capacity Development:**
 - Policy, legal & operational assistance
 - Study visits, benchmarking (14)
 - SARS Training for Africa - WCO ESA Regional Training Centre (3) & OECD (3)

SARS CONSULTED ON AN ON-GOING BASIS WITH RELEVANT STAKEHOLDERS AND PROFESSIONAL BODIES

- Bank Accord signed with SA Banks – First in the world
- Engagement programme with Business and Professional Bodies including:
 - SAICA /SAIPA
 - Banking Industry
 - Accounting Industry
 - BUSA
- Meetings/ workshops on PAYE assessment process with Business Executives, Business Chambers and Professional Associations
- Numerous engagements with key Customs stakeholders

AS THE ADMINISTRATOR OF TAX AND CUSTOMS LAW, SARS PLAYED A SIGNIFICANT ROLE IN THE CREATION OF AN ENABLING LEGAL FRAMEWORK

Legislation

- Second draft of Customs Bill
- First draft of Tax Administration Bill
- Regulations prescribing administrative penalties
- Input into annual tax amendment laws

Interpretation

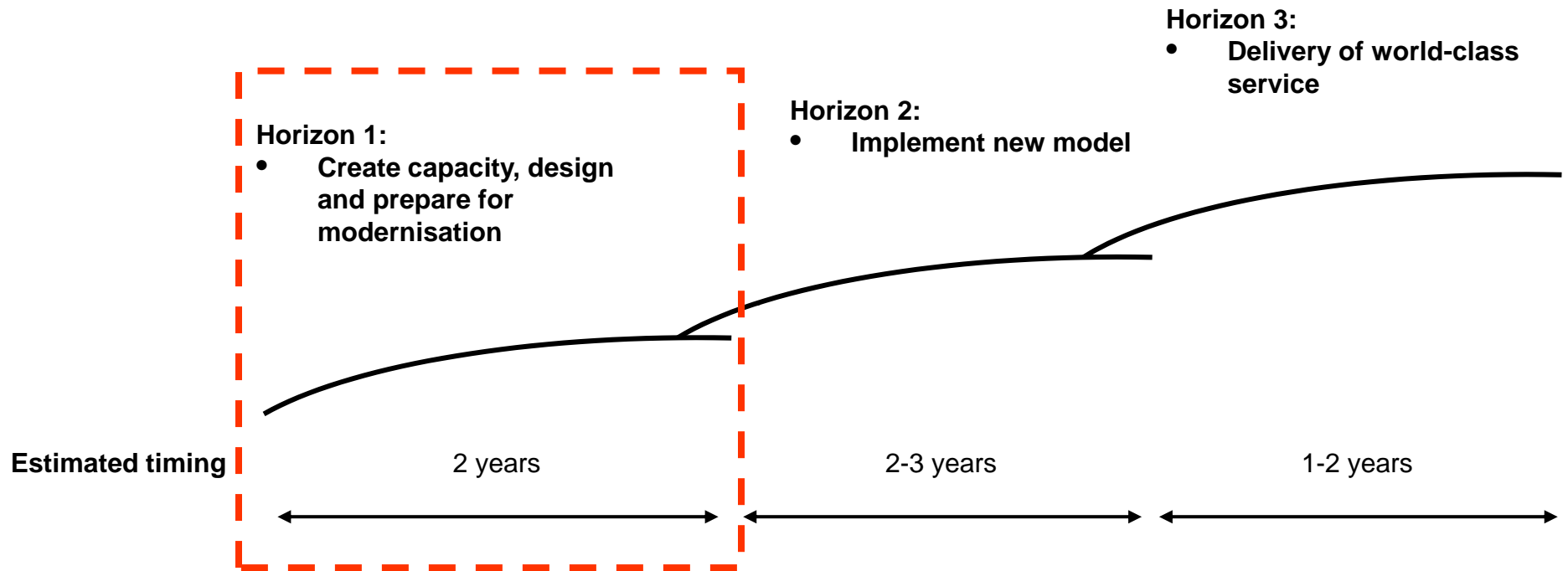
Several new guides and policy documents on topical areas to enhance certainty on tax legislation

Success rate of 69% in litigation cases

International Treaties

- 7 new Treaties/Protocols
- 6 new Customs Agreements and MOUs

THE MODERNISATION AGENDA IS DELIVERED IN REGULAR WAVES



THE FIVE AREAS PRIORITISED FOR “HORIZON 1” FOCUS SARS DELIVERY EFFORTS

Service – improving customer service, outreach

Risk – developing an integrated risk management and enforcement system

Operations – enhancing core operations and building capabilities

Customs – strengthening border control at ports of entry

Support - support initiatives that reinforce core support systems

THE MODERNISED PAYE PROCESS CONTRIBUTED TO BETTER QUALITY OF DATA AND COMPLIANCE

- Re-engineered the PAYE system by matching data submitted by employers and individuals
- The newly launched “e@syfile for employers” platform facilitated electronic receipt of more than 90% of PAYE submissions
 - 86% satisfaction according to survey
- PAYE certificates received grew by 30 % (from 11.7m in 2007 to 15.4m in 2008).

THE MODERNISATION OF PERSONAL INCOME TAX (PIT) MADE IT EASIER FOR INDIVIDUALS TO COMPLY

PIT returns pre-populated for the first time

- Customised forms received an 86.9% customer satisfaction rating
- Taxpayer errors dropped by 85% (from 600 000 in 2007 to 90 000 in 2008)

Electronic channels dramatically modernised

- eFiling
 - Registrations grew by more than 50% (from 1.3m in 2007 to 2.1m in 2008)
 - Submissions grew by more than 100% (from 0.85m in 2007 to 1.7m in 2008)
 - Payments by individual grew by 150%
- **Branch Front-End Platform**
 - Face to Face filling of returns at branches grew by 80% (from 0.6m in 2007 to 1.1m in 2008)
 - Data quality increased and turnaround times improved

Turnaround times improved dramatically

- Assessment within 24 hours improved (from 1% in 2007 to 63 % in 2008).

THE MODERNISATION OF THE CONTACT CENTERS CONTRIBUTED TOWARDS IMPROVED SERVICE

Call Centre Business Model

- 80% “First Call Resolution”
- Model based on a blend of skilled agents, leading edge technology and re-engineered business processes
- Standardised responses to frequently asked questions through a knowledge base

Leading edge technology foundation

- Multilingual Interactive Voice Recognition (IVR) experienced 1.3m callers
- Computer telephony platform facilitated full integration of call centres

Roll Out

- First two new integrated contact centres operational: Alberton & Doornkloof
- Plans for KZN and Western Cape on Schedule for delivery in 2009/10.

THE INTRODUCTION OF THE NEW RISK OPERATING MODEL AND ENGINE PAID OFF

- Automated intelligent risk engine
- Optimised application of limited skilled resources through prioritised case selection
- New risk model identified 'outliers' from information contained on submitted returns and routed to audit where necessary
- Validated information supplied by tax payers which deviated materially from third party data sources – error rate dropped to 3.5% from 10% the year before.

PLANS TO MODERNISE CUSTOMS' CORE INFRASTRUCTURE GAINED TRACTION

Replacement of Customs Legacy Systems

- Completed a comprehensive business case highlighting opportunities to significantly re-engineer and modernise Customs
- A new integrated software solution will replace the existing 30 legacy systems – some of which were commissioned in 1979!
- Obtained approval for the acquisition of software and related intellectual Property, together with the necessary skills to finalise the implementation.

Cargo Scanners

- Implementation of Durban pilot highlighted the need to link scanners to new risk engine in order to significantly improve hit rates and effectiveness.

SUPPORT INITIATIVES REINFORCED CORE SUPPORT SYSTEMS

- **Human Resources**
SAP Human Resources solution implemented
- **Asset Modernisation & Reconstruction of Fixed Asset Register**
Staff personally verified assets allocated to them with new Asset Verification Tool
- **Payment Reform**
Approval for the new account verification process obtained from Payments Association of South Africa (PASA).

THANK YOU