
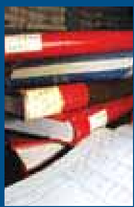


South African Revenue Service

Annual Report

2007 - 2008

SARS South African Revenue Service

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SOUTH AFRICAN REVENUE SERVICE **ANNUAL REPORT 2007 - 2008**

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South African Revenue Service

View of Table Mountain from Robben Island during an OECD Forum Meeting excursion in January 2008

Photo: Daniel Grey

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SARS South African Revenue Service


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Message from the Minister

Trevor A. Manuel, MP, Minister of Finance

The financial year 2007/08 being subject to review in this Annual Report marks a temporary slowdown to a cycle of buoyant activity during which the domestic economy recorded unprecedented levels of growth at an average of 5% over four successive fiscal years. Our economic and social progress, favourably benefiting from continued economic growth over successive quarters, confirms the correctness of our long-term fiscal policy stance and it's dictates on prudent public resource management. By maintaining the necessary balance between expenditure growth and reducing long term debt obligations, we were able to appropriate more resources to finance our social development and infrastructure programmes.

However, the 2008 Budget cautioned that financial market turbulence and the sharp economic slowdown in the United States would have a negative impact on global growth and growth prospects domestically.

In the current context our ability to retain our growth momentum – even at levels more moderate above 4% of GDP over the medium term – and to continuously commit ourselves to budget for expenditure growth without compromising the fiscus, would be impossible without a sustainable revenue source from the South African Revenue Service (SARS). The ability of SARS to deliver on and surpass revenue targets year-on-year creates an essential, consistent foundation upon which we lay the mortar and bricks of our future social and economic aspirations. This foundation continues to solidify and expand in structure and is able to respond to higher demands on revenue yield within varying economic climates.

SARS' performance to date makes a compelling case for the need for successful public sector transformation within our developmental context. This must include – as it does in the case of SARS' organisational performance – setting service delivery standards and cultivating a culture of compliance and citizenship responsibility amongst a broad constituency of individual and corporate taxpayers. For the 2007/08 financial year, revenue collection grew by 16% from the previous financial year, culminating in a revenue outcome of R572,9 billion. This figure is R16,3 billion above the original printed estimate of R556,6 billion and R1,8 billion above the Revised Printed Estimate in the 2008 National Budget.

The revenue outcome as at 31 March 2008 strengthened our fiscal position with additional resources from a surplus of 0.6% of GDP to a budget surplus of 0.9% to GDP. Revenue performance remained robust even as the signs of global uncertainty began to emerge during the last quarter of 2007 through the US sub-prime mortgage crisis.

During the past financial year, SARS has made further progress in simplifying the process of submitting tax returns for both individuals and companies. Secondly, SARS has made it much simpler for small businesses to operate and to comply with our tax codes, contributing to both better economic performance and improved tax compliance. Throughout these administrative reforms, the principle of a service culture has been enhanced and is now well entrenched.

In view of current global uncertainty for the immediate term, it is critically important for this country and for SARS to continue the growth trajectory in revenue collection, continue to expand the tax base, improve levels of tax compliance and further introduce more innovation in organizational reform. SARS' efforts to respond to these challenges are outlined in detail in this Annual Report.

As the Minister charged with the executive responsibility for this public institution, I want to congratulate SARS on its phenomenal achievements during 2007/08.

It bodes well for SARS' future challenge to collect more than R1 trillion in revenue over the next three years!

SARS South African Revenue Service


SARS
RICAN
SERVICE
At Your Service

Pravin Gordhan, Commissioner

The tenth anniversary year of the South African Revenue Service was momentous - we topped the half trillion rand mark in revenue collections over 10 years, implemented our modernisation programme with the introduction of an enhanced income tax assessment process, concluded a highly successful Small Business Tax Amnesty and contributed to a 30% growth in the company tax register.

Revenue collection

The revenue collection performance in which SARS exceeded its revised estimate for the fourth consecutive year was particularly encouraging given the volatile tendency of the economy especially in the last quarter of the year.

Key revenue collection contributors during 2007/08 were:

- **Personal Income Tax:** This continues to provide the largest portion of total collections (29.59%), accounting for R169,539 billion, which exceeded the original estimate by R13,004 billion. Continued growth in employment, higher compensation on the back of rising interest rates, along with continued gains in compliance (9% increase in tax registrations by individuals) were key factors in the performance of this category of taxation;
- **Corporate Income Tax:** A 30% growth in corporate tax registrations helped boost corporate income tax collections to R141,636 billion, exceeding the original printed estimate by R2 billion, and accounting for 24.72% of total revenue. Continued economic growth, especially in the first three quarters of the year, and an increase of 18% gross operating surplus (compared to 15% in 2006/07) provided further profitability especially in financial services, manufacturing, wholesale and retail trade, transport, storage and communications, and the minerals and petroleum sectors;
- **Value Added Tax:** Rising interest rates resulting in a decline in real gross domestic expenditure from 9.2% in 2006 to 6.0% in 2007 impacted on overall VAT collections of R150,443 billion. This was R4,625 billion lower than the original printed estimate. Despite this lower-than-expected revenue, VAT continued to account for the second highest portion of total revenue (26.26%); and
- **Customs Duty:** In parallel with VAT, collections from customs duty were also below the original printed estimate as lower domestic demand and a weaker currency slowed imports.

Modernisation programme

In order to keep pace with surging operational demands flowing from seven years economic growth and rising compliance, which has seen the tax register grow by an average of 9.6% year-on-year for the past 10 years, SARS introduced its modernisation programme during 2007.

This programme, which will stretch over the next five to seven years, is aimed at transforming both the tax and customs administration through automation and other operational efficiency gains. This will release internal resources from repetitive, low-value tasks in order to concentrate on improving service, education and enforcement in line with our compliance model.

The first phase of the modernisation programme, launched in 2007/08, focused on the income tax assessment process and saw significant improvements for taxpayers and practitioners with 34% of returns processed within 48 hours compared to only 1.6% a year earlier. It also saw a phenomenal increase in electronic filing as a preferred channel for submission of returns. More than one million eFiled returns were submitted compared to only 35,000 in 2006/07.

On the customs side, a Green Paper on Customs Modernisation was developed and, following approval by Cabinet, translated into a draft Customs Bill. This draft Bill sets a new strategic direction for border control and trade facilitation in line with international demands. SARS was also appointed the lead agency in preparing a national integrated border management strategy adopted by Cabinet in 2008. This year we awarded a tender for the procurement, installation and commissioning of a mobile X-ray container scanner at Durban Container Terminal. The scanner is being operated on a pilot basis for a period of six months to ensure smooth and efficient processes and traffic management. This event coincides with the deployment of the first intake of new military-trained Customs Border Control Unit staff and a new detector dog unit.

Internal transformation

None of the achievements of SARS over its 10 year history would have been possible without the energy, passion, talent and contribution of SARS staff, who continue to provide a shining example of commitment to the principles of Batho Pele.

Underpinning our modernisation drive is thus a commitment to further empowering and developing our people to improve professionalism and dedication to our service of the nation. Internally, the 2007/08 year was declared "Year of the People" and saw the introduction of a range of initiatives towards this fundamental objective.

Conclusion

Celebrating the 10th anniversary of the South African Revenue Service in October 2007 provided a natural milestone on which to reflect on the gains of the past decade. Yet, perhaps more significantly, it was also an opportunity to assess the work still to be done in funding South Africa's developmental objectives.

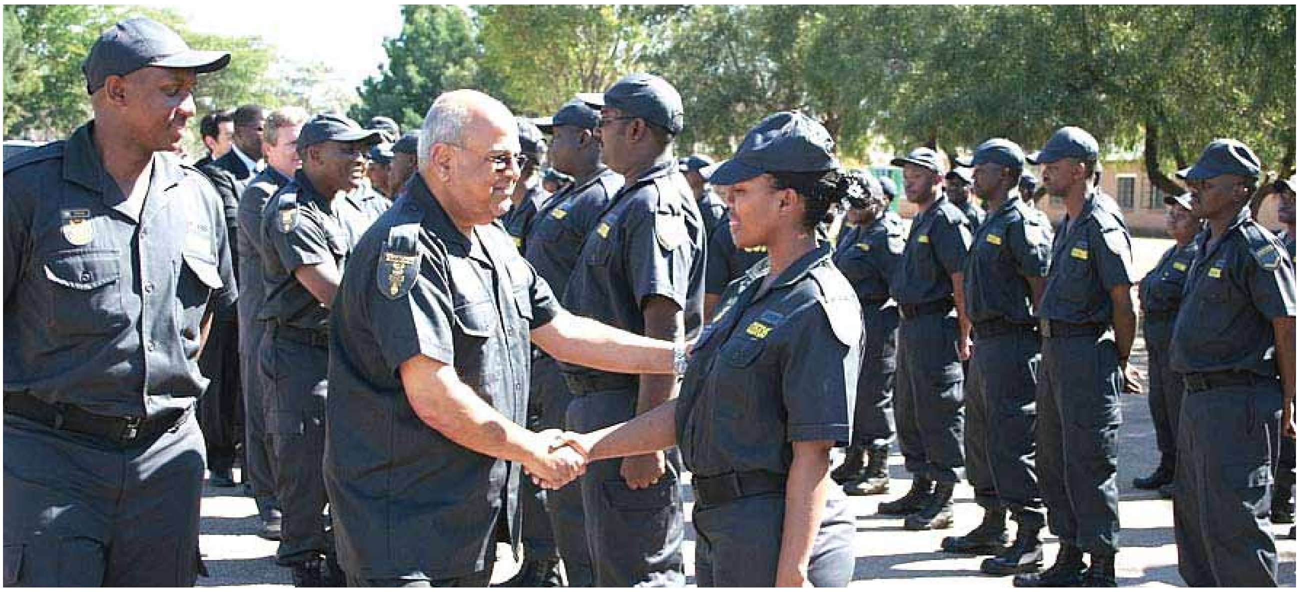
It is these challenges that continue to inspire and motivate each member of the SARS family it has been my honour to be part of for the past decade. I wish to thank, in particular, my leadership team for their support, loyalty and enthusiasm with which they have engaged in their tasks.

I would also like to thank Minister of Finance Trevor Manuel, Deputy Minister Jabu Moleketi and their staff, along with the various parliamentary and other committees and consultative bodies for the encouragement and support they have provided to SARS and me over the past 10 years.

The biggest gratitude, of course, must go to all the people of this country who, through their tax and customs contributions, provide South Africa with the financial independence to pursue its all-important vision of a better life for all.

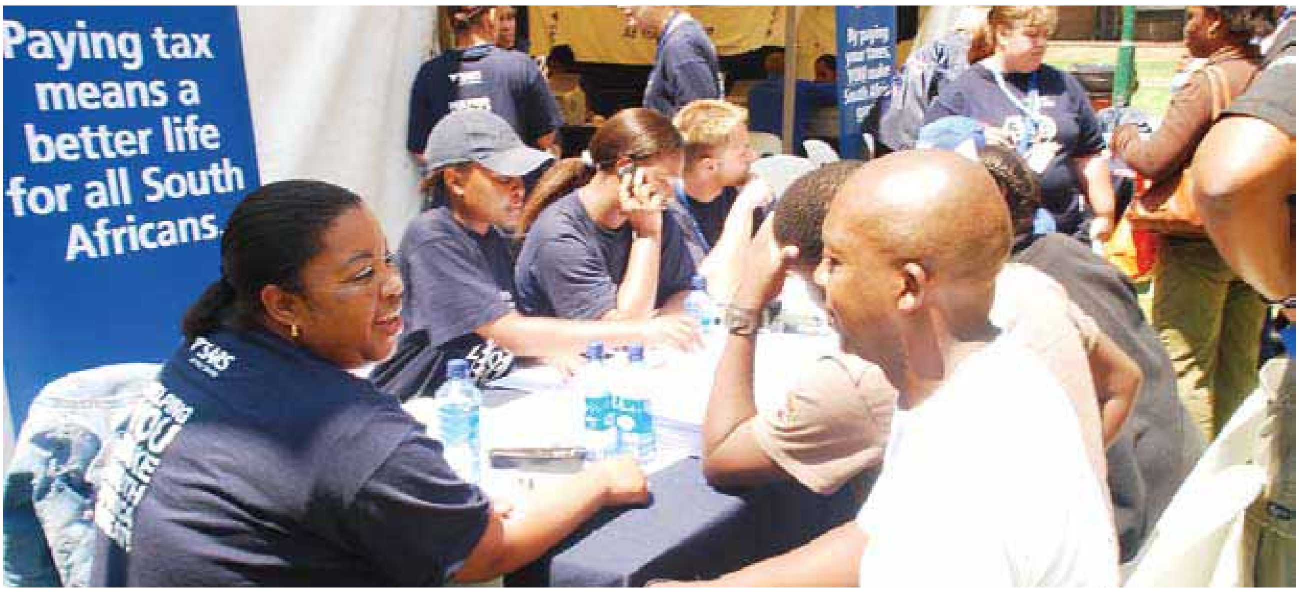
Together, we are making a difference!

Pravin Gordhan



Part One

Overview



South African
Revenue Service

Mandate

The South African Revenue Service (SARS) was established by the South African Revenue Service (SARS) Act (No. 34 of 1997) as an organ of state within the public administration, but as an institution outside the public service. It is responsible for the collection of all tax revenue for national government. This mandate is derived from the SARS Act legislation which SARS administers. Some of the legislation that SARS administers according the SARS Act includes:

- Union and Southern Rhodesia Death Duties Act (1933)
- Transfer Duty Act (1949)
- Estate Duty Act (1955)
- Income Tax Act (1962)
- Customs and Excise Act (1964)
- Stamp Duties Act (1968)
- Value-Added Tax Act (1991)
- Section 39 of the Taxation Laws Amendment Act (1994)
- Sections 56 and 57 of the Income Tax Act (1995)
- Tax on Retirement Funds Act (1996)
- Uncertificated Securities Tax Act (1998)
- Demutualisation Levy Act (1998)
- Skills Development Levies Act (1999)
- Unemployment Insurance Contributions Act (2002)
- Any regulation, proclamation, government notice or rule issued in terms of the abovementioned legislation or any agreement entered in to in terms of this legislation or the Constitution

In its operations and functions SARS must also take cognisance of, among others:

- Basic Conditions of Employment Act (1997)
- Labour Relations Act (1995)
- Employment Equity Act (1998)
- Public Finance Management Act (1999)
- Promotion of Access to Information Act (2000)
- Promotion of Administrative Justice Act (2000)

Mission

To optimise revenue yield, to facilitate trade and to enlist new tax contributors by promoting awareness of the obligation to comply with tax and customs laws, and to provide a quality, responsive service to the public.

Vision

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

Strategic Objectives

SARS focused on giving effect to the following seven strategic objectives :

1. Optimising revenue and compliance

Optimising revenue collection by improving compliance and managing risk by entrenching a culture of compliance.

2. Better taxpayer and trader experience

Ensuring a better taxpayer and trader experience through promoting awareness and understanding of tax obligations among taxpayers and traders and to make it easier for them to comply by simplifying procedures and processes and improving our service.

3. Compliance and reducing risk

Improving enforcement by penalising non-compliance and reducing the opportunities for tax evasion. The goal is to ensure that every taxpayer and trader fully meets their legal obligations.

4. Human capacity

Continuing staff development and promoting a culture of integrity and professionalism throughout the organisation.

5. Trade facilitation and border security

Enhancing trade facilitation and border control through improved trade supply chain management.

6. Operational efficiency

Ensuring greater efficiency by using staff effectively, upgrading and automating our core tax systems and improving our processes.

7. Good governance

Ensuring good governance and administration in compliance with the regulatory framework.

Our Values

SARS has zero-tolerance for corruption. We optimise our human and material resources and leverage diversity to deliver quality service to all those engaged in legitimate economic activity in and with South Africa. Our relationships, business processes and conduct are based on the following values:

- Mutual respect and trust;
- Equity and fairness;
- Integrity and honesty; and
- Transparency and openness.

Business Intent

SARS is enjoined to protect and grow the country's revenue base so that government can increase resources available for poverty eradication, infrastructure development and tax relief to individuals.

Government has been able to grant significant tax relief, thus contributing to rising household consumption expenditure, boosted economic development, targeted fixed investment growth and the promotion of small enterprise development. These results, including improved tax morality and thus compliance, have had an immeasurably positive impact on the economy. Compliance is fostered through education of and communication to South African citizens and residents about fiscal citizenship and rigorous compliance risk management.

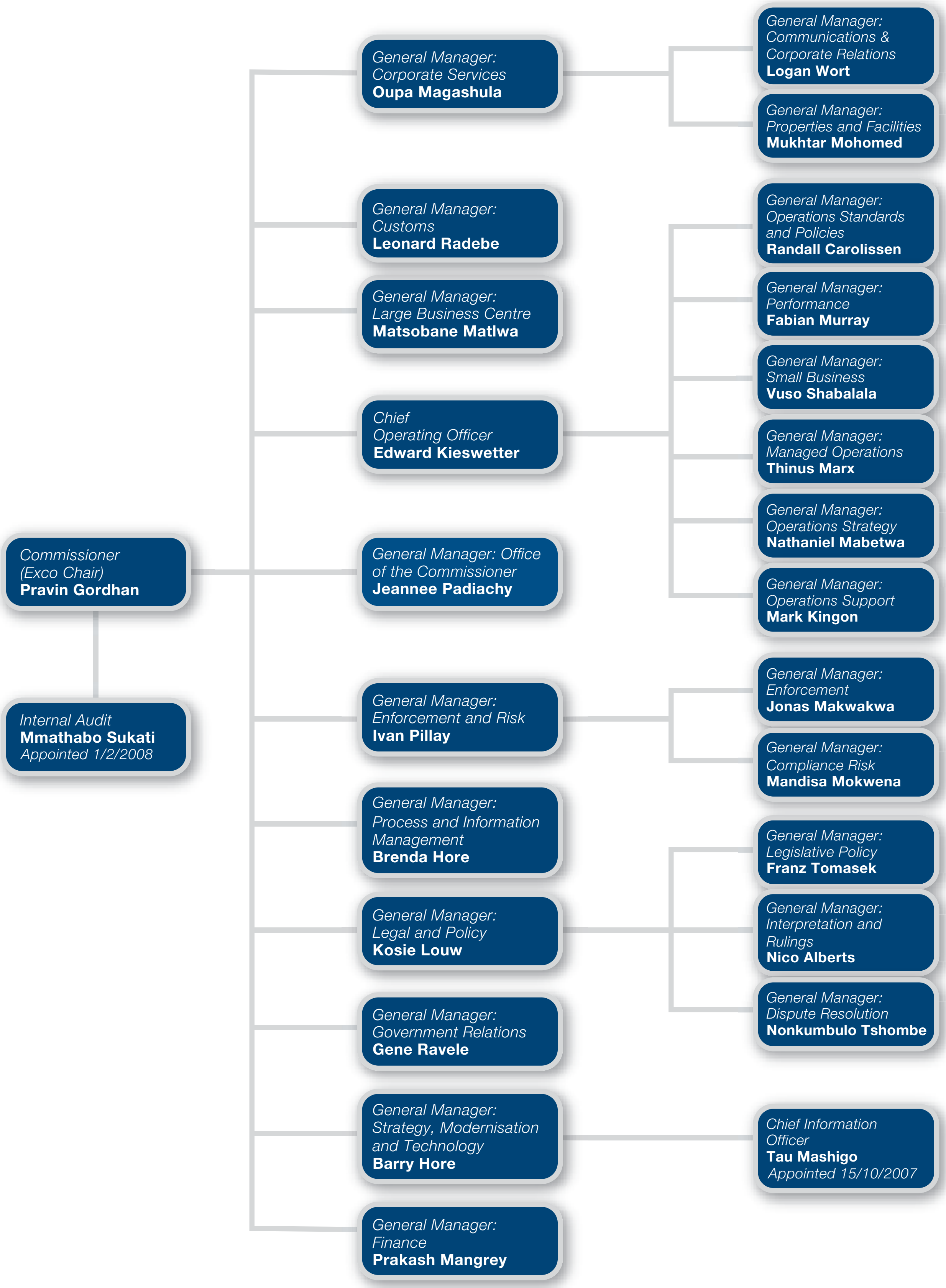
At the policy and legislative areas of the tax and customs landscape, SARS plays an important role. It develops and drafts tax laws, interpretation notes, rulings, guides and resolves tax and customs disputes through Alternative Dispute Resolution or litigation.

Although SARS endeavours to facilitate trade by expediting the movement, release and clearance of legitimately traded goods, it is mindful of the need to balance trade facilitation and regulatory intervention. To this end, SARS has strengthened relations with regional customs administrations and continues to play an important role in the ongoing fight against illegal drugs, contraband and other forms of criminality e.g., customs made a record 337 seizures of drugs with an estimated street value of almost R891 million.

People

SARS is recognised nationally and internationally as a public service organisation that is flexible, innovative, fair and forward-looking. These are the attributes of our people who perform the wide range of activities carried out by SARS from collecting tax to controlling the entry and exit of people and goods across our borders. In recognition of our people, we made 2007/08 the "Year of the People" and as such, undertook several significant initiatives to maintain and enhance our human capital.

SARS Organisational Chart



Key Corporate Documents

Annual Report

The annual report is our primary report to Parliament and forms part of a suite of key corporate documents. In line with the government's commitment to open, transparent and the accountable public administration, we publish our documents to provide assurance to our other stakeholders. We endeavour to demonstrate that public resources are ethically, equitably, efficiently and effectively deployed.

Strategic Plan

The strategic plan sets out the broad approach and specific interventions that we pursue during a three year planning cycle. It is informed by our understanding of the macroeconomic environment, our commitment to government priorities, alignment with international and regional trends as well as an in-depth review of our ability to absorb additional growth and increased scope.

We have committed to designing and implementing a comprehensive modernisation agenda to transform the tax and customs administration. The goal is to improve service, increase outreach and education, increase enforcement, automate and streamline systems and processes, establish standard procedures and enhance SARS' capability to provide a better service.

Service Charter

The SARS service charter is intended to ensure that public expectations of service delivery are matched by achievable and measurable performance standards. We believe that the primary impact on our business, by creating and publishing appropriate service delivery measures, will positively influence the compliance climate in South Africa and will also enable SARS to benchmark itself against other leading revenue and customs agencies around the world.

Part Two
Operations

Revenue and Register

Performance Highlights

Collected R572,9 billion (and exceeded the revised February 2008 budget estimate by R1,8 billion)

- Corporate Income Tax – R141,6 billion (R1,0 billion below estimate)
- VAT – R150,4 billion (R3,4 billion above estimate)
- Personal Income Tax – R169,5 billion (R0,2 billion above estimate)
- Secondary Tax on Companies – R20,6 billion (R0,4 billion above estimate)
- Customs Duty – R26,5 billion (R0,1 billion below estimate)

In 2007/08, revenue collections exceeded the revised February 2008 budget estimate of R571,1 billion by R1,8 billion (0.3%) and continued an extended period of strong growth in collections. This was achieved in an economic environment characterised by:

- Moderating economic growth from 5.4% to 5.1% in 2007/08, particularly due to slower year-on-year growth in manufacturing and tertiary sectors;
- Improved growth in the agricultural sector due to increased livestock production;
- Growth in the construction sector owing to infrastructure redevelopments and upgrades;
- Moderation in household expenditure contrasted by increased capital spending; and
- Uncertainties arising from energy shortages, rising food and fuel prices, compounded by pressure from interest rate increases.

The most significant component of the surplus collection was Value-Added Tax (VAT), where collections exceeded the revised forecast by R3,4 billion (2.3%), partly as a result of higher-than-expected growth in VAT collected from imported goods. Secondary tax on companies (STC) was R0,4 billion (1.9%) above the revised forecast, consistent with the strong growth in gross operating surplus and higher dividends declared by companies.

The following initiatives by SARS contributed significantly to the overall organisational performance in 2007/08:

- Continued attention to address companies and collect underpayment of provisional income tax payments (application of Paragraph 19(3) of the Fourth Schedule to the Income Tax Act, 1962);
- Focused attention by offices to confirm with taxpayers the amounts they intended to pay and, where necessary, revise the amounts upward in line with the actual payments due;
- Innovative analytical approaches to segment the tax base and develop differentiated approaches with different taxpayers for the collection of various tax types;
- Specific operational effort and interaction with high-value importers to minimise the risk of default on customs payments due;
- Meticulous detailed follow-up of outstanding debt where taxpayers promised to make payment, but a probability of late payment existed; and
- Focused overall operational management to ensure that all risks to revenue were identified and managed.

Revenue and Register

Introduction

Over the past four years the South African economy grew at a robust pace averaging 5% per year. Expanding employment and sustained increases in public spending on social and economic infrastructure have contributed to a rising standard of living, additional disposable income, and improved welfare for millions of South Africans.

Economic buoyancy was underpinned by strong domestic demand and tax relief of R12,4 billion during the 2007/08 tax year. Year-on-year growth in real GDP slowed down to 2.1% in the period January to March 2008 (*versus* a growth of 5.1% during the same period in 2007), while the full fiscal year growth amounted to 4.7%.

In 2007/08 the economy was moderately robust despite the average real exchange value of the rand which decreased by 10.2% during the period March 2007 to March 2008. During the same period, there was an increase of 200 basis points in the repurchase rate by the Reserve Bank's Monetary Policy Committee amid uncertainties with regard to the inflation outlook. Although the economic environment was positive, there were further contributory factors that added to the moderated growth:

- Increased crude oil prices (67.0% in dollar terms and 81.3% in Rand terms); and
- Electricity supply instability during the January to March 2008 period.

A decline in consumer spending is clearly depicted by the slowdown in the growth in real gross domestic expenditure - it increased by only 6.0% in 2007 compared to an increase of 9.2% in 2006. Overall employment increased during 2007 and growth in compensation of employees also increased on the back of average wage settlements of 7.5% in 2007, in comparison to 6.5% in 2006.

Share prices on the JSE Limited (JSE) rose during 2007/08, and buoyant trading was reflected in the marketable securities taxes collected. The total market capitalisation of the JSE increased by 23% to an all-time high of R6,2 trillion in October 2007 before receding to R6,0 trillion in February 2008, while the dividend yield increased from 2.1% in June 2007 to 2.5% in February 2008.

Imports grew by 21.3% and exports by 24.9% during 2007. Whilst rising imports increased VAT and import duties collected, from an economic perspective, this had a less than favourable impact on the current account.

Broad-based economic growth has contributed to a rapid growth in tax revenue, supporting a sound fiscal position and enabling progressive increases in expenditure. The latest estimates provide for a 2007/08 national government surplus of 0.9% of gross domestic product (GDP), compared to the originally budgeted surplus of 0.6%.

Increased economic growth and tax revenue enabled greater capital expenditure by the public sector, targeted tax relief and capital allocations in key areas, as well as a sound fiscal position.

The fiscal outcome provided substantial room for government to pursue the objectives stated above while attaining a budget surplus of 0.9% of GDP and allowing a reduction in the cost-of-debt-to-GDP ratio to an all-time low of 2.6%.

The revenue forecasts are based on a set of assumptions of the performance of key macroeconomic indicators as well as administrative factors and actual collection trends. In 2007/08 the actual performance of these indicators turned out to be better than the initial assumptions, as reflected in higher-than-expected performance in GDP growth, underpinned by domestic expenditure, fixed capital formation, exports and imports.

Revenue and Register

Table 2.1.1: Selected macroeconomic indicators

	2007/08 (MTBPS 2006)	2007/08 (Budget 2007)	2007/08 (MTBPS 2007)	2007/08 (Budget 2008)	Actual
Calendar	**2007**	**2007**	**2007**	**2007**	**2007**
Percentage change unless otherwise indicated					
Final household consumption	4.4	5.7	6.6	7.0	7.0
Final government consumption	4.5	4.5	6.5	5.2	5.0
Gross fixed capital formation	9.0	10.7	15.4	15.3	14.8
Gross domestic expenditure	4.3	5.1	5.5	6.4	6.0
Exports	6.5	7.3	8.4	7.1	8.3
Imports	5.7	7.9	9.8	11.0	10.4
Real GDP growth	4.4	4.8	4.9	5.0	5.1
GDP deflator	**6.6**	**5.8**	**8.5**	**8.6**	**8.9**
GDP at current prices (R billion)	**1,885.0**	**1,893.8**	**1,965.0**	**1,986.1**	**1,993.9**
CPIX (Metropolitan and urban, average for the year)	5.5	5.1	6.2	6.5	6.5
Current account balance (percentage of GDP)	(5.3)	(5.3)	(6.7)	(7.2)	(7.3)
	2007/08 (MTBPS 2006)	**2007/08 (Budget 2007)**	**2007/08 (MTBPS 2007)**	**2007/08 (Budget 2008)**	**Actual**
Fiscal	**2007/08**	**2007/08**	**2007/08**	**2007/08**	**2007/08**
GDP at current prices	1,928.3	1,938.9	2,019.1	2,045.5	2,055.2
Real GDP growth	4.3	4.8	4.7	4.7	4.7
GDP inflation	5.9	5.4	7.9	8.1	8.6
CPIX (metropolitan and urban)	5.1	4.9	6.5	7.4	7.5

Source: Budget Review 2007, 2008.
Medium Term Budget Policy Statement (October 2007).
South African Reserve Bank Quarterly Bulletin June 2008.

The remainder of the section is set out in three parts, namely:

- **Revenue performance in 2007/08**, where the collection of revenue for the year under review is analysed and selected comments are made on its performance as well as the extent to which it deviated from the set estimates;
- **Revenue performance trends for the period 2002/03 to 2007/08**, where brief discussions on trends in major taxes are provided; and
- **Tax relief and tax rates**, where a summary is provided, for the years 2002/03 to 2007/08, of the value of the tax relief granted to taxpayers, as well as a historical view of the tax rates applicable to the major tax types.

Revenue Performance in 2007/08

Tax Revenue

Tax Revenue is defined by the System of National Accounts as "a compulsory, unrequited payment to government". Net Revenue as disclosed in the Statement of Financial Performance on page 135 reflects all taxes, levies, duties and other monies collected by SARS less the SACU payments. To ensure clarity, it is prudent to disclose Tax Revenue as set out in the table below (the calculation on the achievement of SARS' Revenue target is based on this approach).

The Net Revenue for 2007/08 increased by R81,2 billion to R565,3 billion, from R484,1 billion in 2006/07. The Tax Revenue of R572,9 billion is arrived at by adding the SACU payments and deducting Unemployment Insurance Fund (UIF), Road Accident Fund (RAF), as well as provincial administration receipts, state fines and forfeitures.

Table 2.1.2: Tax revenue for the year ended 31 March 2008

	2007/08 R million	2006/07 R million
NET REVENUE FOR THE YEAR	**565,297**	**484,113**
Add:		
South African Customs Union Agreement	24,713	25,195
Quarterly payments made by National Treasury in Terms of the South African Customs Union Agreement		
Less:		
Unemployment Insurance Fund (UIF)	8,954	7,855
Road Accident Fund (RAF)	8,150	5,906
State fines and forfeitures	2	2
Provincial administration receipts	33	29
TAX REVENUE	**572,871**	**495,515**

Budget Revenue represents receipts of the National Revenue Fund and comprises Tax Revenue as defined above, plus departmental and other receipts and repayments less payments to Namibia, Botswana, Swaziland and Lesotho in terms of the Southern African Customs Union (SACU) agreement.

The revenue estimates are set three times in a fiscal cycle: in February during the Budget, in October in the Medium Term Budget Policy Statement (MTBPS) and in February during the Budget session. Presented below are the printed estimates (also referred to as Budget estimate in February 2007), MTBPS estimates and revised estimates (also referred to as Budget estimate in February 2008).

Table 2.1.3: Estimates per budget revision

Estimate description	Date announced	2006/07 Estimate R million	Date announced	2007/08 Estimate R million
Printed Estimate	February 2006	456,786	February 2007	556,562
Medium Term Budget Policy Statement (MTBPS) Estimate	October 2006	486,400	October 2007	566,063
Revised Estimate	February 2007	489,662	February 2008	571,063

Revenue and Register

Table 2.1.4: Detailed budget revenue performance for 2007/08 against estimates

Revenue performance 2007/08 Source of revenue R million	Budget estimate Feb 2007	Budget estimate Feb 2008	Actual Result	Increase / decrease on Feb 2007 estimate	Increase / decrease on Feb 2008 estimate
Taxes on income and profits	**312,150**	**332,270**	**332,058**	**19,908**	**-212**
Persons and Individuals	156,535	169,300	169,539	13,004	239
Companies	139,615	142,600	141,636	2,021	-964
Secondary tax on companies	16,000	20,200	20,585	4,585	385
Tax on retirement funds	-	160	285	285	125
Other	-	10	13	13	3
Value-added tax	**155,068**	**147,000**	**150,443**	**-4,625**	**3,443**
Customs duties	**27,084**	**26,600**	**26,470**	**-614**	**-130**
Fuel levy	**23,938**	**24,000**	**23,741**	**-197**	**-259**
Excise Duties	**17,792**	**18,000**	**18,218**	**426**	**218**
Skills Development Levy	**6,500**	**6,800**	**6,331**	**-169**	**-469**
Other taxes and duties	**14,030**	**16,393**	**15,610**	**1,580**	**-783**
TOTAL TAX REVENUE	**556,562**	**571,063**	**572,871**	**16,309**	**1,808**
Non-tax revenue	11,093	11,612	12,174	1,081	562
Less: SACU payments	23,053	24,713	24,713	1,660	-
TOTAL BUDGET REVENUE	**544,602**	**557,962**	**560,332**	**15,730**	**2,370**

Each broad category of tax had its own key economic indicators and other factors which affected the overall revenue performance.

A discussion on the performance of these categories is outlined below:

Taxes on income, profit and capital gains

Taxes on income, profit and capital gains amounted to R332,1 billion, which was R19,9 billion higher than the printed estimate and R212 million below the revised estimate.

Personal Income Tax (PIT)

Collections (including interest on overdue tax) exceeded the printed estimate and revised estimate by R13,0 billion and by R239 million, respectively. The surplus collections were mainly due to increased employment as well as an increase in compensation to employees.

Corporate Income Tax (CIT)

Collections (including interest on overdue tax) exceeded the printed estimate by R2,0 billion and were below the revised estimate by R964 million. The surplus collections against printed estimate were mainly due to continued strong economic growth and a more comprehensive approach to improve corporate compliance by SARS' Large Business Centre.

Revenue and Register

Growth in gross operating surpluses of business enterprises increased to 18.1% in the 2007 calendar year, against 15.0% in 2006 and the better performance occurred mainly in the following sectors:

- Financial services;
- Manufacturing;
- Wholesale and retail trade;
- Transport, storage and communication;
- Mining and quarrying; and
- Coal and petroleum products.

Table 2.1.5: CIT collections by SARS-defined sectors

R million	2005/06	2006/07	Growth	%	2007/08	Growth	%
Agriculture	2,362	3,392	1,030	43.6	1,414	-1,978	-58.3
Mining	5,551	13,170	7,619	137.3	13,220	50	0.4
Telecommunication	7,315	9,366	2,051	28.0	9,284	-82	-0.9
Financial Services	22,699	29,549	6,850	30.2	41,315	11,766	39.8
Banks	5,513	8,695	3,182	57.7	10,241	1,546	17.8
Insurance	9,209	8,610	-599	-6.5	13,068	4,458	51.8
Other Financial Services	7,977	12,244	4,267	53.5	18,006	5,762	47.1
Manufacturing	27,794	35,421	7,627	27.4	38,591	3,170	8.9
Other Manufacturing	22,401	27,950	5,549	24.8	30,740	2,790	10.0
Petroleum	5,393	7,471	2,078	38.5	7,851	380	5.1
Wholesale & Retail	9,081	12,151	3,070	33.8	12,620	469	3.9
Business Services	4,112	6,403	2,291	55.7	12,857	6,454	100.8
Medical & Health	848	1,065	217	25.6	1,835	770	72.3
Transport	3,863	4,094	231	6.0	3,760	-334	-8.2
Construction	663	1,049	386	58.2	3,039	1,990	189.7
Catering & Accommodation	1,093	1,604	511	46.8	1,311	-293	-18.3
Recreation & Cultural	1,273	2,334	1,061	83.3	1,805	-529	-22.7
Other	672	514	-158	-23.5	585	71	13.8
Total	**87,326**	**120,112**	**32,786**	**37.5**	**141,636**	**21,524**	**17.9**

The efforts of SARS officials to ensure that provisional corporate tax payments reflected the latest profit positions (application of Paragraph 19(3) of the Fourth Schedule to the Income Tax Act, 1962) yielded R14,9 billion. This also involved better and proactive relationship management between SARS and some companies. In addition, specific tracking and active follow-up of large tax payments ensured the timeous payment of taxes due.

Secondary Tax on Companies (STC)

Collections exceeded the printed estimate and revised estimate by R4,6 billion and R385 million, respectively. Corporations declared sizeable increases in dividends. The past year also saw a further step in the phasing out of STC towards a final withholding tax on dividends.

Revenue and Register

Tax on Retirement Funds (RFT)

RFT was abolished on 1 March 2007 and the collections during the year related to liabilities in respect of previous periods. Collections exceeded the printed estimate and revised estimate by R285 million and R125 million, respectively.

Value-Added Tax (VAT)

VAT collections were R4,6 billion below the printed estimate and R3,4 billion above the revised estimate. The slower growth in collections was mainly owing to the decline in real gross domestic expenditure from 9.2% in 2006 to 6.0% in 2007, which also led to a 21.3% increase in imports during the 2007 calendar year (*versus* 32.5% in 2006). Growth was evident in real final household expenditure, although at a lower rate as it declined from 8.2% in 2006 to 7.0% in 2007. Growth in fixed capital formation increased from 13.8% in 2006 to 14.8% in 2007 as expenditure on infrastructure increased.

Customs Duty

Customs duty collections were R614 million below the printed estimate and R130 million below the revised estimate. Despite strong domestic demand (especially for machinery and equipment) and despite the weakening of the rand during January to March 2008 thereby increasing the cost of imported goods. Therefore, the shortfall in customs duty collections was due mainly to a decline in the duty rates.

Fuel Levy

Fuel levy collections were below the printed and revised estimates by R197 million and R259 million, respectively, mainly owing to a decline in the rate at which petrol consumption increased from 2.2% in 2006/07 to 1.1% in 2007/08, the latter being mainly the result of negative growth in the January to March 2008 quarter of -0.9%. The fuel levy as disclosed above comprises fuel levy collections, recoupment of levies from the Road Accident Fund (RAF) and diesel refunds.

Excise Duties

Excise duty collections were R426 million and R218 million above the printed estimate and revised estimate, respectively, mainly owing to higher-than-expected collections on beer, wine and revenue from neighbouring countries.

Skills Development Levy (SDL)

Skills Development Levy collections were R169 million and R469 million below the printed and revised estimates respectively, mainly owing to the full effect of the abovementioned growth in the remuneration of employees not filtering through to the SDL (a number of employers, such as government departments, are exempt).

Other taxes

Revenue collection in respect of other taxes amounted to R15,6 billion, which was R1,6 billion above the printed estimate and R783 million below the revised estimate. This was mainly owing to worse-than-expected collections from transfer duties and stamp duties.

Revenue performance trends for the period 2002/03 to 2007/08

Major tax administration reforms have improved efficiencies in the functioning of the tax system and yielded equity gains through a broadened tax base. The contribution of taxes within the collection portfolio has changed over the period as reflected in Table 2.1.6. The table provides a breakdown of the nominal amounts collected during the period; this in comparison to Table 2.1.7 which sets out the percentage contribution of the various taxes to total taxes collected.

Table 2.1.6: Breakdown of revenue collected

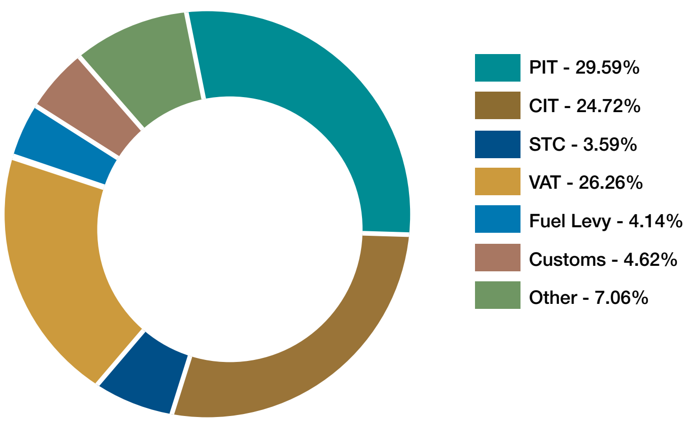
Year R millions	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total Tax Revenue	GDP	Tax as % of GDP
2002/03	94,924	56,326	6,326	70,150	15,334	9,331	29,819	282,210	1,198,455	23.5%
2003/04	99,220	61,712	6,133	80,682	16,652	8,479	29,630	302,508	1,288,979	23.5%
2004/05	111,697	71,629	7,487	98,158	19,190	12,888	33,931	354,980	1,427,442	24.9%
2005/06	126,416	87,326	12,278	114,352	20,507	18,303	38,152	417,334	1,584,744	26.3%
2006/07	141,397	120,112	15,291	134,463	21,845	23,697	38,710	495,515	1,806,987	27.4%
2007/08	**169,539**	**141,636**	**20,585**	**150,443**	**23,741**	**26,470**	**40,457**	**572,871**	**2,045,533**	**28.0%**

Table 2.1.7: Percentage contribution to tax revenue

Year	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total Tax Revenue
2002/03	33.64	19.96	2.24	24.86	5.43	3.31	10.57	100.00
2003/04	32.80	20.40	2.03	26.67	5.50	2.80	9.79	100.00
2004/05	31.47	20.18	2.11	27.65	5.41	3.63	9.56	100.00
2005/06	30.29	20.92	2.94	27.40	4.91	4.39	9.14	100.00
2006/07	28.54	24.24	3.09	27.14	4.41	4.78	7.81	100.00
2007/08	**29.59**	**24.72**	**3.59**	**26.26**	**4.14**	**4.62**	**7.06**	**100.00**

Figure 2.1.1 below provides a graphical breakdown of the 2007/08 different tax type contributions to total tax revenue collections.

Figure 2.1.1: Contribution to Tax Revenue 2007/08



Revenue and Register

Personal Income Tax (PIT)

Personal income tax comprises all interest on overdue taxes, provisional and assessed taxes as well as PAYE paid by individuals (net of refunds).

Table 2.1.8: PIT 2002/03 to 2007/08

Year	PIT R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	94,924	4.3	33.6	7.9
2003/04	99,220	4.5	32.8	7.7
2004/05	111,697	12.6	31.5	7.8
2005/06	126,416	13.2	30.3	8.0
2006/07	141,397	11.9	28.5	7.8
2007/08	**169,539**	**19.9**	**29.6**	**8.3**

PIT contributions to total tax revenue declined from 33.6% in 2002/03 to 29.6%, reaching a low of 28.5% in 2006/07 – an overall decrease of 4.0% – mainly owing to substantial tax relief. Aided by more efficient tax administration the year-on-year growth in collections has increased substantially from the 2004/05 year onwards mainly due to lower relief being granted to individuals. Tax relief in the 2002/03 - 2003/04 period amounted to R28,3 billion or 14.6% of PIT collected while the relief in the 2004/05 - 2007/08 period amounted to R32,2 billion or 5.9%. Tax-to-GDP ratio increased from 7.8% in 2006/07 to 8.3% owing to:

- Lower value of nominal relief in 2007/08;
- Increase in employment numbers; and
- Increase in remuneration levels.

Corporate Income Tax (CIT)

Corporate income tax comprises all interest on overdue taxes, provisional and assessed taxes paid by companies (net of refunds).

Table 2.1.9: CIT 2002/03 to 2007/08

Year	CIT R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	56,326	31.1	20.0	4.7
2003/04	61,712	9.6	20.4	4.8
2004/05	71,629	16.1	20.2	5.0
2005/06	87,326	21.9	20.9	5.5
2006/07	120,112	37.5	24.2	6.6
2007/08	**141,636**	**17.9**	**24.7**	**6.9**

During 2002/03, CIT collections grew significantly due to robust growth in corporate earnings, underpinned by ongoing cost cutting, improved commodity prices and a depreciating rand that supported the profit margins of export-oriented companies. This trend was supported by improved enforcement and compliance processes by SARS such as:

- Adjustments to ensure provisional tax payments were more closely related to taxable profits;
- Improved audits;
- Broadening of the tax base to include foreign source income;
- Improved enforcement and compliance in the banking sector; and
- The enhanced debt collection capability provided by the outbound call centre.

Revenue and Register

The rate at which CIT collections grew declined in 2003/04, mainly as a result of slower economic growth. Collections increased substantially from 2004/05 onwards as a result of strengthening economic growth, a stable exchange rate and prevailing low interest rates which started increasing only during the 2007/08 year.

The rapid growth in CIT collections resulted in an increase in the CIT/GDP ratio from 4.8% in 2003/04 to 6.9% in 2007/08, and a contribution of 24.7% to total tax collections in 2007/08 – the latter being considerably higher than the 20.0% recorded in 2002/03.

Secondary Tax on Companies (STC)

Secondary tax on companies refers to the tax paid on profits distributed by companies.

Table 2.1.10: STC 2002/03 to 2007/08

Year	STC R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	6,326	-11.7	2.2	0.5
2003/04	6,133	-3.1	2.0	0.5
2004/05	7,487	22.1	2.1	0.5
2005/06	12,278	64.0	2.9	0.8
2006/07	15,291	24.5	3.1	0.8
2007/08	**20,585**	**34.6**	**3.6**	**1.0**

STC collections declined from 2002/03 to 2003/04, mainly owing to companies retaining earnings rather than declaring dividends. Subsequent to 2003/04, corporate profits increased significantly on the back of improved economic conditions, resulting in companies revising dividend policies and increasing distribution of corporate earnings, especially in the resource and financial sectors. STC contributed 3.6% to total tax revenue in 2007/08, increasing its contribution to GDP to 1.0% after the stable trend of 0.5% of GDP in the 2002/03 to 2004/05 period.

Value-Added Tax (VAT)

Value-Added Tax is a tax levied on the supply of goods and services by registered vendors as well as on imported goods and services. In principle, VAT refunds are made to a vendor if the VAT paid by the vendor to its suppliers (termed input tax) is greater than the VAT levied (termed output tax) by the vendor on goods and services supplied to its customers.

Table 2.1.11: Total VAT 2002/03 to 2007/08

Year	VAT R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	70,150	14.9	24.9	5.9
2003/04	80,682	15.0	26.7	6.3
2004/05	98,158	21.7	27.7	6.9
2005/06	114,352	16.5	27.4	7.2
2006/07	134,463	17.6	27.1	7.4
2007/08	**150,443**	**11.9**	**26.3**	**7.4**

The decline in consumer spending, the increase in imports and the extent of fixed capital formation all contributed to a lower growth in VAT collections in the 2007/08 fiscal year (11.9% versus the 17.6% in the prior year). This was the main reason for the decline from 27.1% to 26.3% in VAT as percentage of total tax revenue. Despite the aforementioned decline in growth, VAT as percentage of GDP remained at 7.4%.

Revenue and Register

Fuel levy

Fuel levy refers to the levy paid on petrol and diesel.

Table 2.1.12: Fuel levy 2002/03 to 2007/08

Year	Fuel levy R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	15,334	2.8	5.4	1.3
2003/04	16,652	8.6	5.5	1.3
2004/05	19,190	15.2	5.4	1.3
2005/06	20,507	6.9	4.9	1.3
2006/07	21,845	6.5	4.4	1.2
2007/08	**23,741**	**8.7**	**4.1**	**1.2**

Fuel levy collections as a percentage of total tax revenue collections decreased steadily over the review period to 4.1%, while its ratio to GDP declined slightly to 1.2% during 2006/07 where it remained for 2007/08. Fuel levy collections include debt recovered from the Road Accident Fund as well as diesel refunds, which explains the difference with the fuel levy as disclosed in the statement of financial performance.

Customs duty

Customs duty refers to all duties paid on the importation of goods.

Table 2.1.13: Customs duty 2002/03 to 2007/08

Year	Customs R million	Y/Y change %	% of tax revenue	% of GDP
2002/03	9,331	8.1	3.3	0.8
2003/04	8,479	-9.1	2.8	0.7
2004/05	12,888	52.0	3.6	0.9
2005/06	18,303	42.0	4.4	1.2
2006/07	23,697	29.5	4.8	1.3
2007/08	**26,470**	**11.7**	**4.6**	**1.3**

After a steady decline over the period to 2003/04, customs duty as a percentage of tax revenue increased to a high of 4.8% in 2006/07 before falling back to 4.6% in 2007/08. As a percentage of GDP, customs duty increased from 0.8% in 2002/03 to 1.3% in 2006/07 where it stabilised in 2007/08.

Tax Relief and Rates

The benefits of tax reforms have become tangible for taxpayers in the form of personal income tax relief that reduced the relative contribution of PIT from a high of 42.9% of total tax revenue in 1999/00 to 29.5% in 2007/08. Total tax revenue as a percentage of GDP increased from 22.9% in 1994/95 to 28.0% in 2007/08.

In the past six years, more than R73 billion in tax relief has been granted to the South African public. Individual taxpayers have enjoyed tax relief of over R60 billion, while corporations have been given relief of almost R7 billion. Table 2.1.14 below sets out the tax relief over this period.

Table 2.1.14: Summary effects of tax proposals 2002/03 to 2007/08

Year R million	DIRECT				INDIRECT				Total Relief
	PIT	CIT	Other	Total	Excise	Fuel Levy	Other	Total	
2002/03	-14,855	-335	-204	-15,394	663	-	-434	229	-15,165
2003/04	-13,427	-2,060	-	-15,487	907	642	-1,119	430	-15,057
2004/05	-4,062	-	-	-4,062	1,453	909	-600	1,762	-2,300
2005/06	-7,110	-2,000	-1,477	-10,587	1,310	950	-1,054	1,206	-9,381
2006/07	-12,125	-2,400	-440	-14,965	1,370	-	-5,532	-4,162	-19,127
2007/08	**-8,870**	**0**	**-5,785**	**-14,655**	**1,395**	**950**	**-90**	**2,255**	**-12,400**

Table 2.1.15: Maximum marginal tax rates

From - Until	PIT*	CIT	STC	VAT	RFT
01/04/02-28/02/03	40%	30%	12.5%	14%	25%
01/03/03-31/03/03	40%	30%	12.5%	14%	**18%**
01/04/03-31/03/04	40%	30%	12.5%	14%	18%
01/04/04-31/03/05	40%	30%	12.5%	14%	18%
01/04/05-28/02/06	40%	**29%**	12.5%	14%	18%
01/03/06-31/03/06	40%	29%	12.5%	14%	**9%**
01/04/06-28/02/07	40%	29%	12.5%	14%	9%
01/03/07-30/09/07	40%	29%	12.5%	14%	**0%**
01/10/07-31/03/08	**40%**	**29%**	**10%**	**14%**	**0%**

* An individual's tax year starts on 1 March and ends at the end of February the following year.

Revenue and Register

Personal Income Tax Rates

In the 2007 Budget Speech, relief for individuals during the 2007/08 tax year was announced. The relief was provided in the form of increases in both the primary and secondary rebates and the upward adjustments across the income brackets.

Table 2.1.16: Tax rates for individuals in 2007/08

TAX RATES FOR INDIVIDUALS 2007/08							
TAXABLE INCOME			RATES OF TAX				
		R	R				R
0	-	112,500			18%	of each R 1	
112,500	-	180,000	20,250	+	25%	of the amount above	112,500
180,000	-	250,000	37,125	+	30%	of the amount above	180,000
250,000	-	350,000	58,125	+	35%	of the amount above	250,000
350,000	-	450,000	93,125	+	38%	of the amount above	350,000
450,000	-	and above	131,125	+	40%	of the amount above	450,000
REBATES OF TAX							
Primary							**7,740**
Age 65 and over (additional to primary rebate)							4,680
TAX THRESHOLD							
Below the age of 65							**43,000**
Age 65 and over							69,000

Table 2.1.17: Tax rates for individuals in 2006/07

TAX RATES FOR INDIVIDUALS 2006/07							
TAXABLE INCOME			RATES OF TAX				
		R	R				R
0	-	100,000			18%	of each R 1	
100,000	-	160,000	18,000	+	25%	of the amount above	100,000
160,000	-	220,000	33,000	+	30%	of the amount above	160,000
220,000	-	300 000	51,000	+	35%	of the amount above	220,000
300,000	-	400,000	79,000	+	38%	of the amount above	300,000
400,000	-	and above	117,000	+	40%	of the amount above	400,000
REBATES OF TAX							
Primary							**7,200**
Age 65 and over (additional to primary rebate)							4,500
TAX THRESHOLD							
Below the age of 65							**40,000**
Age 65 and over							65,000

Conclusion

SARS is acutely aware that its role in collecting revenue is of utmost importance to government's ability to fund its development goals. It will continue to further improve operational efficiencies and effectiveness to enable it to deliver consistently on revenue targets. It will continue to strive for optimal revenue collection by educating citizens about their tax obligations, promoting compliance through better service, and effective and fair enforcement measures. The current modernisation of SARS is equally important in that the drive to greater automation, enhanced risk analysis and overall improvement in taxpayer service are designed to raise the level of compliance and detect non-compliance earlier and more accurately. The redeployment of personnel from low to higher value activities will undoubtedly strengthen SARS' capability to reduce revenue leakage opportunities.

Tax Register

The tax register grew by 12%. This can be attributed to the following features:

- Economic growth and higher employment levels; and
- Outreach and dedicated campaigns.

The most significant gain in the year under review is the 30% growth in the company register, with 22% attributed to small businesses and 8% to economical factors. PAYE and VAT grew by 9% and 10% respectively, which is reflective of favourable economic conditions that prevailed at this time.

Table 2.1.18: Taxpayer Register

	March-2006	March-2007	March-2008	Growth	% Growth
Income Tax*	5,876,112	6,357,421	7,173,554	816,133	13%
Companies	*1,054,969*	*1,218,905*	*1,584,002*	*365,097*	*30%*
Individuals	*4,476,261*	*4,764,105*	*5,204,805*	*440,700*	*9%*
Trusts	*344,882*	*374,411*	*384,747*	*10,336*	*3%*
PAYE	330,194	349,077	379,675	30,598	9%
VAT	633,703	677,153	745,487	68,334	10%
Total	**6,840,009**	**7,383,651**	**8,298,716**	**915,065**	**12%**

* **Please note** that the Income Tax cases in the table above **exclude** suspense cases. In prior publications the Income Tax cases **included** suspense cases.

The activities during the Small Business Tax Amnesty process highlighted a need to intensify educational and outreach activities in a targeted and focused manner. This can be achieved by targeting government departments as well as listed and unlisted companies, with SARS Head Office playing a more proactive and interactive role.

Revenue and Register

Cost efficiency

SARS has improved the cost-to-collection ratio in 2007/08. We collected Tax Revenue of R572,9 billion at a cost of 0,98 cents per rand generated excluding Capital Expenditure, compared with a cost of 1,04 cents in 2006/07. The improvement is partly owing to the growth in revenue collections and SARS continuing to improve operational efficiencies through upgrading and redesigning processes and systems. Performance management has been enhanced and more frequent operational reviews are conducted, enabling SARS to track performance and to respond appropriately. These changes are designed to ensure that SARS performs optimally to meet the challenges of rising volumes and demands on its resources.

Figure 2.1.2: Cost as a percentage of Tax Revenue

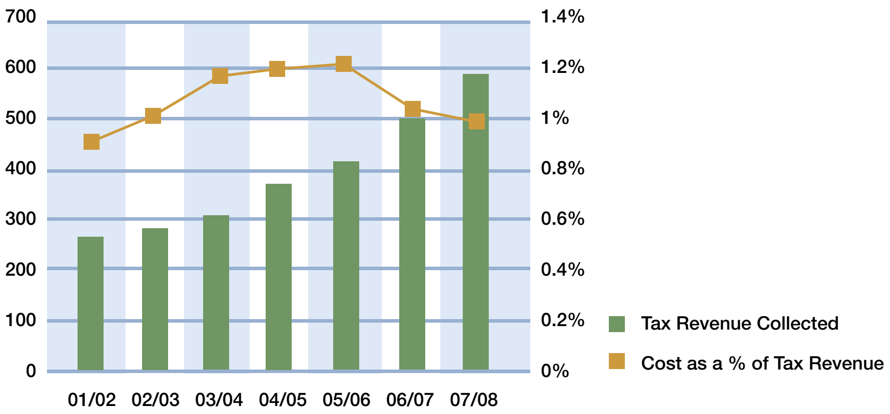


Table 2.1.19: Cost as a percentage of Tax Revenue

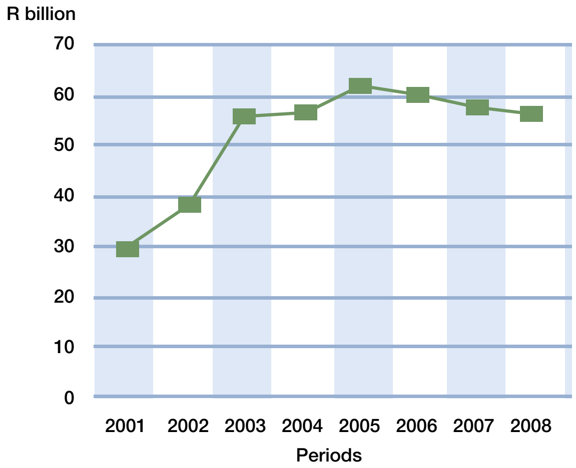
Details			2005/06	2006/07	2007/08
Tax Revenue	**A**	**Rm**	**417,334**	**495,515**	**572,871**
% Increase Year-on-year			17.60%	18.7%	15.60%
Net Revenue	**B**	**Rm**	**409,934**	**484,113**	**565,297**
% Increase Year-on-year			15.90%	18.1%	16.80%
Operational Cost including depreciation	**C**	**Rm**	**5,135**	**5,156**	**5,608**
% Increase Year-on-year			19.10%	0.4%	8.80%
Capex	**D**	**Rm**	**332**	**322**	**438**
Cost including capex	**E**	**Rm**	**5,467**	**5,478**	**6,046**
% Increase Year-on-year			26.79%	0.20%	10.38%
% Cost to Tax Revenue	[C/A]		1.23%	1.04%	0.98%
% Cost including Capex to Tax Revenue	[E/A]		1.31%	1.11%	1.06%
% Cost to Net Revenue	[C/B]		1.25%	1.07%	0.99%
% Cost including Capex to Net Revenue	[E/B]		1.33%	1.13%	1.07%

Debt Management

SARS manages the debt book through the collection of debt due, as well as the management of uncollectible debt through write-offs, suspension of debt and adjustments of accounts.

Debt management also mitigates the risk of debt becoming uncollectible as it ages. It includes monitoring of deferred payment arrangements, debit orders, cheques referred to drawer and agent appointments. Debt of R15,639 billion was collected, reducing the debt book for the third consecutive year, this time by 1.25%. This was achieved through better analysis and a special focus on specific types of debtors.

Figure 2.2.1: Due debt book value on core taxes from 2001 – 2008 (R billion)



Debt Management

Debt-to-revenue ratio

The due debt amount includes non-core taxes, customs debt, STC, SDL, UIF debt for 2007 and 2008. The SARS debt book also includes debt under dispute.

Table 2.2.1: Debt-to-revenue ratio (2004/05 – 2007/08)

Item	2004/05 R billion	2005/06 R billion	2006/07 R billion	2007/08 R billion
Due debt	62	60	64	63
Total revenue collected per the Statement of Financial Performance (page 135)	367	424	509	590
Debt: Revenue (%)	16.89	14.15	12.57	10.68

Debt Management

Debt collection

The performance of debt collections for the current year is 4% below target. The decrease of R2,109 billion (12%) in money collected compared to 2006/07 is attributed to the exclusion of collection from provisional tax and retirement funds. The next table depicts debt collection over the past four years.

Table 2.2.2: Debt collection (2004/05 to 2007/08) (R million)

Item	2004/05 R million	2005/06 R million	2006/07 R million	2007/08 R million
Amount collected	R 21,931	R 20,523	R 17,747	R 15,638
Annual Target	R 22,707	R 23,291	R 17,039	R 16,300
% Change	-3	-12	4	-4

Account adjustments

67,350 taxpayer accounts to the value of R17,4 billion were adjusted during the financial year.

Write-offs, suspension of debt and adjustments

Regulation under Section 91A of the Income Tax Act were published and the following write-offs took place during the period under review (on 13 April 2007):

- 214 permanent write-offs amounting to R1,51 billion (revenue);
- 678 temporary write-offs amounting to R2,44 billion (revenue and customs); and
- One compromise offer amounting to R3,7 million.

Debt equalisation

Part of optimising revenue collection is the need to off-set amounts owed to SARS through debt equalisation. The SARS debt equalisation strategy ensures that refund screening cuts across all tax products. If it is found that a taxpayer has an outstanding balance on any of the tax products, the amount owed through one tax product will be applied to the outstanding balance in other tax products.

Despite it being a manual intervention, an increase in debt equalisation across all tax products during the year under review is shown in the table below. A 174% increase was experienced in Income Tax debt equalisation and a 7% increase in VAT debt equalisation.

This is a result of the fact that these products are historically the refund generators and accordingly the easiest to equalise.

Table 2.2.3: Debt Equalisation

Debt Equalisation	2005/2006	2006/2007	2007/2008
Income Tax	4,569	8,065	22,101
Value-added tax	107,020	116,547	124,768
Pay as You Earn	6,401	9,335	9,590
Other	3,407	2,019	3,748

Taxpayer Services


SARS employees assisting taxpayers during the 2007 Filing Season

Service delivery and compliance are connected – an improvement in one leads to an improvement in the other. As part of the public administration and government's commitment to public service excellence, SARS continues to model the principles and practices of the Batho Pele programme. SARS provides appropriate services to stakeholders and continues to make efficiency, channel access, stakeholder contact and core assessment improvements.

SARS recognises that a better taxpayer and trader experience is the result of a multi-dimensional, integrated and stakeholder focused service delivery strategy. Through education, outreach and marketing, SARS has actively communicated with stakeholders to change their understanding and perceptions regarding their tax obligations and their use of different service channels.

Taxpayer Services

SARS has segmented its tax base so as to offer specialised services to specific segments e.g., the Large Business Centre and Practitioner's Unit. It has incorporated alternative dispute resolution mechanisms to ensure that the principles of administrative justice and the right to efficient public service is respected. In ensuring a better taxpayer and trader experience, our achievements for the year under review include the performance highlights noted below.

Performance Highlights

- 292,611 taxpayers trained; 11,204 in-house workshops; 189,024 outreach interventions;
- 4,280 workshops presented to small businesses across the country;
- Practitioners register grew to 21,359;
- 2,000,000 eFilers for all tax types;
- 3,753,814 taxpayers visiting branch offices;
- Call centre handled 5,955,730 calls; and
- 32% of returns were processed within two days.

Processing of returns

Changes to the submission of returns introduced during the 2006/07 Filing Season had a major impact on the general approach to tax administration and the behaviour of taxpayers in general. The thrust of the changes pertain to the simplification of the filing process, the reduction of the compliance cost and the enhancement of service delivery whilst improving the risk management process.

Taxpayer Services

Other fundamental changes that were introduced included a move away from the issuing of cheques for refunds to electronic payments and an improved process of verifying IRP 5 information. During 2007, a scanning solution was introduced representing a giant leap in the processing of documents within SARS, with a possibility of improving service to taxpayers and a move towards focusing SARS resources on more value-adding activities.

The scanning solution was successfully implemented in one region. The plan was to implement three other scanning centres within the next two years. Although the current solution is focused on the scanning of returns, it is envisaged that this process will include correspondence and any other documentation that relates to SARS business. The ultimate plan is to move to a paperless operating environment as soon as possible.

Time studies and capacity models have been created for all the key processes, and this has enhanced the management of operations.

Scanning

The scanning solution was introduced for the first time during the 2007/08 tax year. The focus was on scanning income tax returns for the year under review. The next step, however, will be to expand this activity to other areas of operations to include correspondence and documentation. There are a number of benefits that have been realised as a result of the scanning process:

- 3.8 million individual tax returns were processed automatically;
- 2.4 million returns were received electronically or scanned electronically; and
- Nearly two million taxpayers received their assessments quicker that in previous years, especially those who submitted electronically (15 days averaged TAT compared to 41 days for manual submission).

The new assessment process, which increased the number of electronic submissions, has enabled us to exceed targets set for processing returns during peak and non-peak periods. This internal focus was supplemented by our national outreach effort which assisted branch offices to reach and assist taxpayers.

Processed returns during non-peak period (34 working days %)

Target 70% | Actual 83%

Owing to the later submission of return dates, the non-peak period was longer than usual. This period was utilised to finalise as much inventory as possible from previous years. Slow inflow during this period and the availability of resources assisted in achieving high percentage turnaround times for the year under review.

Processed returns during peak period (90 working days %)

Target 80% | Actual 96%

The introduction of automation into the processing of returns has assisted operations to address the increased volumes with fewer staff, whilst improving our service and turnaround times on returns. This resulted in the effective processing of 34% of returns within two days and 96% of returns within 90 days.

Although automation of the return processing led to processing time savings, in terms of the consolidated process (i.e., filing, assessment, refund/payment) only a 5% (676,704) reduction in the processing workload was achieved. This was driven by a number of factors namely:

- Returns were referred to taxpayers to obtain more information; and
- Returns were referred to an additional stage within the Assessment process to ensure the integrity of the outcome.

This lead to the delay in finalising some of these assessments. The new income tax assessment process places greater focus on mitigating risk, thereby improving the quality of assessments. The quality of returns captured was a reflection of the taxpayers' accuracy when completing returns.

Taxpayer Services

Table 2.3.1 below highlights the processing of the various tax types.

Table 2.3.1: Total Returns Processed

Tax Categories	2005/06	2006/07	2007/08	Variance	Increase/ Decrease %
Income Tax (Companies, Individuals, Trusts)	4,891,044	4 938 135	4,189,767	-748,368	-15%
Companies	600,869	636,270	442,391	-193,879	-30%
Individuals	3,986,651	4,075,580	3,525,585	-549,995	-13%
Trusts	303,524	226,285	221,791	-4,494	-2%
PAYE	3,739,225	3,995,580	3,977,234	-18,346	0%
VAT	3,501,943	3,704,194	3,794,204	90,010	2%
Provisional Returns	2,718,733	2,528,597	3,093,827	-2,528,597	-100%
Total	**14,850,945**	**15,166,506**	**11,961,205**	**-3,205,301**	**-21%**

Filing of returns

Target 70% | Actual 77%

During the 2007/08 financial year, SARS issued 6,162,494 tax returns for individuals. A total of 4,721,055 tax returns were received of which SARS captured 572,724 electronically at the SARS branches. In addition, more than one million taxpayers filed their returns electronically.

Table 2.3.2: Filed Returns 2007/08

Filing of Returns	2007/08
Returns Issued	6,162,494
Returns Received	4,721,055
Returns Captured by Channel:	**4,830,592**
Returns eFiled	1,086,312
Returns BFE	572,724
Returns data captured – Bulk Data Capture/Online	1,847,556
Returns Scanned	1,324,000

Processing of payments

Table 2.3.3 indicates a reduction in the number of payments received manually. This is indicative of SARS' migration towards electronic payment, which eases the burden of payments processing, and the overall processing stability. It enables better accuracy of tax accounts and thus impacts on the measurement of performance against the revenue target.

Table 2.3.3: Payments Received and Processed

	2006/07			2007/08		
	Received	Processed	% Within TAT	Received	Processed	% Within TAT
Income Tax	1,702,417	1,636,168	96%	1,522,163	1,505,389	99%
Employees Tax	2,746,549	2,630,601	96%	2,632,616	2,514,625	96%
Value-Added Tax	1,851,137	1,815,974	98%	1,800,861	1,773,828	98%
Total	**6,300,103**	**6,082,743**	**97%**	**5,955,640**	**5,793,842**	**97%**

Taxpayer Services

Managing refunds

The processing of refunds has a direct service impact and this is often used as a mirror of SARS' service delivery. SARS has improved this turnaround time from 83% during 2006/07 to 85% in 2007/08. Achievement of the SARS turnaround time (TAT) standard is only possible where the refund does not attract any of the audit risk parameters. Cases that are not routed to audit are processed immediately.

Table 2.3.4: Turnaround times on Refunds

	2006/07	Processed Within TAT	Processed Within TAT %	2007/08	Processed Within TAT	Processed Within TAT %
Income Tax	295,548	240,203	81%	93,043	54,716	59%
Value-Added Tax	706,567	587,510	83%	685,970	607,321	89%
Total	**1,002,115**	**827,713**	**83%**	**779,013**	**662,037**	**85%**

Quality

The re-engineered income tax process resulted in many efficiency improvements within operations. It further offered the opportunity to improve on the quality dimension of income tax processing. Processing data coming through electronic channels have very little human interaction and generally capturing has much less transcription errors.

To improve the quality of physically captured data the data capturing channel was reconfigured to provide for 100% double capture, with a third party verification. This ensured a greater accuracy when transposing data from paper to digital.

Revised assessments

Target 8% | Actual 6%

Although SARS strives towards the first-time-right principle as far as practically possible, where human intervention is required in a process, there is a margin of error. In the revised assessment process, the error may be owing to incorrectly completed returns by the practitioner or taxpayer, or capturing errors by SARS. Table 2.3.5 below shows a steady increase in the percentage of returns subject to a revised assessment over the past three tax years.

Table 2.3.5: Revised Assessment

Tax Categories	2005/2006			2006/2007			2007/2008		
	Original	Revised	Revised %	Original	Revised	Revised %	Original	Revised	Revised %
Income Tax	4,891,044	337,891	7%	4,938,135	439,900	9%	4,189,767	410,007	10%
Companies	600,869	41,691	7%	636,270	64,178	10%	442,391	67,855	15%
Individuals	3,986,651	287,056	7%	4,075,580	352,454	9%	3,525,585	330,327	9%
Trusts	303,524	9,144	3%	226,285	23,268	10%	221,791	11,825	5%
Employees Tax	3,739,225	176,563	4.72%	3,995,580	186,464	4.67%	3,977,234	197,892	4.98%
Value-Added Tax	3,501,943	97,885	2.80%	3,704,194	106,021	2.68%	3,794,204	109,193	2.88%
Total	**12,132,212**	**612,339**	**5.05%**	**12,637,909**	**732,385**	**5.80%**	**11,961,205**	**717,092**	**6.00%**

Accounts maintenance

Accounts maintenance indicates any action taken on an account in order to rectify the client's portfolio. This can be done on request from the client or owing to intervention from SARS. We have experienced an increase of 50% in requests to review interest and penalties as received during the previous year.

Processing of payments, submission of returns and allocations of payments to different periods all play a role in this regard. As more and more taxpayers migrate towards eFiling channel, it is anticipated that there will be a decrease in requests to waive interest and penalties as accounts management improves.

Taxpayer Services

Table 2.3.6: Accounts Maintenance

Accounts Maintenance Activities	2005/06	2006/07	2007/08
Correspondence	1,054,008	1,206,116	853,246
SMR Transfer	2,013	2,251	1,528
Returned Refunds	48,208	32,928	18,403
Copy of a Refund	12,055	12,065	5,467
Interest and Penalty	34,219	229,176	342,830
Change of Remittance date	1,216	229,176	342,830
Allocated Payments to SMR	789	547	44
Over/Under declaration of liability	22,027	30,982	37,863

Inventory – income tax

Target 9% | Actual 17%

The closing inventory of 17% exceeded the target of 9%, which was predominantly driven by two main factors. Firstly, 400,000 returns were not processed due to mismatched IRP5 information. The finalisation of these cases is reliant on taxpayers providing valid supporting documentation. The inflow of the required supporting documentation has been slow, and therefore impacted on the finalisation of these cases. Secondly, the problem was related to multiple-system integrations which distorted the physical location of returns.

Table 2.3.7: Income Tax Returns Inventory

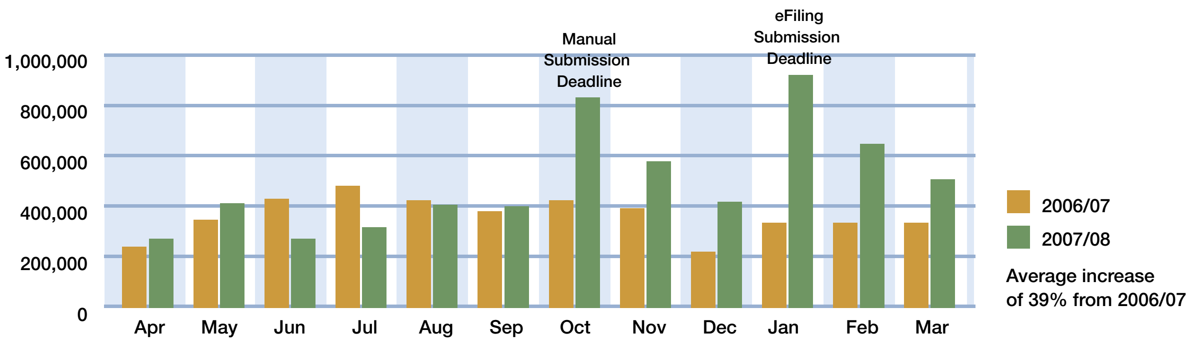
	Returns Received	Inventory	% Achievement	Target	Variance
2007/08	4,582,475	790,515	17%	9%	+8%
2006/07	4,927,770	416,578	9%	9%	0%
2005/06	4,920,167	470,583	10%	9%	+1%
2004/05	4,516,472	420,654	9%	9%	0%

Call centres

The volume of calls handled by the SARS call centre continued to rise in 2007/08, indicating a growing awareness of this effective interface with SARS.

In the year under review, the call centre handled 5,955,730 calls, an increase of 39% from the previous year. The call centre answered 85% of all incoming calls; the remainder were abandoned. Owing to increased volumes and introduction of the new assessment process, only 49% of these calls were answered within the target of 20 seconds. Agents in each of the tax types were trained to assist taxpayers with eFiling-related queries, therefore, reducing frustration usually experienced by taxpayer regarding normal tax and eFiling technical query.

Figure 2.3.1: Number of taxpayers calling the contact centre



Taxpayer Services

Calls answered within 20 seconds (60%)

Target 60% | Actual 49%

There was a 39% increase in the number of calls received. Only 49% of the total calls were answered within the set target of 20 seconds. The 60% target did not anticipate the exponential volume increase mentioned above. SARS faces a challenge to ensure adequate capacity to achieve the 20 seconds standard.

First time query resolution rate – call centre

Target 70% | Actual 77%

There was a 7% increase in the number of first-contact resolution calls. Enhanced system visibility enabled the improvement in the first time query resolution process.

Call abandonment rate

Target 15% | Actual 15%

The call abandonment target of 15% was achieved. However, this target was higher than the previous year's target of 6% primarily owing to a disproportionate growth between staff and call volume – there were insufficient staff given call the volume increase. This capacity gap was identified and steps taken e.g. appointment of an additional 110 staff, but the measurable benefit of this will only be reflected in the next year's achievement of a 9% target.

Practitioners call centre

SARS introduced a dedicated channel for practitioners. This call centre was equipped with multi-skilled agents who are able to assist practitioners with queries across all tax types. A dedicated fax and e-mail channel was also introduced to deal with bulk queries from practitioners. These innovations allowed SARS greater flexibility in deploying staff during peak periods by responding to practitioner queries after office hours, where relevant, thereby improving service to taxpayers.

Small Business Tax Amnesty call centre

A dedicated Small Business Tax Amnesty call centre was established. This channel facilitated the process for small businesses to apply for tax amnesty.

Call centre initiatives

The call centre undertook a number of initiatives to increase its operational efficiency and first-contact resolution levels:

- eFiling calls were taken over from Interfile;
- Soft skills training for staff was conducted to improve customer centricity;
- Expansion of the practitioners' call centre owing to the increasing demand to provide services on specialised issues; and
- Appointment of an additional 110 agents during January 2008 in preparation for the new Filing Season process.

Branches

SARS' 46 branch offices cater for walk-in taxpayers who prefer face-to-face engagement with SARS. An assessment of current taxpayer behaviour indicates that this will continue to be an important service channel. For example, the 3,753,814 taxpayers visited branch offices this year. Branch office staff has thus been trained to offer a range of services:

- Queries relating to all tax types;
- Cash hall facility to facilitate payments of taxes and non-core taxes such as transfer duty and stamp duty, however this will be phased out over time as the collection of cash is not one of our core functions;
- Dedicated small business help desks;
- Dedicated assistance for practitioners in some branch offices;
- Self-help kiosks to log on to the Internet to engage with SARS electronically; and
- A complaints desk for lodging complaints.

The focus of the branches has shifted to become more proactive. Much time is spent on information sharing with the taxpayers as well as educating them. Branch offices are more flexible and proactive in responding to the need of the taxpayer e.g., extended office hours during the Filing Season and amnesty.

Taxpayer Services

Average queuing time – service (Minutes)

Target 6.3 | Actual 5.13

A queue management system has been piloted in KwaZulu-Natal and four other branch offices. Because the system is not standardised across the country, a uniform SARS level (corporate average) measurement is not available for the year under review. The current statistics are an average taken from KwaZulu-Natal where the queue management system was piloted. Based on this, there is clearly an improvement in queuing time.

First time query resolution (%) – Branches

Target 98% | Actual 98.6%

SARS aims to resolve taxpayer query at the first point of contact, the SARS branch office, and thereby reducing the referral rate. Frontline staff has been empowered to optimise first time resolution rates.

Mobile Tax Offices (Pilot)

The level of tax compliance in the country can be positively influenced by expanding the SARS footprint in South Africa. This is supported by the fact that the growth of the register has mainly come from areas not previously covered by the branch network.

In addition SARS is piloting the concept of a mobile tax office to improve access of rural communities. The office consists of a van fitted with capability to deliver tax services currently on an offline basis. The strategy is to develop this facility into a full service channel that accesses the core system. Due to the success of the pilot, SARS plans to roll out more of these Mobile Tax Offices in the next financial year.

Electronic channels

The use of electronic channels has grown during the year under review and is anticipated to continue to grow. Taxpayers registered for eFiling can now engage with SARS online for submission of returns and payments in respect of the following taxes:

- Value-Added Tax (VAT);
- Income Tax;
- Skills Development Levy (SDL);
- Secondary Tax on Companies (STC);
- Pay-As-You-Earn (PAYE);
- Provisional Tax;
- Unemployment Insurance Fund (UIF);
- Transfer Duty and Stamp Duty.

Registration

Total registration of eFilers on all taxes

The figure below illustrates a breakdown of the registration of eFilers according to tax type.

Figure 2.3.2: eFiling Register for all taxes

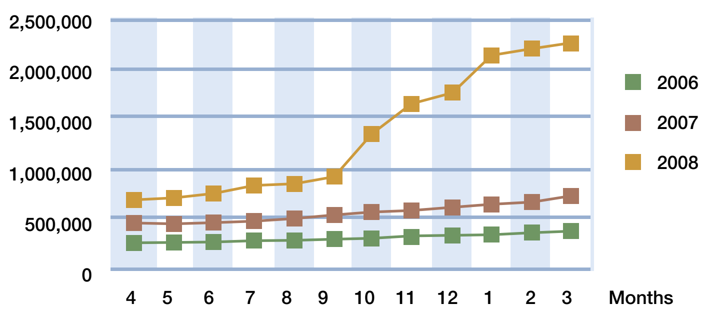
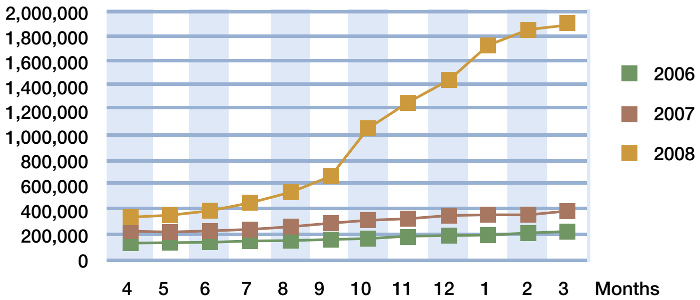


Figure 2.3.2 shows the growth of eFiling taxpayers on all taxes (including Income tax, secondary tax on companies, provisional tax, PAYE and VAT) in comparison to previous years. In 2006, the number of taxpayers registering to use the electronic method to file returns was stable. However, registrations grew during the 2007 Filing Season, during the 2007/08 financial year, to more than 2,000,000 for all tax types.

Taxpayer Services

Income tax eFiling registrations

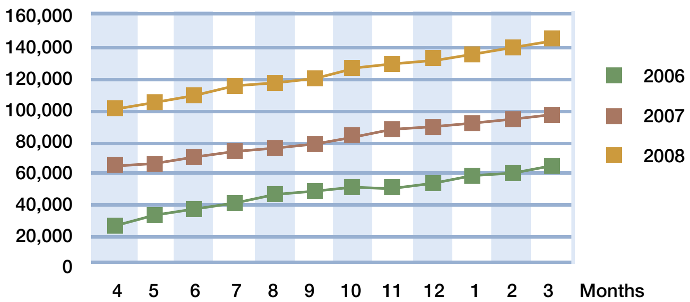
Figure 2.3.3: eFiling on IT Register



The registration of eFilers in respect of Income Tax has shown considerable growth over the last year. There are currently 1,899,937 registrations. This increase is owing to the vigorous launch of Filing Season in 2007, where eFiling was marketed as the preferred method to file returns. Income tax registration numbers are inclusive of IRP6s (provisional tax), secondary tax on companies (STC), trusts (IT12 TR), exempt institutions (IT12 EI), companies and close corporations (IT14) as well as personal income tax returns (IT12S and IT12C).

Pay-As-You-Earn (PAYE) eFiling registrations

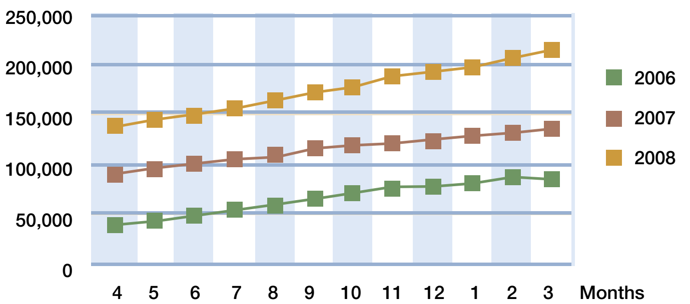
Figure 2.3.4: eFiling on PAYE Register



Since 2006, eFiling for PAYE has increased significantly. Registered eFilers for PAYE grew in 2007 from 66,000 to 98,000, while the 2008 year saw this increase to 145,000. These figures include PAYE, Skills Development Levy (SDL) and Unemployment Insurance (UIF) contributions.

Value-Added Tax (VAT) eFiling registrations

Figure 2.3.5: eFiling VAT Register



The VAT eFiling register for 2007 increased from 89,000 to 137,000 while in 2008 this increased to 215,000.

Taxpayer Services

Contributors to the growth in eFiling

The increased utilisation of eFiling in the 2007/08 financial year can be attributed to the following operational system enhancements:

- Quick registration which allows taxpayers earlier registration because no hard-copy supporting documentation is required. Previously, taxpayers were required to fax supporting documentation to be registered for eFiling; and
- Allowing the filing of objections electronically as well as creating a new process to request corrections on assessments.

The increase in the number of returns submitted via eFiling (see Table 2.3.8) is encouraging and can be directly attributed to the drive during the 2007 filing season to encourage the use of eFiling. The benefit of non provisional taxpayers having to effect payment at the end of January 2008 without any additional interest being charged also contributed to the increased use of this channel.

Table 2.3.8: Returns issued and submitted via eFiling

Taxes	2006	2007
IT12 returns issued	48,957	195,721
IT12 returns received	54,952	987,578
IT56 returns issued	5,684	13,075
IT56A returns issued	616	1,626
IRP6 issued	663,933	764,603
IRP6 received	362,878	453,550
PAYE returns issued	1,093,453	1,675,780
PAYE returns received	816,806	1,180,368
VAT returns issued	855,152	1,310,242
VAT returns received	551,893	690,089
VAT Diesel returns received	29,088	39,345

eFiling Collections

Table 2.3.9 below indicates consistent growth over the last three year with more than 105% growth in 2007/08. This channel now accounts for more than R212 billion of the SARS collections. The majority of payments relate to VAT, however over the last year there has also been substantial growth in income tax payments.

Table 2.3.9: eFiling Collections

	Revenue R million	Customs R million	Total R million	Growth	% Growth
2005 / 2006	54,642	0	54,642		
2006 / 2007	103,669	0	103,669	49,027	89.7%
2007 / 2008	180,487	32,172	212,659	108,990	105.1%

Table 2.3.10: Monetary Composition

	Income Tax	Paye-As-You-Earn (PAYE) including UIF and SDL	Value-Added Tax (VAT)	Customs	Total
2005 / 2006	6,427	17,724	30,491	0	54,642
2006 / 2007	19,144	30,795	53,730	0	103,669
2007 / 2008	46,564	54,338	79,585	32,172	212,659

Taxpayer Services

Table 2.3.11: Percentage Composition

	Income Tax	Paye-As-You-Earn (PAYE) including UIF and SDL	Value-Added Tax (VAT)	Customs	Total
2005/06	11.8%	32.4%	55.8%	0.0%	100%
2006/07	18.5%	29.7%	51.8%	0.0%	100%
2007/08	21.9%	25.6%	37.4%	15.1%	100%

Practitioners

Practitioners play a crucial role in the tax system in that they are a pivotal link between the taxpayer and SARS. Practitioners are a *de facto* extension of SARS' administration. For example, provisional analysis suggests that practitioners represent approximately three million taxpayers. Practitioners represent 1,162,903 taxpayers on eFiling alone. This certainly makes them a key stakeholder in SARS' business. SARS is committed to build the knowledge and skill of practitioners; their role in ensuring compliance with tax and customs obligations, adherence to administrative procedures and communication to taxpayers and traders of compliance benefits.

SARS continues to build and sustain relationships with industry associations, and tax and customs practitioners. The use of trusted intermediaries to achieve a leveraged compliance outcome makes positive use of the relationships that taxpayers and traders have with their intermediaries.

The SARS practitioners unit was established in the 2006/07 year. This unit is mandated to establish a more constructive and proactive way of engaging practitioners. It is responsible for managing the registration of practitioners and exploring and implementing enhanced service offerings. It is also a multilateral communication channel between SARS and practitioners.

The following was achieved in the year under review:

- The compulsory registration legislation enacted in Section 67A of the Income Tax Act required all practitioners to register with SARS by 30 June 2005. Because of this, the practitioners register grew from 17,490 to 21,359 – a growth of 22%. This growth suggests that practitioners are noticing the tangible benefits of registration (e.g. increased access to enhanced service offerings like the dedicated practitioner's call centre and practitioners help desks at major offices). A benefit for SARS is a reduction in the number of individual queries;
- At the beginning of the financial year approximately 10% of practitioners used eFiling. At the end of the year, this increased to 52% (11,057). Dedicated eFiling service offerings were launched to empower practitioners to ensure take-up of eFiling functionality, including eFiling training sessions, eFiling promotional sessions, two eFiling guides for practitioners and creating a dedicated capacity in the Practitioners call centre to deal with eFiling queries. Of the returns submitted by practitioners through eFiling, 32% were processed within 48 hours.
- Eighteen newsletters were sent to practitioners in order to keep them informed. As developments that needed to be communicated arose (e.g. monitoring call types at the call centre, complaints from practitioners, internal newsflashes, etc.) updates were sent to practitioners;
- More than 80% of practitioners gave a "highly valuable" rating for four user guides prepared specifically for them. These guides help to reduce unnecessary queries and improve the quality of submissions from practitioners;
- A second annual survey was sent to registered practitioners to better understand their needs and their experience of SARS. This was augmented by one-on-one discussions with practitioners, focus group meetings, and practitioners' feedback regarding the 2008/09 form design; and
- A model dedicated desk and practitioners' queue was developed and piloted at the Carlton Centre office. Separate queues for practitioners are also being piloted in 18 other offices.

Large Business Centre (LBC)

SARS Large Business Office at Megawatt Park

Performance Highlights

- LBC Eastern Cape office launched;
- Revenue collections of R202,6 billion;
- Enhanced risk engine for profiling of taxpayers across core tax types;
- 37,722 returns processed;
- High Net Worth Individual unit established;
- R14,9 billion from Para 19(3) of the 4th schedule to the Income Tax Act interventions;
- Error rate of less than 0.5%; and
- 2,307 audits completed yielding an extra R6.8 billion in assessments.

Large Business Centre

SARS endeavours to enable and deliver an integrated range of solutions designed to sustain a world class corporate tax and customs system in respect of large businesses and high net worth individuals in South Africa. The Large Business Centre (LBC) was created for this purpose.

A critical challenge for the LBC is to ensure that it is appropriately resourced to effectively deliver on its mandate. It also needs to accelerate the migration of outstanding taxpayer files to the LBC to allow for improved delivery of the LBC one-stop-shop commitment as well as the need for further refinement to the LBC's risk identification and audit procedures.

The LBC undertook a number of benchmarking visits to large business centres operated by other tax administrations, including Her Majesty's Revenue and Customs in the United Kingdom and the Australian Tax Office. These benchmarking visits highlighted possible operational enhancements which are being factored into the LBC operating model. The LBC works towards meaningfully engaging taxpayers as well as their tax advisers so as to reduce the costs of compliance for both taxpayer and SARS.

The LBC was able to again contribute to another successful year of SARS revenue collection. For the year ended 31 March 2008 the LBC managed to collect in excess of R203 billion, representing over 35% of total revenue collected.

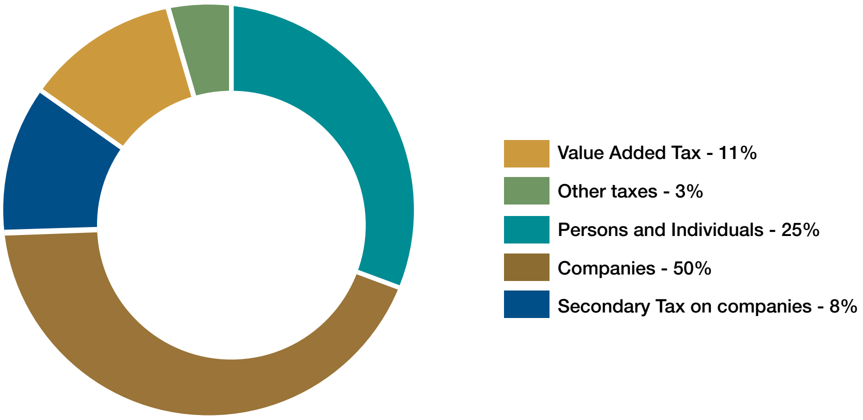
The LBC's strategic focus for 2007/08 year continued to build on its value proposition in line with SARS' overall strategic objectives. In this regard, the key strategic focus areas for the LBC included optimising revenue collection, enhancing core

Large Business Centre (LBC)

operations and building capabilities, improving customer service and improved compliance and risk reduction.

The companies tax contributed 50% of the total revenue while value added tax contributed 11% as indicated below.

Figure 2.3.6: LBC Revenue per tax type

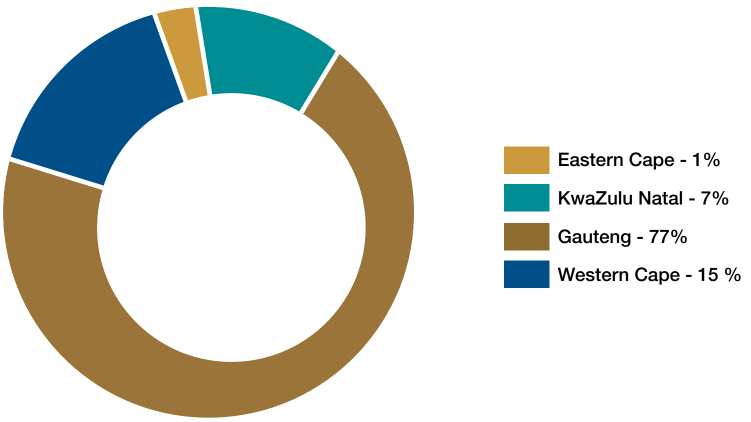


Optimise revenue collection

During the year under review the LBC was able to again exceed its revenue target by continuing to enhance its revenue management programme. This included undertaking further detailed analysis of LBC taxpayers in order to improve our revenue forecasting and cash flow management. Improved revenue tracking procedures were also put in place to better monitor overall revenue in- and outflows to/from large businesses. LBC Gauteng office contributed the greater portion to the overall LBC revenue collections of 77% compared to 15% of Western Cape and 7% of the Kwazulu Natal office (see figure 2.3.7).

The largest contributing sectors within the LBC Gauteng office were Financial Services contributing 22% of CIT provisional revenue, followed by 15% from the Mining Sector. Financial Services and the Mining Sector were the highest contributors for PAYE at 16% and 13% respectively. The major VAT contributors were the Communications Sector at 16% followed closely by the Primary Sector at 14%.

Figure 2.3.7: LBC Revenue per region

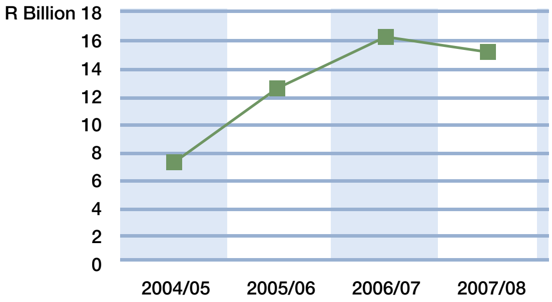


The application of the provisions of paragraph 19(3) of the Fourth Schedule of the Income Tax Act (Para 19(3)) continued to be an important tool in ensuring that income tax payments made by large businesses were made on a timely basis. During the three years ending 31 March 2008, collections from Para 19(3) interventions totalled in excess of R50 billion.

During the period under review, the application of Para 19(3) resulted in the receipt of R14,9 billion of revenue which otherwise would have been deferred for up to six months. Of this amount, 55% was attributable to 10 top taxpayers.

Large Business Centre (LBC)

Figure 2.3.8: Paragraph 19(3) Collections



Whilst the LBC's Para 19(3) interventions have been effective in countering the deferral of payments by taxpayers, many taxpayers continue to require repeated interventions year after year. For example, of the 158 companies which had Para 19(3) invoked against them in the year ended March 2007, 72 of these companies also had Para 19(3) invoked in the year ended March 2006. Furthermore, of these 72 companies, 25 of them also had Para 19(3) invoked during the year ended March 2005. The table below illustrates the distribution of taxpayers across the LBC's industry sectors requiring repeat Para 19(3) interventions in consecutive years.

Table 2.3.12: Distribution of taxpayers across the LBC's industry sectors requiring repeat Para 19(3) interventions

Year ending	2007	2007, 2006	2007, 2006, 2005	2007, 2006, 2005, 2004
Communication	26	17	7	2
Construction	11	5	3	3
Financial	20	9	3	1
General	7	1	0	0
Manufacturing	52	21	6	2
Mining	11	5	3	3
Primary	16	8	1	0
Retail	15	6	2	2
Grand Total	**158**	**72**	**25**	**13**

Enhancing core operations and building capabilities

During the period under review the LBC continued to focus on improving its operational efficiency with respect to the processing and assessment of tax returns. Of the 31,515 tax returns outstanding at 1 April 2007, 17,591 (56%) returns were collected during the year. An amount of 40,789 returns were processed during the year, with an average error rate of 0.50%. Efforts also continued to encourage taxpayers to utilise eFiling for the submission of their returns, where possible, resulting in an additional 1,464 new eFiling registrants among LBC taxpayers. Currently, approximately 50% of LBC taxpayers make use of eFiling.

The LBC continued to focus on building the capabilities of its people so that the expected level of professionalism is consistently delivered. Continuous training and development is provided to staff to ensure that they are appropriately skilled in the performance of their duties. The LBC employed 428 people at the end of the financial year.

Improving customer service

In order to improve our accessibility to large businesses, the LBC Eastern Cape office located in Port Elizabeth was opened on 15 October 2007, thereby completing the establishment of the last of the four LBC offices.

A key component of the LBC's value proposition is to build productive relationships with its stakeholders, through which its taxpayers are encouraged to adopt a position of voluntary compliance. In terms of these relationships, the LBC commits to providing its taxpayers with world class service in line with the SARS service charter. During the period under review the LBC

Large Business Centre (LBC)

received a total of 16,263 service queries, of which 16,116 (99,8%) were resolved within SARS Service Charter time frames. A programme of obtaining feedback from taxpayers on the performance of the LBC against its value proposition (the LBC enhanced relationship initiative) was also conducted through taxpayers' surveys as well as a series of visits to taxpayers by LBC senior management. As part of the LBC enhanced relationship initiative, 42 companies were visited during the period under review. The feedback received, from the surveys and senior management visits, has provided useful information which is assisting the LBC improve its service offerings.

The migration of taxpayer files to the LBC continued steadily during the year with 49% of applicable Value-Added-Tax (VAT) files, 38% of Pay-As-You-Earn (PAYE) files and 97% of income tax files having been successfully migrated to the LBC as at 31 March 2008. It is envisaged that at least 80% of required VAT and PAYE files will be migrated to the LBC by 31 March 2009, with full migration expected to be completed by 30 September 2009.

Improved compliance and risk reduction

The LBC continued its pursuit of improved compliance during the period under review. A total of 2,307 audits were completed during the year resulting in revised assessments totalling more than R6,8 billion including in excess of R550 million of interest and penalties.

The LBC continued its analysis of taxpayer behaviour in identifying potential risk areas. This included a review of the management of extensions granted by the LBC for the submission of income tax returns. This review has highlighted the need for tighter controls with regards to extensions and stricter monitoring of extensions has accordingly been introduced within the LBC. Further enhancements were made to the LBC risk engine for the purposes of the risk profiling of LBC taxpayers. In particular, specific attention was given to the impact of significant mergers and acquisitions, including the tax effects of certain black economic empowerment transactions, structured finance arrangements and the tax implications of continuing increases in cross border trading activity.

Generally, the LBC has been able to gain a reputation of posing a fair, but formidable challenge to the advisers to large businesses. Feedback from taxpayers indicates that there is now believed to be a greater risk of detection than in 2004 when the LBC was established. However, this does not mean that taxpayers have stopped trying to find ways to minimise their tax liabilities. In particular, transfer pricing compliance remains a concern, particularly in the manufacturing sector as does structured finance transactions, given the current high interest rate environment which makes tax driven financing arrangements more attractive. VAT compliance also still needs further improvement as very few taxpayers are found to be fully VAT compliant when audited. Many taxpayers are also still making errors regarding the application of Capital Gains Tax (CGT) provisions, citing the fact that it was a new tax for years more than 5 years post its introduction.

Interactions with taxpayers during the past year have revealed that taxpayers are now generally less willing to participate in aggressive tax avoidance schemes. In addition, many clients of banks who have previously participated in aggressive structured finance arrangements have been required to settle the tax cost of these arrangements, since the agreements underlying these arrangements invariably include a kick-back clause so that any tax liabilities are passed on the client by the bank (i.e. the promoter of the arrangement) when successfully challenged by SARS. In the case of one settlement, this resulted in over 50 clients of a bank having to incur tax liabilities totalling in excess of R700 million. Given the increased risk of detection, many taxpayers are voluntarily coming forward to settle their disputes under the alternative dispute resolution (ADR) procedures. This is expected to continue during the coming year.

Compliance amongst large business is often regarded as high since large businesses are generally aware of their compliance obligations and they usually ensure that they meet their compliance obligations within the strict letter of the law. However, the most material compliance issues, relating to large business, are often linked to disclosure and payment (see Paragraph 19(3) discussion above). Wherever the law is ambiguous or unclear, large businesses, and their advisers, often still adopt the interpretation which best fits their own purposes even where they are aware that the resulting outcome was never intended by the legislature. Taxpayers often argue that they fully disclose all that they are required to in terms of the information requested

Large Business Centre (LBC)

in tax returns. This approach has the effect of making tax avoidance arrangements difficult to immediately detect and therefore enhanced risk identification procedures are required. The large corporate compliance landscape is a dynamic one where the LBC's consistent enforcement and facilitative interventions continue to promote higher levels of tax compliance. While we have witnessed improved compliance levels more can be done to enhance prevailing compliance levels, essential to levelling the economic playing field. In certain cases this will include legislative amendments.

As we move into more challenging times, global and domestic companies will face increased pressure to reduce or defer their tax cost. Our proactive approach in terms of engaging taxpayers, understanding their business context, being responsive to their compliance levels and building our skills base will ensure that we are able to shift compliance and sustain it at high levels.

High net-worth individuals (HNWI)

A total of 607 taxpayer files, comprising 231 HNWI taxpayers, 103 trusts and 273 associated entities were reviewed. Attention has been paid to compliance assessment work for these files. To this end a number of risk reviews have been conducted and schemes highlighted that eroded the tax base and resulted in lower effective rates of tax. These will be incorporated into the audit plan for the next year.

A number of benchmarking visits to progressive tax administrations (Australia and United Kingdom) were undertaken. Such visits have highlighted the need to focus on the following:

- Revisit criteria for inclusion within the unit;
- Differentiate between high wealth and high income individuals;
- Increase resourcing; and
- Build a robust risk profiling capability.

Conclusion

Large businesses generally do comply with their tax obligations particularly with regard to procedural matters in respect of registrations, filing and payments. However, there are still those who push the boundaries by continuously filing late and deferring payments. Since non-compliance in the large business segment poses substantial revenue risks, the LBC closely monitors large business activities, in particular where transactions involving tax havens occur or when tax payments fall due. For example, the LBC monitors tax payments against expected economic outcomes and contacts taxpayers promptly when significant variances occur. Non-compliance within the large business segment typically is at its worst with regard to disclosure. In spite of the fact that large businesses generally have access to tax expertise, many large businesses regularly make errors. They also regularly take contentious positions particularly in areas such as tax structuring, valuations, international tax and transfer pricing.

The LBC acknowledges that large businesses generally strive to keep their tax compliance costs as low as possible. However, where there is evidence of a taxpayer continuously failing to file tax declarations on time, failing to settle their tax liabilities on time as well as invariably partaking in aggressive tax planning arrangements, they will be contacted to discuss the observed behaviour. This early contact will be intended to alert senior management within large businesses of our concerns regarding their tax risk behaviour. In addition, senior management from the LBC will be embarking on a programme to meet with senior representatives from the top 100 taxpayers to discuss significant events affecting the taxpayer that may have tax implications, to explain the taxpayers tax risk profile, as well as to listen to any concerns that taxpayers have regarding their interactions with us from both a service and compliance perspective.

Through enhanced relationships and more effective compliance risk management the LBC will seek to focus its resources where most needed on the basis of risks identified.

Small Business

SARS employees engaging with taxpayers

Small Business

Making the regulatory environment friendlier to small businesses and thus enabling their development is a government priority. The Growth Employment And Redistribution (GEAR) strategy (1996 to 2000), the 2005 Integrated Small Business Development Strategy and the Accelerated and Shared Growth Initiative for South Africa (ASGISA) released in 2006 all evidenced government's intention to help small business develop.

From a tax perspective government must find a balance between easing the regulatory burden, equitable tax collection, education, taxpayer service, creating a compliance culture and enforcement. The sector is usually known for inadequate record keeping and weak financial controls. In recognition of this, the Minister of Finance (2006) introduced a tax amnesty for small businesses to bring them into the formal tax system. It applied to Income tax, employees' tax, VAT, withholding tax on royalties, Secondary Tax on Companies (STC), Unemployment Insurance Fund contributions (UIF) and Skills Development Levy (SDL). Individuals, unlisted companies, close corporations, trusts and cooperatives could qualify for the amnesty given certain requirements. Almost 350 000 applications were received, which included 12% new registrations.

The SARS small business office took over the management of the amnesty processing unit in the last month of the year under review, in order to transition the applicants into a newly devised compliance programme designed to sustain and improve compliance levels.

The small business office in conjunction with taxpayer education and regional operations conducted a number of Imbizo's and participated in expos as part of this compliance programme where taxpayers were updated on the amnesty progress and assisted with the completion of various tax forms including returns.

Small Business

Tax products

The National Small Enterprise Act (No. 102 of 1996) defines a "small enterprise" as a separate and distinct business entity managed by one owner or more. Micro enterprises have annual turnovers of less than R200,000. Very small enterprises have turnovers of R500,000 to R6 million (depending on the sector). Small enterprises have turnovers of R3 million to R32 million (depending on the sector).

In the case of the SARS, any business entity, whether incorporated or not, with an annual turnover of less than R14 million is considered to be a small business. Vendors on the VAT system having turnover not exceeding R14 million numbered 667,519; these, in turn, corresponded to 654,574 income tax cases (an income taxpayer can register more than one VAT entity), 458,100 of which were companies and 196,474 individuals, and other persons.

Existing offerings that are specifically aimed at small businesses include:

- **Small business corporations** tax regime which offers a graduated company income tax rate structure and accelerated deduction of the cost of plant or machinery;
- **Small retailers VAT package (SRVP)** is an alternative VAT regime for VAT vendors with taxable supplies / annual turnover not exceeding R1 million (exclusive of VAT), with simplified calculations and record keeping;
- **Cash basis of accounting** is allowed for unincorporated vendors whose taxable supplies do not exceed R2,5 million in a particular tax year. This allows relief in terms of their cash flow and record keeping;
- **Category F vendors** – in order to lower the cost of compliance for VAT vendors with an annual turnover under R1,2 million these vendors are only required to submit VAT returns every fourth month, as opposed to every second month;
- **Capital Gains Tax** – relief is provided to natural persons running small businesses, who, instead of providing for their retirement via a normal retirement vehicle, have reinvested most or all of their resources into their businesses;
- **Skills Development Levy (SDL)** - employers whose wage bill is less than R500 000 per year are not required to register as an employer for SDL purposes; and
- **Customs** - where SARS requests security from customs clients, the percentage of security required is calculated using a formula that allows for a 40% reduction in the case of a small business corporation.

In order to better understand the segment and in preparation for a new simplified tax regime for very small businesses, three surveys were conducted in cooperation with the National Treasury:

- **Compliance cost study**
  This study was conducted among tax practitioners to identify and measure the tax compliance costs for small businesses in South Africa and to develop recommendations to both reduce unnecessary tax compliance costs and to encourage formalisation;
- **Informal SMME tax compliance survey**
  This survey revealed that the majority of informal businesses (not registered with SARS) are in Gauteng, the Western Cape and KwaZulu-Natal. Most are sole proprietors and only 3% have 10 or more employees. Only 13% have a dedicated personal computer and 26% have access to computers in some form; and
- **Formal SMME tax compliance survey**
  This survey revealed that entities with the lowest turnover, registered with SARS for at least one product, made the most number of visits to SARS. 60% of these small businesses employed 10 or less employees.

PBO's

Public Benefit Organisations (PBO's) - Tax Exemptions

Approved public benefit organisations enjoy the benefit of spending public funds on a tax-free basis. It is imperative that SARS ensures that public benefit organisations utilise their funds solely for approved objectives, without any personal (taxable) gain being enjoyed by the organisations or persons representing it. The tax exemption unit was created to administer income tax affairs of these public benefit organisations. The unit currently has around 27,000 institutions on register.

During the past year, this unit made a concerted effort to develop a good working relationship with the Department of Social Development and its non-governmental organisations (NGO) directorate. Aside from regular meetings with these stakeholders, we also delivered presentations at seven of their workshops for NGOs. A further three presentations were also delivered to other public benefit organisations workshops at their request. In addition, we delivered thirteen presentations to potential amnesty applicants throughout the country.

The activities improved our service efficiencies in-so-far as public benefit organisations are concerned, by making SARS more accessible to them.

Process and information management

Process and information management supports the achievement of strategic objectives through a range of process and information management service offerings. These are provided by enterprise architecture and quality, process solutions, activity based management and measurement and information management units. SARS depends on these quality processes and information to make informed decisions throughout business operations and management.

During the reporting period the range of support has included:

- Design and implementation of all process and information requirements for the assessment 2007/08 Filing Season. This entailed detailed process designs, business requirement specifications (BRS), standard operating procedures (SOP) and information management data analysis and reporting activities enabled the service programme to deliver on its modernisation objectives through contextualisation of SARS service offerings, data analytics, high level designs, specifications and a contact centre model;
- Establishment of a central service offering for information requirements and management reporting from a single source. This enabled detailed data analysis and data analytics in support of business and modernisation initiatives;
- Creation of the capability to deliver activity based management, measurement design and process performance management;
- Commencement of the journey of building knowledge management, data mining and process maturity assessment competence;
- Enhancements to human resource support services by designing and integrating automated processes;
- Increases to usability of process and information designs through an integrated architecture; and
- Completion of 37 initiatives aimed at improving effectiveness of business operations and management capabilities.

Continuous improvement is part of the business culture of all world class institutions. A process improvement methodology has been developed, deployed and sustained. Key achievements in this area include:

- The implementation of the new VAT registration process;
- The design of a revised complaints management process; and
- The development of a quality assurance and control process.

Continuous improvement activities further support the modernisation programme, through the implementation, monitoring and optimisation of systems, policies and standard operating procedures.

Capacity and production planning

The investment made into creating capacity and production plans has begun to bear fruit. This has enhanced SARS' ability to manage capacity and improve productivity in some areas of the business. It is intended to further institutionalise the planning discipline and will therefore further improve the overall management of operations. Production planning and tracking of each tax type is reviewed weekly, with management reports that facilitate operational decision making. Conducting scientific time studies and establishing capacity models for all tax types in the various business areas countrywide was the biggest challenge and the main key performance indicator for the year.

Capacity models were developed per tax type. Through the use of capacity models, the following deliverables were achieved:

- Setting and communicating performance scorecards based on capacity models for all business areas within operations;
- National staffing report based on the required vs. current staff compliment for all regions and all business areas; and
- Contribution to activity-based costing model in terms of supplying work structure breakdown per function, standard times and staffing per activity (current and required).

Operational Efficiency

In addition to the above achievements, the following tasks were also instituted:

- Small Business Tax Amnesty project (investigation, process/time study and recommended proposal);
- Training workshop on work and performance measurement for regional managers and team leaders; and
- Contribution to initiating and studying the control group for 2007 IT Bulk Data Capture (BDC) with other departments task team members.

Business systems

Legislation changes to tax directive systems

In October 2007, amendments to the relevant legislation necessitated enhancements to the Income Tax system. These amendments increased the tax-free portion of any person's retirement benefit lump-sum from R120,000 to R300,000. Not only did SARS enhance internal systems to accommodate this legislative change, but our external electronic interface agents had to follow suit to ensure that all systems are aligned. As a result, enhancements to the Income Tax system were implemented in October 2007.

ATP (automated tax processor)

The ATP system was introduced as part of the 2007 Filing Season to assess errors prior to the processing of the income tax returns received by assessment centres. Specific validations were undertaken to ensure that assessors obtain quality data before the assessment could be finalised. Errors such as IRP5 validation failures were some of those detected before assessing could commence. This proactively dealt with return anomalies firsthand and minimised manual interventions. Through this process, the assessment turnaround time was reduced from approximately three to two months.

Work-in-progress (WIP)

In conjunction with ATP, the Work-in-Progress (WIP) system was modified in respect of income tax returns. Tax returns, when submitted, are now scanned for the information to be transmitted through to the WIP system, which allows assessors to track progress on the system. This added feature greatly enhanced the capabilities of call centres nationwide, as agents are now able to promptly address clients' queries without referral to the relevant assessment centre.

Policy and standards

The policy and procedure function interpret and translate tax laws, international treaties and other legislation into operations policy and standard operating procedures. This is achieved within and aligned to a quality management policy framework taking into account operational risk.

Using primarily the Australian Tax Office model, the SARS operations policy and procedure framework was redesigned to draw a distinction between policy and standard operating procedures (SOP), improve on turnaround times and provide for detailed work instructions. Policy and SOP templates were developed to achieve standardisation and to improve on the user friendliness and ease of engagement. These enhancements were aligned with process development and optimisation to ensure that major developments within modernisation are effectively operationalised. The framework is being extended to include other tax types, customs inclusive. This methodology is increasingly being adopted by divisions in SARS outside of operations, and a program has been initiated to extend it to the whole of SARS. The document management system has been standardised on a simple platform within a single repository to, inter alia, ensure version control and monitor uptake of policies.

Approximately 325 policies and procedures were published excluding notices and letters, input into the drafting of policies, procedures, training guides and training interventions where required.

Compliance

Illicit goods

Compliance

The improvement of compliance behaviour by penalising non-compliance and reducing opportunities for tax evasion, is critical. The goal is to maximise compliance levels of taxpayers segments and to ensure that every taxpayer and trader fully meets their legal obligations.

Performance Highlights

- Conducted 69,118 audits;
- Obtained a 73% success rate on investigative audits conducted;
- R4,7 billion assessed revenue;
  – Assessments raised R3 billion – Debt collected R1,2 billion;
  – Reduce refunds R1,1 billion;
  – Reduced Assessed losses R551 million;
- Attained 514 guilty verdicts in criminal prosecutions;
- Reduced the revenue debt book by 1.27%;
- Debt collection - R15,6 billion;
- Collected 3,6 million outstanding returns;
- Reduced due outstanding return cases by 9%;
- Reduction of Estate cases by 12.97%;
- Confiscated 8,900 kilograms of abalone to the value of R30 million;
- Confiscated 1,400 master cases of illegal tobacco to the value of R20 million; and
- Seized vehicles used in the commission of crime to the value of R2,6 million.

SARS South African Revenue Service

Compliance

Compliance strategies

SARS endeavours to control tax compliance by discouraging non-compliant behaviour (i.e., failure to register, submit returns, pay taxes and non-or under declaration of income) of entities operating in the licit and illicit economies through administrative, audit and investigative interventions.

SARS has taken a significant step this year to identify the different levels of tax compliance in the South African society and to address non compliance at a strategic level. An internal enforcement programme to align various sets of information available within SARS as well as published information from other agencies to quantify levels of compliance within sections of societies and various sectors of industries, has therefore been initiated.

This programme is aimed at segmenting the society using various criteria e.g. nature of economic activities, size of operations, type of companies, etc. This year SARS has made significant progress in this regard and has produced a preliminary compliance evaluation report, quantifying compliance levels at individual and industry segment levels. An enforcement programme, aimed at the improvement of compliance, has been developed and will enable SARS to evaluate the effectiveness of the enforcement programme through continuous compliance evaluation.

The SARS strategy to control compliance levels differentiates between each section of society and employs interventions in accordance with the risk associated with a section. The strategy incorporates three types of actions:

- Wide coverage of the tax base (width);
- In-depth investigations into higher risk entities (depth); and
- Gaining leverage from this engagement (leverage).

Intentional non compliance is investigated with the view to criminally convict an entity or obtain a civil judgment against it.

This strategy necessitates that SARS ensures that its people have the requisite suite of knowledge, skill and experience to keep abreast of developments. To this end, SARS has recruited one hundred and thirty graduate trainees to build a sustainable recruitment stream and also provided training in the following areas:

- There was a concerted effort to build the PAYE audit capacity within enforcement. Training material was developed and 92 current PAYE auditors received refresher training while 63 entry level PAYE auditors were trained on all aspects of PAYE. The courses will continue into the 2008/09 financial year as part of normal business and in support of the modernisation of the PAYE process;
- The capability of SARS auditors in this area was increased and 124 auditors and risk profilers were trained on audit processes, procedures and risk profiling of trusts;
- Fifteen specialists, focusing on computer assisted audit techniques, and four forensic auditors were appointed. The use of computer assisted audit techniques were revived through training of 63 auditors on the use of data conversion and analysis tools (SESAM tools); and
- Our strategy also required that we streamline, consolidate and integrate our institutional arrangements by adopting a model which enabled the division to maintain steady state operations and focus on strategic initiatives to obtain continuous improvements.

Audit

SARS auditors

Audits can be broadly categorised as investigative audits and assurance (control) audits.

Investigative audits are selected on the basis of a specific risk and are used to:

- Investigate allegations of intentional non compliance;
- Ensure punitive actions are taken against offenders;
- Bring confidence to compliant taxpayers; and
- Build a SARS brand that shows Enforcement will identify and deal with intentional non-compliance appropriately.

Assurance audits aim to verify and improve compliance in the known taxpayer base through general risk selection and random selection. Random case selection ensures all taxpayers have an equal chance of being engaged.

Enforcement conducted 69,118 audits of which 6,103 were investigative cases. A success rate of 73% was achieved. The audit function now has a complete complement of interventions ranging from telephone audits to complex investigative audits. Telephone audits were introduced during this financial year while inspections were introduced in the previous financial year. In step with the operational strategy, work that had been in progress for over six months had been reduced by more than 50% over the past two years, resulting in more visibility and flexibility in choosing areas of intervention. The effectiveness of audits can now be measured in terms of compliance improvement in focused areas.

The coverage for the 2007/08 financial year was at 0.97% (2007: 1.07%) against a tax base of 7,1 million taxpayers (2007: 6,4 million), which represents 69,118 audits (2007: 69,270). The total number of audits conducted in this financial year is marginally lower than in 2007 (152 audits). The reduction in the audit coverage is attributed to a 10% growth of 668,819 taxpayer entities in the tax base.

Audit

Table 2.4.1: Year on year comparative audit coverage

Tax type	Actual Coverage 2006/07	% Coverage Actual 2006/07	Actual Coverage 2007/08	% Coverage Actual 2007/08	% Change 2007/08 compared to 2006/07
PIT	26,267	0.57	32,675	0.66	0.09
CIT	13,453	1.49	16,759	1.60	0.11
VAT	24,603	3.94	15,633	2.10	-1.84
PAYE	4,947	1.51	3,985	1.05	-0.46
Customs	-	-	66	-	-
Total	**69,270**	**1.07**	**69,118**	**0.97**	**-0.10**

Table 2.4.2: Audit coverage per tax type as compared with target

Tax type	Target 2007/08	% Coverage Target 2007/08	Actual 2007/08	% Coverage Actual 2007/08	% Change Actual vs. Target 2007/08
PIT	25,006	0.50	32,675	0.66	0.16
CIT	21,914	2.09	16,759	1.60	-0.49
VAT	14,597	1.96	15,633	2.10	0.14
PAYE	4,365	1.15	3,985	1.05	-0.10
Customs	120	-	66	-	-
Total	**66,002**	**0.93**	**69,118**	**0.97**	**0.04**

Altogether 60% of cases audited represent field audits and 40% desk audits. Field audits are conducted when auditors engage with taxpayers outside SARS premises and comprise investigative, complex assurance and inspection cases.

The number of assurance audits increased owing to the introduction of telephone audits. The telephone audits represent 14% of the total number of cases completed which supported the new assessment process. A significant number of inspection cases were completed during the financial year; these inspections were conducted in accordance with a SARS wide visibility campaign with regards to small businesses.

The audits conducted indicated non-compliance was mainly as a result of:

- Incorrect application of the general deduction formula in the Income Tax Act;
- Incorrect application of the gross income definition in the Income Tax Act;
- PAYE assessments relating to fringe benefits and labour brokers;
- VAT assessments relating to under and non declaration of VAT; and
- VAT assessments relating to claiming of input VAT.

Criminal Investigations

Cigarette seizures

SARS conducts criminal investigations every year with a view to institute criminal proceedings through the National Prosecuting Authority's (NPA) Special Tax Unit (STU) with whom we have a key interdependence. Our investigations are conducted in terms of a memorandum of understanding entered into between SARS and the South African Police Service.

A total number of 2,098 cases were investigated (including 412 medium and complex cases) and handed over to the criminal justice system for prosecution and 514 guilty verdicts were obtained during the year. These included 42 individuals found guilty on 225 charges of fraud and one individual on 3 counts of theft. There has been a marked improvement in managing the supply chain of the criminal justice system. This has been achieved through greater alignment with the National Prosecuting Authority (NPA), which resulted in a reduction in the back log of criminal investigation cases in the system and improved prosecuting capability (30% improvement prosecution capability). Table 2.4.3 below highlights our success over the past two years.

Table 2.4.3: Criminal Investigations

Description	2006/07	2007/08	% Change
Criminal cases completed by SARS	1,909	2,098	9.90
Criminal cases successfully prosecuted by the STU	447	514	14.99

The STU achieved convictions in 89% of the cases that were prosecuted during the financial year.

Table 2.4.4: Court sanctions

Description	National totals 2006/07	National totals 2007/08	% Change
Total no. of entities convicted	486	597	23
Fines	R2,100,000	R10,309,510	391
Direct Imprisonment (years)	46	118	157
Suspended period of imprisonment (years)	473	609	29
Correctional Supervision (months)	1,024	127	-88
Community Service (hours)	3,026	6,752	123

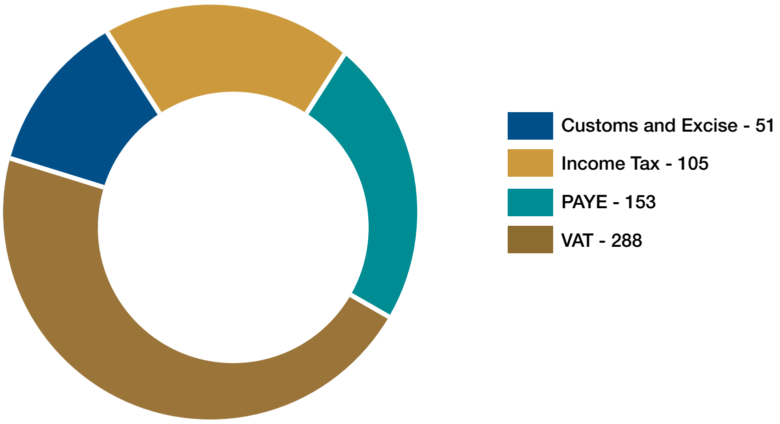
Criminal Investigations

The majority of the contraventions were committed in the following sectors:

- Agencies and other services;
- Business Services;
- Construction;
- Food, Drink and Tobacco; and
- Retail and wholesale trade.

The 597 convictions consist largely of statutory contraventions of the Value-Added Tax, Income Tax and the Customs and Excise Acts, with a small but growing number of common law fraud and theft cases were also finalized.

Figure 2.4.1: Convictions per tax type



The relationship with the STU continues to improve, with bi-monthly meetings taking place aimed at reviewing performance and identifying problems in the operations process. The fact that the STU managed to finalise more than 500 medium and complex cases during the financial year is indicative of an improvement in the management of the whole value chain.

Outstanding Returns and Estates

Outstanding Returns

The outstanding return book (excluding returns not due) decreased for the second consecutive year, this time from 5,765,000 to 5,381,000. Focused campaigns yielded positive results and contributed to the overall reduction of outstanding returns. Data analysis has enabled SARS to identify repeat offenders and more serious offenders (across tax types). These offenders will be dealt with stringently in the 2008/09 financial year. Legal action has been instituted against more than 81,000 taxpayers to ensure the recovery of outstanding returns. This has resulted in:

- More than 29,000 taxpayers complying after the summons was issued; and
- More than 177,000 returns were received prior to the court date.

Table 2.4.5: Outstanding Return Due book per tax type

Tax type	2006/07	2007/08	% Change
Income Tax	3,703,790	2,774,816	-25.08
PAYE	917,880	1,129,835	23.09
VAT	1,144,265	1,476,433	29.03
Total	**5,765,935**	**5,381,084**	**-6.67**

The serial offenders' initiative (taxpayers with outstanding returns in IT, VAT and PAYE) was launched nationally to criminally prosecute simultaneously all identified serial offenders whose addresses have been confirmed, for failure to submit IT, VAT, PAYE, SDL and UIF returns. A serial offender was identified as a taxpayer with outstanding returns in all three tax types – IT, VAT and PAYE. A total of 28,174 taxpayers were identified, representing 478,301 outstanding returns.

Achievements of the project include:

- 18,200 notices of intention to summons were issued;
- 523 summonses were issued;
- Reduction of 31.18% outstanding returns in this project; and
- During the course of the project extensive media coverage was achieved.

The residential area project focused on ten municipal areas in five provinces. Achievements include:

- 29,506 notices of intention to summons were issued;
- 8,586 summonses were issued;
- 56,490 cases were resolved; and
- Reduction of 33.69% outstanding returns on this project.

Estates

In terms of the Administration of Estates and Insolvency Acts, the Estates subsection is required to inspect an estate and if necessary assess it in respect of taxes due to the fiscus. These inspections relate to both pre-and post death/insolvency income. The estates function has been streamlined to handle the current inflow of estate cases. This includes managing the inflow, alignment with other state agencies, establishing stronger audit and debt management capability and the implementation of better case management and accountability systems. The function succeeded in reducing the estate cases on book for the third consecutive year by 15%.

Table 2.4.6: Estate case reduction (2006/07 to 2007/08)

Total outstanding returns	Opening Balance	Closing Balance	% Change
2006/07	124,170	106,000	-15
2007/08	106,000	92,329	-13

Estates will investigate the insolvency processes and the mechanisms that are available in the Insolvency, Companies and Close Corporations Acts in an attempt to intervene much earlier in liquidations and sequestrations.

Compliance Initiatives

Initiatives

Apart from normal width and depth interventions, the division has time-bound interventions, focused on specific segments and sub-segments. These encompassing interventions are referred to as initiatives or campaigns and they include the width, depth and leveraging part of the strategy in a concentrated manner.

Campaigns further assisted in increasing the level of compliance in the Mpumalanga region by reducing the incidence of VAT refund fraud. The unit further assisted by facilitating the sending out of notices of intent to summons, summonsing, and executing warrants of arrest for outstanding returns.

Table 2.4.7: Successes on activities related to outstanding returns and Vat refund fraud

	Results
Notices of intent to summons served	168
Summonses served	17
Warrants of arrest executed	13
Writs of execution executed	5
Successful prosecutions (related to returns without payment)	32
Vat refund fraud related cases referred to criminal investigations	27

Quality Management

As part of improved quality control for Enforcement and Compliance Risk, the framework for development, implementation and maintenance of a management and quality system has been developed and implemented. The system will assist the division to continually improve the way of doing business and ensure that inefficiencies are proactively identified and mitigated.

Deregistration

A special project was implemented to finalise the backlog of cases, distinguishing between two categories namely cases older than five years and those less than five years. Two investigations took place to determine how the backlog should be addressed speedily and how inflow should be managed in the long term.

The short term solution successfully reduced the ring-fenced cases by 741,128 cases and the debt book in this category by R1,2 billion. The long term solution has been tested and proposed for implementation in the new financial year.

Retirement Fund Tax (RFT)

In his budget speech in February 2007, the Minister of Finance announced that the Retirement Fund Tax (RFT) will be abolished with effect from 1 March 2007. To coordinate a responsible closure of this tax, a winding-down project was initiated.

Communication with the Retirement Funds has commenced in order to ensure monies owed are paid. The deregistration process has commenced.

There has been a strong emphasis on educating South Africans about their rights and duties as free citizens in South Africa's new democratic dispensation. In the light of success of rights-based education and advocacy, we need to continue to reach all eligible, present and future, taxpayers about their fiscal responsibilities and in particular, their tax obligations.

In the year under review, The Taxpayer Education Unit (TPE) has deepened its focus on tax education and on enhancing fiscal citizenship so as to broaden the tax base; promote efficiency and service and enhance enforcement.

The strategies used were intended to have the optimum reach into all communities and tax segments as well as deal with issues of concern to stakeholders.

Open-air bus used during Filing Season 2007

Taxpayer Education and Outreach

These activities contribute to the building of a culture of fiscal citizenship among current and future generations of taxpayers and the overall culture of compliance within South African society. One result from this will be a growing of our tax register because people (juristic and natural) will "do the right thing". From this, our tax base will be sustainable. Empowered citizens with knowledge about tax will result in a reduced need for technical assistance from SARS officials and tax practitioners.

During the 2007/08 tax year, SARS began to implement a series of radical changes to its technology, methods and forms. These changes require rapid comprehension, adoption and compliance by SARS staff and taxpayers alike. The changes affected all taxpayers in a direct and dramatic way and posed a challenge for the organisation to ensure that all taxpayers were able to move along with the modernisation agenda.

A Taxpayer Education Unit was established in order to deliver taxpayer programmes that increase taxpayers' knowledge effectively and efficiently towards voluntary compliance. This is accomplished chiefly by two means: firstly by direct educational intervention and; secondly through the production of educational media and support materials.

During this reporting period, much of taxpayer education's effort has been directed towards facilitating these changes to SARS programmes and ensuring that taxpayers understand them and comply fully. We also sought to expand the range of existing education workshop offerings to all regions.

Taxpayer Education and Outreach

Workshops

A total of 4,280 education workshops were held in 2007/08. The target for the year under review was set at 3,000 workshops to be held nationally. The target has been surpassed by more than 1,250 workshops. Substantial engagement took place with taxpayers through workshops conducted at demarcated halls, employer workplace as well as at SARS offices. Basic workshop topics covered registration and record-keeping requirements for small business and introduction to taxes. Intermediate workshops are also held and special workshops are designed for specific sectors.

Taxpayers Reached

During these workshops, a total of 292,611 taxpayers were trained in a range of tax products and issues. We projected a growth of 126,000 taxpayers as our target for the tax year. Historically, in 2005/06 there were just over 30,000 participants, this number increased to 115,777 in 2006/07 and in 2007/08 we reached 292,611. This shows sustained growth greater than 100% year on year. This increase can be attributed to increased training activities taking place at the various branches throughout the country.

Filing Season

During Filing Season, Taxpayer Education assumed responsibility for the coordination of both outreach and education activities. A total of 189,024 outreach interventions were organized throughout the country during the Filing Season along with 11,204 in-house workshops organized in the various branches.

Filing season has as in the past focused on the completion of tax returns, the new processes introduced during 2007/08 posed much bigger challenges than before. The focus also shifted to eFiling which together with efforts form other business areas within SARS contributed to 1,086,312 returns filed via this channel.

Education was done by means of:

- In-house workshops that assisted taxpayers in completing their returns in a group;
- Outreach and points of presence at various malls and other public areas afford SARS greater visibility and interaction with the public especially around the new process and offering assistance with the completion of returns;
- Industrial Theatre to inform and assist especially SITE taxpayers with a national roadshow visiting large site employers like mines in all regions;
- "MY TAX" programme on e.TV educated viewers on the completion of tax returns with special focus on common errors made by taxpayers who have already filed their returns;
- Radio programmes presented by SARS personnel on regional and local radio stations in the specific languages of the regions concerned; and
- A series of workshops specifically targeted at practitioners and hosted across the nation in order to service the vast numbers of taxpayers whose tax affairs are administered by practitioners. Reaching these practitioners is an effective way of ensuring error reduction and greater compliance for a large number of taxpayers.

SARS employees managing taxpayer queues during the Small Business Tax Amnesty Campaign

Small Business Amnesty

In the 2006 Budget, the Minister of Finance introduced a tax amnesty for small businesses who had historically been marginalised in South Africa. The amnesty aimed to bring these entities into the formal tax system and applied to the majority of tax types. To qualify for the small business tax amnesty, the entity must be an individual, unlisted company, close corporation, trust or a co-operative.

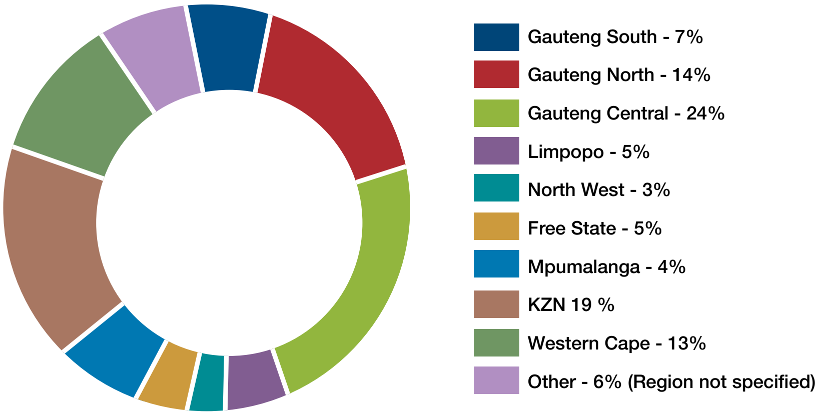
The following were the main requirements:

- the individual or entity must have carried on a business;
- the gross income (turnover) of the business (or businesses if the individual or entity carried on more than one business) during the 2006 year of assessment was not more than R10 million;
- in the case of a company or close corporation all the shares or members' interests were held directly by individuals throughout the 2006 year of assessment; and
- in the case of a trust, all the beneficiaries of that trust throughout the 2006 year of assessment must have been natural persons.

The application process was intended to close on 31 May 2007 but it was extended to 30 June 2007.

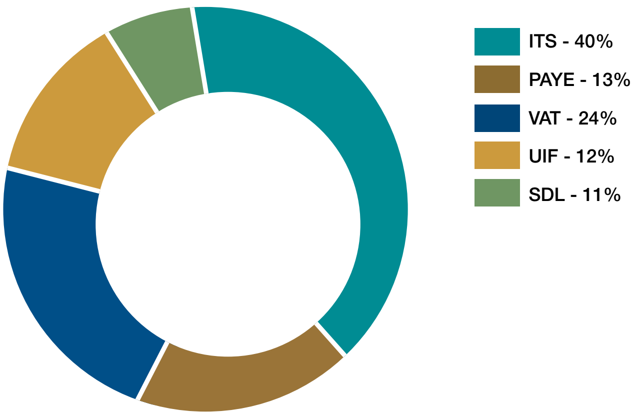
Small Business Amnesty

Figure 2.4.2: Applications per region



Of the 356,426 applications, 44,997 (13%) were new registrations.

Figure 2.4.3: New Registrations



Small Business workshops

A total of 4,280 workshops were presented to small businesses across the country and over 30,000 small business owners at the place of business which mainly focused on the application process and the completion of the application form. This will be followed up with sessions in the 2008/09 tax year with sessions aimed at empowering them to remain compliant. Education packs for these interventions have also been compiled. A number of key events were hosted including meetings with the taxi industry and other small business representatives as part of the Small Business Tax Amnesty (SBTA) and follow-up imbizo's around the country.

Specific Enforcement activities

Special enforcement campaigns contributed to the improvement of the number of amnesty. Applications, and the results of the campaign prior to the closing date for amnesty yielded the following successes:

Table 2.4.8: Small Business Amnesty related activities:

Small Business Amnesty related activities	Results
Warrants of arrest executed	207
Summonses served	988
Writs of execution executed	31
Total value of writs of execution	R70,4 million
Judgments obtained and served	6
Total value of judgments	R1,4 million

Enforcement

Based on a pilot non-compliance tracking system, which enabled the development of a sector differentiated compliance model and matrix, an enforcement programme was launched. This programme identifies areas of focus for enforcement. Industry and sector profiles, with clear trends and patterns for appropriate mitigation, have been identified.

One result is a clearer identification of cases to be audited. This initiative was also complemented by specialised campaigns to bring into the tax register's ambit entities such as small businesses.

An internal programme to align various sets of information available within SARS as well as published information from other agencies to quantify levels of compliance within sections of societies and various sectors of industries, has been initiated.

The introduction of the new Personal Income Tax (PIT) assessment process saw a corresponding introduction of the new risk model for individuals. The model enhances the audit function's ability to allocate resources according to risks identified.

The enhancement of the risk engine resulted in the identification of 48,965 refund cases for audit purposes; 11,000 refund audits were conducted with a success rate of 33% in comparison to 15% in the previous year.

In addition, the risk engine system enhancements identified the following:
- Approximately 600,000 returns with errors were referred back to individuals;
- Approximately 400,000 returns did not match information from 3rd parties;
- Approximately 150,000 returns were flagged for further investigation;
- Approximately 150,000 refunds could not be refunded due to bank details not supplied or where bank details could not be verified;
- 44,010 cases referred to operations for administrative checks; and
- 48,965 cases referred to enforcement for audit.

Enforcement

Anti-corruption and Security

In January 2008, the Anti-Corruption and Security (ACAS) Unit was created to improve the security of SARS resources. The function enables SARS to approach security in an integrated, holistic and comprehensive way that incorporates reactive and proactive measures. The unit is responsible for personnel security, physical security, information security, internal investigations and internal prosecutions.

Fraudulent refunds have been investigated during the year. This relates to electronic fraud, paper trail fraud, impersonation of SARS officials, tax consultants and stolen refund cheques. The work done by ACAS in this regard resulted in the following:
- Dismissal of two employees;
- Conviction of:
  - 10 persons in respect of advance fee (419) fraud;
  - One person for VAT fraud;
  - Two persons for fraud relating to abuse of SARS' name;
  - Nine persons for fraud involving SARS systems; and
  - 15 persons charged for fraud, currently awaiting trial.

Enforcement

Illicit economy

In collaboration with law enforcement agencies and recognising the role that SARS has to play within the larger state-system to address crime, the illicit economy has become a priority focus area for SARS. A specialised capability has been created to focus on the illicit economy from a tax, customs and excise perspective. Initiatives have resulted in the confiscation over the past year of more than 8,900 kilograms of smuggled abalone valued at approximately R30 million, 1,400 master cases of smuggled and counterfeit tobacco valued at more than R20 million and financial investigations against smugglers and dealers of illicit drugs which included the seizure of one kilogram of cocaine. Two trucks, a trailer and a luxury vehicle used in the committing of crimes associated with illicit substances have also been seized.

Abalone

- One of the highlights of the year involves the seizure of 2,400 kilograms of dried abalone valued at R7,4 million at Oliver Tambo International Airport (ORTIA). Three individuals were charged under the Customs and Excise Act and the Marine and Living Resources Acts;
- 2,528 kilograms of abalone destined for the East valued at approximately R8 million, as well as a truck valued at approximately R30,000 was seized at ORTIA;
- The identification of an illegal abalone plant in Pietermaritzburg resulted in the seizure of 4,000 kilograms of abalone valued at approximately R14 million by the DSO and SAPS;
- Inspections were conducted at seven different premises in Gauteng as identified to have been associated with the smuggling of abalone. While the inspections did not produce significant seizures, more suspects involved were identified and additional information concerning their financial and business-affairs were gleaned through the exercise. The fact that the suspects moved their operations and cancelled their telephone-lines soon after the inspections also suggests that the inspections have significantly disrupted and increased the cost-factor of their activities; and
- In collaboration with Marine Coastal Management 460 kilograms of shark fins, 350 kilograms of lobsters and documents were discovered and detained.

Tobacco

- As a result of a joint monitoring exercise with the SAPS two premises were identified, searched and illegal tobacco products to the value of R20 million were seized. A total of 939 master cases of cigarettes were seized from a single premises and an additional 555 master cases were detained. A truck and trailer valued at approximately R2 million were also seized; and
- Spot-checks were done on identified tobacco traders and 25 cartons of counterfeit cigarettes were seized.

Enforcement

Illicit substances

- SARS identified a drug courier at Cape Town International Airport, resulting in the seizure of one kilogram of cocaine, which was handed to the DSO;
- SAPS are in the process of investigating charges of drug-dealing against an individual. In collaboration with the SAPS, SARS seized a luxury motor-vehicle valued at approximately R400,000 that was used in contravention of the Customs and Excise Act;
- SARS participated with SAPS in raids of suspected drugs manufacturers where equipment used to manufacture illicit drugs was seized;
- After a routine search of a vehicle at Beitbridge, customs officers discovered 1,162 kilograms of Methaqualone to the value of R10 million, which is used in the manufacture of mandrax tablets. Financial investigations of associated individuals and companies are continuing; and
- Financial investigations also commenced against individuals identified after a routine inspection by customs at ORTIA resulted in the seizure of approximately 60 kilograms of cocaine, estimated to be worth approximately R30 million.

Conclusion

SARS embarked upon a number of programmes with the aim of stabilizing operations and building capability and making continuous improvements. These included:

- Stabilising the enforcement and compliance risk organisational structures by;
  – Reducing the number of staff in acting positions;
  – Focussing on recruitment by ensuring inflow of talent by appointing graduates and management trainees; and
  – Standardising and reducing the number of job descriptions.
- Focussing on training and development aligned to the SARS-wide career model development programmes;
- Improving the setting of Key Performance Areas and Key Performance Indicators;
- Introducing broader business reviews which are wider than the review of Key Performance Indicators;
- Implementing a model which enables the division to maintain steady state operations and focus on strategic initiatives to obtain continuous improvements;
- Introducing a systemic approach to the business by establishing a Quality Management System (QMS) with the inclusion of training quality auditors, end-of-line inspections and the development of a baseline for standardised policies and procedures; and
- Establishing governance committees with regards to managing penalties and objections.

Customs

Pass out parade of the Customs Border Control Unit

Customs

Trade Facilitation and Border Control

SARS Customs is the division within SARS responsible for the administration of international trade. Its strategic mission is to secure South Africa's socio-economic and developmental interests at ports of entry and to link up the business community with the global trade market by facilitating legitimate trade. SARS Customs is the first-line of control at the country's borders to secure the South African economy and society by administering the movement of goods into, from and through South Africa. We undertake this mission by facilitating trade, combating smuggling and fraud and securing our borders all within the existing international, regional and national policy and regulatory framework.

Performance Highlights

- The Agreement between Mozambique and South Africa on the establishment of the one-stop border post was signed by the Heads of State on 17 September 2007;
- Since the implementation of the Memorandum of Understanding (MOU) on Textile Quotes on 1 January 2007, imports from China have declined by approximately 29%;
- The Customs Border Control Unit (CBCU) Detector Dog Unit started operating in August 2007 and they immediately achieved successes during this month;
- There is a 31% increase in cigarettes seizures from 2006/07;
- The 771 successful post clearance audits conducted netted more than R397,5 million;

Trade Facilitation and Border Control

- The Agreement on Customs and Tax Administration Co-operation with India and Brazil signed on the occasion of the 2nd IBSA Summit held in Pretoria, South Africa;
- South Africa concluded a Customs Mutual Administrative Assistance Agreement with India in February 2008; and
- On-site technical scanner operation and image review training has commenced at the port of Durban.

We have strengthened our institutional and human capacity to facilitate trade and secure our borders by providing appropriate paramilitary training to our Customs Border Control Officers (CBCU). An additional 1 261 Customs and Excise Officers were trained in various operational and "soft" courses. For the first time, three Customs Officers received Masters Degrees, specialising in Customs Law and Administration, from the University of Canberra. To increase the utilisation of the benefits offered by various trade agreements South Africa has with other countries and to promote awareness and compliance, SARS has embarked on an initiative to educate traders. Our client education interventions have contributed to a more impactful outreach to stakeholders. For example, during the year under review we educated traders on the benefits of submitting declarations electronically and this resulted in a streamlining of our import process. The benefit of a more streamlined process has been processing declarations faster; improving trade facilitation and decreasing the manual process.

In line with the new strategic policy framework but also in an effort to address the needs of government, the SARS Commissioner launched the Customs modernisation programme. Noteworthy interventions include:

- Intelligent monitoring of international trade supply chains;
- Improving the visibility and effectiveness of Customs controls at the border;
- Improving trader management;
- Developing a skilled and disciplined workforce; and
- Develop implementation strategies for Customs-to-Customs pilot projects.

By adopting a differentiated operating model, whereby we target our services to the different segments of our stakeholder base, optimise and reduce effort on our operating processes, and enlarge our footprint, we now have greater visibility. During the year under review South Africa imported goods to the value of R592,4 billion which is a 16% increase from 2006/07 and exported products to the value of R517,1 billion which is a 7% increase from 2006/07. South Africa's foreign trade on imports consists primarily of crude petroleum oils and original equipment for cars and trade on exports is primarily gold and platinum.

Trade Facilitation

Customs seek to provide traders with quicker and simpler ways to conduct business. Accredited importers and exporters are offered fast and secure electronic lodgement and processing of import and export goods declarations via the Electronic Data Interchange (EDI) facility. This vastly improves response times for low-risk shipments. In the year under review, 86% of all import declarations and 54% of all export declarations were received via EDI as reflected in table 2.5.1.

Efforts to promote EDI usage will continue. In the coming year, we will undertake a national initiative to promote EDI amongst traders, survey trader requirements and develop an EDI risk identification and management strategy. Processing times for import EDI declarations have improved on 2006/07 processing times by 4% and for exports by 3%, despite a 12% increase in import declarations and 31% on export declarations.

Clients initially submit a declaration to customs and either due the respective rebate schemes or change in rate of duty they will pass a voucher of correction to amend the original declaration and also submit a refund claim. The claims are scrutinized thoroughly by the customs branch office and head office before payments are issued. Customs nationally processed 21,569 refund claims to a value of R1,840,452,194 service charter minimum targets were surpassed with 100% of all claims having been processed within the 30 day measure against a target of 90%.

Border Security

The SARS Detector Dog Unit started operating in August 2007

Table 2.5.1: Percentage achievement of turnaround times for trade processes

Deliverables	Target 2007/08	Achievement
Transactions cleared within target (Imports) International – 4 hrs	96%	100%
- International 24 Hrs	96%	100%
- SACU 24 Hrs	96%	100%
Transactions cleared within target Export - International & SACU - 4 Hrs	96%	99%
Export - International & SACU - 24 Hrs	96%	99%
Turnaround time on Customs refunds	90% within 30 days	102% in 30 days
Electronic transactions processed - Imports International	90%	86%
Exports International	50%	54%
Exports SACU	15%	23%

Customs has implemented the CBCU which is mandated to conduct enforcement interventions to detect and curtail smuggling and gather information as per the Customs and Excise Act (No. 91 of 1964). The primary functions of the CBCU include:

- Controlling the import, export, trans-shipment and supply chain processes;
- Identifying consignments that pose a risk; and
- Disrupting corrupt and illegal activities in these fields.

The CBCU Detector Dog Unit started operating in August 2007 and immediately achieved successes during this month. The expansion of the Detector Dog Unit capacity was achieved according to the plans. The finalisation of the detector dog capacity in Gauteng was achieved with a double operational team of static and reaction unit dog capacity. Members are appointed not as reaction team unit, but all members in the unit are aware that they may at any given time as per operational need be deployed at other ports of entry outside of Gauteng.

The expansion of the unit was achieved with the establishment of the Kwa-Zulu Natal unit whose members are currently undergoing training. The dogs are trained in detection of narcotics, explosives and endangered species, with possible expansion of the detections to cover currency and audio and visual discs.

CBCU Pilot project commenced at ORTIA from the beginning of March 2008. This happened after a successful Military and Customs Content training that took place from the beginning of October 2007 to the end of February 2008 as per project plan. 121 members underwent training and 113 of those members are currently deployed in a pilot at ORTIA. The formal graduation ceremony was held in Naboomspruit. The Commissioner and his Military counterpart presided over the ceremony and they signed the Memorandum of Cooperation. The Commissioner, the Chief Commander and the Commander were given their respective ranks at the ceremony. The graduates also received their ranks and certificates for the completion of the course.

Border Security

CBCU Detector Dog Unit Seizures

The CBCU detector dog unit which was operational from August 2007 achieved the following seizures (as reflected in table 2.5.2) during the last eight months. Most of the cannabis seizures were detected at the ORTIA mail centre in parcels or envelopes en route to the United Kingdom.

Table 2.5.2: Detector Dog Unit Seizures 2007/08

Type of Seizure	No. of Seizures	Value (R)
Cannabis	13	671,000
Cocaine	3	3,2 million
Dry & Wet Abalone	1	1,2 million
Ivory	1	1,300
Endangered Species	2	157,000
Contraband & Counterfeit	16	4,6 million
Other Contrabands	6	22,000
Other Counterfeits	3	279,000

National Anti-Smuggling Teams (AST) Unit Seizures

Anti-Smuggling Teams nationally are guided by a framework of standards that focus activities on the illicit economy and visibility. During the year under review a large number of disruption exercises (including walkabouts) were conducted that contributed to the following results:

Table 2.5.3: Anti-Smuggling Narcotics Seizures

	2006/07	2007/08
Types of Narcotic	**No. Seizures**	**No. Seizures**
Heroin	3	3
Cannabis	136	270
Mandrax	4	5
Cocaine	15	28
Ecstasy	2	5
Other Drugs	221	26
Total	**381**	**337**

50% of the counterfeit seizures were conducted at ORTIA and Cape Town International Airport. The table 2.5.4 gives a breakdown of the types of counterfeit goods seized.

Table 2.5.4: Anti Smuggling Counterfeit Goods Seizures

	2006/07		2007/08	
Type of Seizure	No. Seizures	Value (R million)	No. Seizures	Value (R million)
CD and DVD	165	18,4	89	5,5
Clothing	475	65,3	302	105
Footwear	147	38,2	77	28
Other	767	231,6	615	194,7
Total	**1 554**	**353,5**	**1 083**	**333,2**

There was a 31% increase in cigarettes seizures from 2006/07. 42% of the contraband seizures were at Beit Bridge border post; Cape Town harbour and ORTIA. Table 2.5.5 gives a breakdown of counterfeit and contraband cigarettes seized.

Border Security

Table 2.5.5: Anti Smuggling Cigarettes Seizures (R million)

	2006/07		2007/08	
Type of Seizure	No. Seizures	Value (R million)	No. Seizures	Value (R million)
Cigarettes (Counterfeit & Contraband)	1,963	250	2,846	172

Anti-smuggling teams also made a number of other seizures in the year under review. The breakdown of the types of goods and their value is given in table 2.5.6 below:

Table 2.5.6: Other Seizures for this year

	2006/07	2007/08		
Type of Seizure	No. Seizures	Value (R)	No. Seizures	Value (R)
Cash	84	5,6 million	140	32 million
CITES	198	4,2 million	73	5 million
Motor Vehicles	152	5,1 million	116	10 million
2nd Hand Clothing	234	0,139 million	151	2 million

China Memorandum of Understanding (MOU)

Since the implementation of the MOU on 1 January 2007, imports from China have declined by approximately 29%, indicating that the objectives of the agreement are being met i.e., a decrease in imports from China mitigates the adverse impact of global trade on "vulnerable" sectors of the South African economy. In particular, imports of apparel for the period January-December 2007 totalled R6,3 billion, which decreased by 8,7% from the previous year of R6,9 billion.

Table 2.5.7: China MOU Seizures 2007/08

Month	No. Seizures	Kg Seized	Units Seized
Apr-07	12	10	19,311
May-07	13	-	6,627
Jun-07	13	309	5,532
Jul-07	9	1,082	3,232
Aug-07	23	2,334.1	2,668
Sep-07	22	1,947	21,319
Oct-07	26	4,842	40,600
Nov-07	23	4,040	41,091
Dec-07	8	4,037.4	1,155
Jan-08	9	316	13,827
Feb-08	22	567.62	66,298
Mar-08	26	25	61,723
Total	**206**	**19,510.12**	**283,383**

Joint inspections with the International Trade Administration Commission of South Africa (ITAC) have also been initiated to ensure compliance and to increase risk coverage. To date seven importers' premises were visited. A joint prosecution is currently under way (ITAC/Customs/Enforcement, Criminal Investigations/ SAPS/NPA). Customs has also achieved its target of 25% and 15% of the compliance success ratio for international and SACU imports, respectively and the exports international success ratio of 20%.

Border Security

Table 2.5.8: Cargo Intervention Stop Success Ratio

Deliverables		Target 2007/08	Achievement
Imports	International	25%	25%
	SACU	15%	15%
Exports	International	20%	47%
	SACU	10%	6%

The figures below give a breakdown of the leading import and export products in terms of value.

Figure 2.5.1: Leading import products in terms of Rand Value

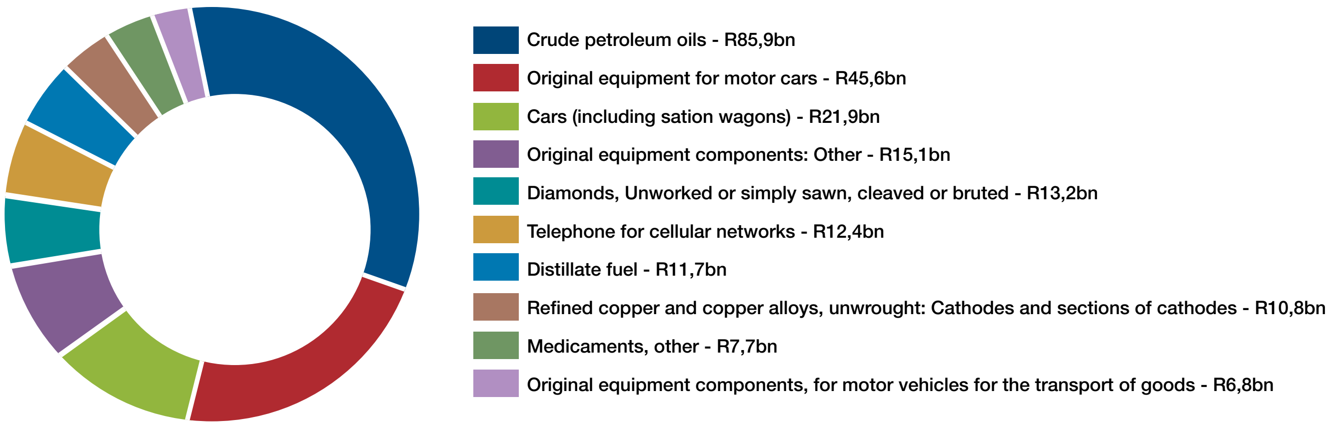


Figure 2.5.2: Leading export products in terms of Rand Value

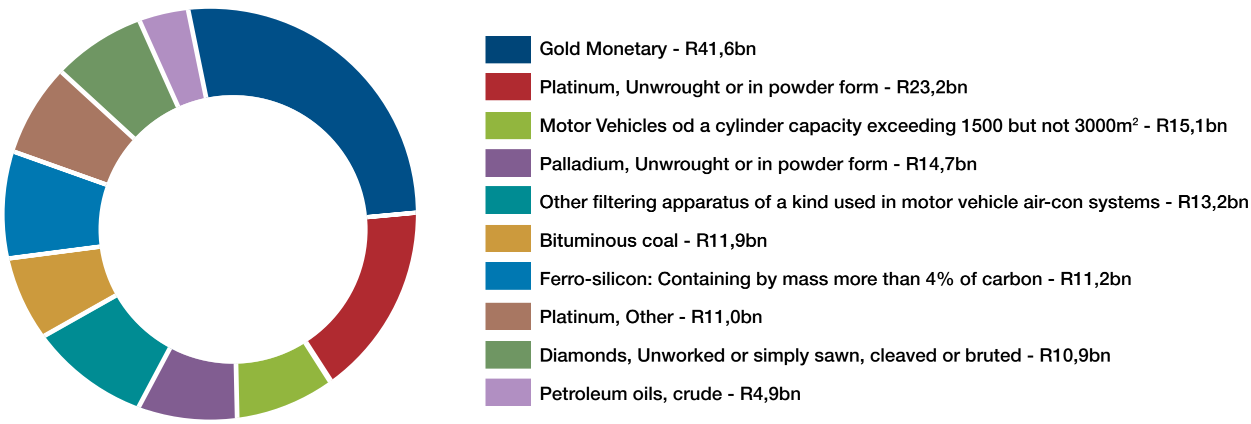


Table 2.5.9: Processing of bills of entry for direct imports and exports

	Imports	Exports	Imports	Exports
	2006/07	**2007/08**	**2006/07**	**2007/08**
Total bills of entry processed	1,969,833	2,232,632	985,660	1,419,378
No. stopped	74,958	64,483	32,228	38,982
No. examined	49,752	40,615	20,602	19,882

The direct bills of entry processed for imports increased from 1 969 833 in 2006/07 to 2 232 632 in 2007/2008, therefore a growth of 12%. Direct bills of entry processed for exports, also increased from 985 660 in 2006/07 to 1 419 378 in 2007/2008, a growth of 31%.

Border Security

The growth of 31% in exports above can be ascribed to more transactions entered into but with smaller quantities exported.

The number of import goods declarations stopped includes desk and physical examination stops. Customs also detain goods on behalf of other government departments and the examinations/release of such cargo are completed by the respective department.

Table 2.5.10: Processing of bills of entry for SACU Imports and Exports

	Imports		Exports	
	2006/07	2007/08	2006/07	2007/08
Total bills of entry processed	223,020	204,058	1,822,274	1,716,561
No. stopped	22,756	12,282	115,364	54,932
No. examined	19,842	10,366	92,436	48,388

The bills of entry processed for imports from SACU countries decreased by 9% and the number stopped decreased by 46%. The bills of entry processed for exports to SACU countries decreased by 6%. The decrease in the number of consignments stopped, in addition to the decrease in transactions, is largely ascribed to the amended targets set for land border posts and the nature of cargo processed. It will also alleviate added-on compliance costs.

Table 2.5.11: Percentage of examinations for Imports and Exports

Deliverables		Target 2007/08	Achievement
Imports	International	10%	9%
	SACU	3%	6%
Exports	International	4%	4%
	SACU	3%	4%

Containerised Cargo

The majority of import and export consignments are transported in containers and Table 2.5.12 below reflects the main seaports which handle containerised cargo.

Table 2.5.12: Containerised cargo at South African ports – 2005/06 to 2007/08

Port	Year 2005/06				Year 2006/07				Year 2007/08			
	Full	Empty	Total	% of Total	Full	Empty	Total	% of Total	Full	Empty	Total	% of Total
Total	**2,265,533**	**845,588**	**3,111,121**	**100**	**2,530,721**	**1,021,477**	**3,552,198**	**100**	**2,734,180**	**999,985**	**3,734,165**	**100**
DBN	1,479,692	476,111	1,955,803	62.86	1,715,352	619,647	2,334,999	65.73	1,900,184	611,520	2,511,704	67.26
PE	266,870	103,979	370,849	11.92	273,542	134,062	407,278	11.47	288,761	127,118	415,879	11.14
CTN	481,318	255,625	736,943	23.69	511,211	253,542	764,753	21.53	519,169	240,312	759,481	20.34
ELN	33,525	9,020	42,545	1.37	28,076	13,760	41,836	1.18	22,645	19,503	42,148	1.13
RIC	4,128	853	4,981	0.16	2,866	466	3,332	0.09	3,421	1,532	4,953	0.13

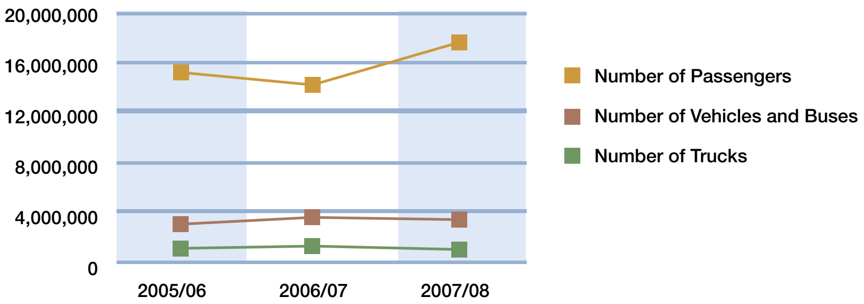
The port of Durban handled just over 67% of the total cargo processed through South Africa. It should be noted that about a third of the containers processed are declared as empty and the associated risk of smuggling and/or non-declaration will be mitigated by the enhancement of scanners and CBCU/AST activities.

Border Security

Passenger Administration

There has been a steady increase in the movement of vehicles, carrying both passengers and cargo, through land ports of entry.

Figure 2.5.3: International and Intra SACU Passenger Volumes



For the year under review the number of passengers passing through our ports of entry has increased by 33.5%.

Table 2.5.13: Percentage achievement of passenger examination and success rate

	Deliverables	Target 2007/08	Achievement
Inbound – Passengers & vehicles (Stop Success Ratio) International	Success rate	10%	25%
Inbound – Passengers & vehicles (Stop Success Ratio) SACU Land Ports	Success rate	5%	1%
Outbound – Passengers (Stop Success Ratio) Oliver Tambo International Airport (ORTIA)	Success rate	5%	1%

Customs Cargo and Container Scanning Initiative (CSI)

In line with the SARS' modernisation programme and to better facilitate trade, the CBCU introduced a cargo scanner system. This system incorporates worldwide developments of detecting illegal imports. The system streamlines the supply chain management so as to protect South Africa from illegal imports and contraband. It thus highlights the need to further reduce the cost of compliance (e.g., red tape procedures) through the use of state of the art latest technology.

To date, over 500 high risk containers have been inspected by SARS. Under the conditions of the agreement SARS may expand its CSI capability to other seaports in South Africa once scanners are installed at such ports.

23 Staff, comprising eight experienced anti-smuggling officers and 15 graduates from the CBCU, have been trained in the use and operation of the scanner equipment.

A comprehensive training itinerary included:

- Transnet Port Terminal induction;
- Occupational, health and safety;
- Radiation safety;
- Customs operational scanner process; and
- Technical scanner operations and image recognition.

SARS has now completed the setup and commissioning of the mobile X-ray scanner. On-site technical scanner operation and image review training has commenced at the Port of Durban.

Border Security

Post Clearance Inspections (PCI)

The Post Clearance Inspection division monitors the compliance of traders, importers and exporters by providing a comprehensive report on the activities of the client base operating at each port. The division has been positioned to focus on closing the revenue gap caused by under declaration and to provide assurance control of trade arrangements. To improve and standardise enforcement processes in the customs arena and to enhance the coordination of all enforcement cases centrally, the Integrated Customs Risk Analysis Solution (ICRAS) – Case Management and Tracking (CM&T) tool was developed. During the year under review, this tool was rolled out to the major seaports and airports within Customs. The 760 successful audits conducted netted more than R610,774,989.

Table 2.5.14: Revenue collected as a result of successful post clearance audits

	2006/07	2007/08
No. of audits conducted	2,058	2,461
No. of successful audits	676	760
Total Collections	R325,877,515	R610,744,989
Value Added Tax contribution	39.4% of the collections	24% of the collections
Customs Duty contribution	32% of the collections	30% of the collections
Penalties contribution	11.8% of the collections	7% of the collections

Table 2.5.15: Post Clearance Inspection Success Rates

	Target	Achievement
PCI audit success ratio – risk based	50%	34%
Regulatory	25%	29%

Risk Based Audits are conducted on traders who have been profiled by our Intelligence Unit indicating potential revenue leakages due to the following reasons:

- Duty on goods suspended (goods placed into bonded warehouses);
- Rebated items (raw material/product imported under a permit received used mainly for manufacturing purposes and consequently exported);
- Incorrect declaration; and
- Valuations (over and under valuation).

Regulatory Control audits were done on traders who are registered with Customs as rebate users and warehouses to which Customs rules and regulations are to be adhered to and require a level of post audit intervention. Of the 1,685 cases completed, a result yield of 29% was achieved.

Table 2.5.16: Success rates of Monetary Inspections in the different categories of audits conducted

Tariff	34%
Voucher of Correction	33%
Valuations	35%
Schedule 3	26%
Schedule 4	28%
Bonded Warehouse	32%

Interventions excluded from the above include Rules of Origin, other compulsory inspections, duty clearances certificate inspections, refund, air passenger tax inspections, accredited client and interventions aimed at Motor Industry Development Programme (MIDP)-related clients, which totalled over 5,000 audits conducted by the post-clearance teams.

Regional & International Partnerships

Officials from the Canadian Border Services Agency (CBSA) meeting with their SARS Customs counterparts

Internal Administrative Appeal (IAA)

The IAA and ADR processes for decisions taken in terms of the Customs and Excise Act were implemented on 4 June 2007. The right of appeal in Customs matters originates from the Kyoto Convention and, in South Africa, the right to lawful, reasonable and procedurally fair administrative action is provided for in the Constitution and the Promotion of Administrative Justice Act.

The purpose of the IAA and ADR guidelines is to formalise the appeal process for Customs and Excise matters with a view to:

- Bringing SARS in line with international best practice;
- Eliminating problems experienced in the past;
- Making provision for specific committees and the appeals to be dealt with by each committee; and
- Aligning the dispute resolution processes within SARS and also with the Constitution and Promotion of Administrative Justice Act; and providing both officers and stakeholders with guidelines as to exactly what process should be followed.

Customs Strategy

The Customs Green Paper sets out the future strategic direction of Customs based on the international, regional and national drivers that are fundamentally impacting on the environment in which SARS Customs operates. SARS Customs has to be responsive to these changes in order to contribute to the growth of our economy and trade and, in particular, South African trade. The progress within this review period to the Green Paper on Customs Modernisation has been the adoption of the Green Paper by Cabinet and publishing an invitation for comments.

Three key strategic policies developed in line with the functional principles emanating from the Green Paper:

- Customs Border Control - increasing visibility and improving enforcement interventions;
- Authorised Economic Operator - international standards and best practices for the management of legitimate trade which are facilitative and, therefore, apply control though approvals, audit and anti-smuggling; and
- Draft Operating Model - introduce new strategic outcomes for Customs, namely facilitating legitimate trade, protecting the economy and society and contributing to border security.

New World Customs Organisation (WCO) standards

In June 2005, the WCO Council adopted new global standards to regulate the movement of goods through international trade supply chains. South Africa, together with more than 100 other WCO countries, submitted letters of intent to implement these new standards. These are aimed at securing the international movement of goods, detecting high-risk goods and facilitating legitimate trade. The approach of the standards is to enable Customs-to-Customs cooperation through the real-time, electronic exchange of information between Customs administrations and Customs-to-Business cooperation. The international Authorized Economic Operator (AEO) standards are aimed at providing facilitation benefits to economic operators that comply as well as international mutual recognition of accredited operators. Implementation of these standards will require, amongst others, receiving all Customs data from traders and carriers electronically prior to the international movement of

Regional & International Partnerships

goods, deploying container scanners and implementing the WCO AEO programme.

The revised International Convention on the Simplification and Harmonisation of Customs Procedures (Kyoto Convention 1974, revised 1999) was developed to facilitate travel and trade while maintaining appropriate levels of regulatory control. 90% of the general annex has been incorporated into the relevant legislative instruments (i.e. the Customs Act, rules and policy). The Minister announced in the 2008 Budget Review that further amendments to the Customs and Excise Act may be required to ensure the successful implementation of the General Annex to the Convention.

Participation in the African programme

SARS played a key role in the establishment of the African Union (AU) Subcommittee of Customs Directors-General by hosting the first All Africa Customs Conference. The subcommittee advises the AU trade ministers on international trade administration issues and is focusing on regional economic integration and the impact of the proliferation of regional trade agreements on customs.

SADC North/South Corridor Transit Pilot

Trade facilitation contributes significantly towards the economic development of the SADC region. Of the fourteen members of SADC, seven countries are land locked and transit is costly as a result of multiple delays resulting from duplication, paper work and fulfilling regulations in different countries along the corridors. In February 2007 the Heads of Customs inaugurated a Pilot project designed to test and introduce the Regional Transit Management System aimed at harmonisation of procedures, regional Bond Guarantee, legislative frameworks, processes and systems along the North/South Corridors (Durban-Blantyre and Durban-Lubumbashi). The countries participating along these corridors are South Africa, Zimbabwe, Mozambique, Malawi, Zambia and the DRC. The project is implemented along Durban-Blantyre Corridor and extended in February 2008 to include Durban – Lubumbashi Corridor. Legally compliant traders between these countries will, under the new SADC Transit Management System, no longer be required to submit four separate sets of customs documents; lodge four separate bonds and comply with four different sets of customs procedures. Initial tests' findings from the Durban-Blantyre Corridor indicate that clearance procedures for shipments from South Africa to Malawi in transit through Zimbabwe and Mozambique have been substantially reduced between 18 and 20 days to an average of seven days.

SADC Customs Union

At a SADC Extraordinary Summit in October 2006, SADC Heads of State agreed on the establishment of a SADC Customs Union by 2010. Customs administrations in the region will have to administer this arrangement, including the agreed common external tariff, policies, processes and procedures. SARS forms part of the task team working towards this union at a technical and Ministerial level. SARS also participates in the activities of the SADC Heads of Customs Subcommittee and its advisory working groups which have been redefined in line with the SADC Customs Union Roadmap.

Conclusion

In the year under review, SARS achieved the customs objectives in main and exceeded targets in many areas, in particular revenue and compliance targets. This has provided a sound basis for further restructuring and strengthening of the function which will provide more focus on and capacity to implement effectively and efficiently the Customs strategy. SARS remains committed to strengthening control at ports of entry, ensuring that only lawful goods enter or leave South Africa, while illicit, unsafe and harmful goods are detected and confiscated. To that end, from an operational point of view we plan to:

- Enforce the electronic submission of all documents (including number of declarations); and
- Stabilise customs operations and enhance the capacity to conduct assurance audits in line with international standards to facilitate trade.

The CBCU will be rolled out at six ports within RSA. Current AST capacity will be absorbed within CBCU and PCI to promote a more seamless transition of skilled resources. Implementation of an additional CSI with Canada to curb illicit trade and improve border security will extend and underpin the present arrangements with the US.

Part Three

Legal and Policy

Legal and Policy

Performance Highlights

Legislation

- Completion of first draft Customs Bill - for intra- and inter- Governmental consultation;
- Introduction of the new reportable arrangements legislation;
- Assisted National Treasury in preparation of eight Bills introduced;
- Introduction of new Customs and Excise Internal Appeal and ADR rules; and
- Withholding tax on non-residents who dispose of property in SA came into operation on 1 September 2007.

Interpretation and Rulings

- Binding Class Rulings were introduced on 1 October 2007;
- A number of key guides have been published during the year under review, such as the Tax Exemption Guide for Public Benefit Organisations (Issue 2), Comprehensive Guide to Secondary Tax on Companies (Issue 2), Comprehensive Guide to Capital Gains Tax and Guide on the Taxation of Lump Sum Benefits.

Dispute Resolution

- Achieved an average success rate of 82% (averaged between Revenue and Customs Litigation);
- Finalised 72% of the opening balance of appeals via the Alternative Dispute Resolution channels; and
- Some ground breaking positive judgments out of both the High Court and the Supreme Court of Appeal.

As the administrator of tax and customs law, SARS endeavours to ensure that it contributes to the creation of an appropriate tax policy and legislative environment. In the year under review, SARS has played a significant role in contributing to the creation of an enabling tax and customs regulatory framework. Specifically, SARS has been involved in:

- Policy formulation and legislative drafting;
- Interpretation and rulings; and
- Dispute resolution.

SARS' involvement in the above areas has resulted in tax and customs policy and laws being increasingly balanced regarding the needs of government and those of stakeholders (for example, taxpayers, traders and practitioners).

SARS works closely with the National Treasury in the formulation and drafting of new legislation and, where appropriate, proposing amendments to existing legislation. SARS is also involved in the negotiation of tax treaties. These roles emanate directly from the SARS Act which states that SARS is to advise:

- The Minister of Finance on all revenue matters or the exercise of any power or the performance of any function by that Minister; and
- The Minister of Trade and Industry on matters concerning the control over the import, export, movement or use of certain goods.

This mandate has required SARS to take action to give effect to South Africa's macro and microeconomic and fiscal policies.

Our noteworthy interventions have been in the areas of: primary and secondary legislation; enabling and communicating the tax implications of the budget; the management of legal aspects of customs and excise; the negotiation of tax treaties and customs agreements in line with South African tax policy and legislative frameworks; and ensuring that South Africa has a visible presence within international tax and customs structures and processes.

Legislation

Primary legislation

SARS has contributed to a range of legislation and explanatory memoranda for a wide variety of Bills. Joint submissions with National Treasury have been made regarding commentary received by the Portfolio Committee on Finance (PCOF). We have informed the taxpaying public about legislative changes or amendments through a range of briefing notes and media statements throughout the year. Our inputs regarding primary tax and customs policy and legislation have been in the areas of pensions, skilled expatriates, anti-avoidance, administrative penalties, tax return filing, customs control and counterfeit goods, customs duties and excise duties on imported goods and legislative remedies. SARS has also prepared a draft Customs Bill for intra- and inter-Governmental review, which takes account of current domestic and international demands relating to border control and trade facilitation.

Secondary legislation

A wide range of secondary legislation has been drafted. This includes Regulations, Proclamations and Notices, which have cumulatively contributed to explaining tax and customs matters and thus better service delivery.

Customs and Excise Act Notices and Tariffs

A total of 31 Government Notices relating to Customs and Excise matters were published in the areas of: (a) Anti-dumping duties (2); (b) Safeguard duties (2); and (c) Rebates/Tariffs (17). Six substantial sets of rules were also published.

International

See discussion of international outcomes on page 113.

Members of parliamentary committees during their oversight visit to Lehae la SARS (SARS Head Office)

Interpretation and Rulings

This function facilitates the uniform and correct application of legislation by means of interpretation notes, general notes, retirement fund notes, high level rulings and guides. This ranges from basic guides to comprehensive guides. It allows for certainty and responsible enforcement of the tax laws in an objective and independent manner.

The Advance Tax Ruling system promotes clarity, consistency, and certainty in respect of the interpretation and application of the tax laws to which it applies. A Binding Ruling allows for both clarity and certainty on the Commissioner's interpretation and application of the tax laws on proposed transactions. If full and accurate disclosure of facts in connection with the proposed transaction is provided and the transaction is actually carried out as described in the application, the ruling will generally be binding upon the Commissioner.

Rulings

The Rulings issued steadily increased over the past year. The key statistics are:

Corporate Income Tax
20 high level rulings regarding processes of manufacture and interpretation relating to recreational clubs, loans to micro enterprises, and Public Benefit Organisations.
Personal Income Tax Policy
174 rulings issued in respect of subsistence allowances, labour broker and personal service companies, exemption of bursaries and scholarships, exemption of foreign employment, exemption of public entities for skills development levy purposes as well as retirement funds related queries.
Indirect Tax Policy
125 rulings issued regarding VAT, export rules, cut off dates of vendors' tax periods, ex-gratia payments regarding goods under warranty.

Interpretation

Various Interpretation Notes have been updated during the year and several new notes as well as existing notes that required extensive revisions were published in draft form for public comment, before finalising the SARS official interpretation on the respective topics. Numerous guides and brochures were published during the year.

Advance Tax Rulings (ATR)

The ATR system was implemented on 1 October 2006 and was extended to also include Binding Class Rulings which came into effect on 1 October 2007. Binding Class Rulings will set forth the Commissioner's opinion regarding the application or interpretation of the tax laws to a specific class of taxpayer in respect of a proposed transaction or arrangement.

Binding rulings can be classified into two types:

- New applications: These are first-time applications in respect of proposed transactions for which a fee is payable; and
- Confirmations of prior written statements. These are requests for confirmation of statements that were issued prior to the implementation of the ATR system.

Interpretation and Rulings

Applications are received in respect of various tax types and most applications cover several items. Statistics are furthermore kept on the major areas within the various tax types to keep track of any potential trends that may appear over a period in time. To date no specific trend has appeared. The following table summarizes our Rulings for the year under review. Noteworthy is that 78% of rulings issue related Income Tax, 15% to VAT and 7% combined.

Table 3.3.1: Summary of Rulings 2007/08

Summary of Rulings: 2007/08	Granted	Withdrawn and rejected	Pending
127 Private ruling applications received (15 Sanitised rulings published)	50	33	44
8 Class ruling applications received			8
48 Section 76I ruling applications (confirmation of previous written statements) received	22	16	10

Tax Shelters and Anti-Avoidance

The focus areas for analysis for the year under review were:

- Long-term hybrid funding structures;
- International aircraft leasing structures;
- Share buy-back scheme for the avoidance of Secondary Tax on Companies (STC); and
- Foreign Tax Credit schemes (FTC).

SARS operational units have been assisted in countering these structures and schemes, including assistance in settlement negotiations.

Reportable Arrangements (RAs)

Fifty four RAs were reported in terms of existing legislation and analysed. In common with the previous year, the majority of RAs related to standard preference share structures.

Revised reportable arrangements legislation was passed by Parliament late in 2006. Discussions were held with the Banking Association of South Africa (BASA) and the South African Institute of Chartered Accountants (SAICA) to resolve concerns that had been raised with respect to the revised legislation. The necessary steps were then taken to ensure that the revised legislation became effective from 1 April 2008.

Knowledge Sharing

The Legal and Policy Division aims to develop and maintain a sound tax knowledge base by issuing tax guides, interpretation notes and Binding Private Rulings for relevant stakeholders. This promotes the transfer of tax and customs information and relevant skills to various stakeholders. In the year under review, the division disseminated 23 guides on tax matters and 19 interpretation notes.

Dispute Resolution

SARS is obliged to ensure the durability and legal rationality of tax principles enunciated by the Tax and Higher Courts. If SARS is to manage these responsibilities strategically it must ensure that the best legal resources available are utilised for this purpose and that the workforce is appropriately knowledgeable and skilled. The tables below give a breakdown of the cases in respect of revenue and customs litigation.

Revenue Litigation

The tables below give a breakdown of the cases in respect of revenue:

Table 3.3.2: Breakdown of Revenue cases at the various courts

Tax Court	QTY
Withdrawn by taxpayer	21
Won	13
Conceded	67
Lost	4
Settled against SARS	2
Settled in favour of SARS	57
Referred to Branch: Re-assessment	8
Referred to Tax Board	1
Tax Court Totals	**173**
High Court	**QTY**
Conceded	1
Lost	0
Settled against SARS	0
Settled in favour of SARS	0
Won	2
Withdrawn by taxpayer	1
High Court Totals	**4**
Supreme Court of Appeal (SCA)	**QTY**
TP withdraw SCA Appeal	1
SARS withdraw SCA Appeal	0
SCA Appeal Won	6
SCA Appeal Lost	0
SCA Totals	**7**

Dispute Resolution

Customs Litigation

The tables below give a breakdown of the cases in respect of customs:

Table 3.3.3: Breakdown of Customs cases at the various courts

	Abide	Against	Settled in favour
Magistrate Court	1	1	2
High Court	94	4	10
Supreme Court of Appeal	1		4
Constitutional Court			1

SARS also seeks to provide taxpayers and traders with a fair and consistent dispute resolution process that respects their rights to redress. This is achieved by:

- The independence of the ADR and litigation processes from SARS' operational interaction with taxpayers and traders;
- The management of turnaround times of case processing achieved by implementing the rules to litigation as well as the first-in, first-out case management system;
- The provision of updates to taxpayers on their rights, through the medium of guides and manuals; and
- The adherence to administrative and constitutional principles.

The table below gives a breakdown of the appeals dealt with by ADR in the year under review.

Table 3.3.4: Appeals dealt with by ADR

Appeals dealt with by ADR	
Conceded	80
Settled in favour of SARS	38
Settled against SARS	96
Referred to Tax Board	2
Referred to Tax Court	38
Referred to Branch	17
Total of cases dealt with	**271**

Of the cases on appeal most are in respect of capital vs revenue, deductions and exemptions (income tax), as well as VAT matters.

Corporate Legal Advice

SARS also has a Corporate Legal Unit which provides in-house related legal support . Its objectives, in brief, are to:

- Provide SARS with corporate legal support and services for non-tax and non-customs and excise related legal matters;
- Manage litigation instituted by SARS and against SARS including liaising with relevant internal stakeholders and external legal representatives;
- Advise on actions required in order for SARS to comply with policy, legal and regulatory requirements; and
- Advise on implications of legal and regulatory requirements on tender processes.

During the period under review 254 cases, that is, drafting and/or vetting of contracts/leases/SLAs/MOUs, issuing of legal opinions, collection of staff debt, etc were dealt with by this Unit on behalf of SARS.

Conclusion

The Legal and Policy Division will continue to work closely with National Treasury and the Department of Trade and Industry to monitor, update and amend legislation relating to tax and customs matters, and to draft new legislation where needed. The Division will also act proactively to protect the South Africa's tax base and counter threats to revenue collection by taking legal action where necessary against tax evaders, and by detecting and deterring impermissible tax avoidance. It will also endeavour to:

- resolve tax disputes in an equitable and fair manner; and
- interpret tax laws fairly and consistently.

Part Four
Administration and Governance

SARS South African Revenue Service

People

Overview

SARS recognises that its people are the drivers of its success and therefore the 2007 Calendar year was declared "Year of the People". An employee engagement survey was completed and a programme of action implemented to ensure that SARS is staffed by people who are truly engaged and inspired by the opportunity and challenge to contribute to nation-building. We continue to strive to improve professionalism, ensure continuous performance improvement and the retention of critical personnel.

Performance Highlights

- Repositioning SARS as a "value proposition" for current and future employees in our quest to become an "Employer of Choice";
- A new recruitment process and service level agreements were implemented with the aim to reduce the Recruitment Cycle with up to 50%;
- Our Employee Attitude levels, which we measure through the Employee Engagement Survey were determined with the successful implementation of a programme of action to improve the level of employee engagement;
- Assisted the organisation to build additional Capacity and Capability (numbers and skills) especially for the Modernisation Agenda aspirations. Progress is positive with a recruitment rate of 11% year to date;
- Enhanced and implemented the new Individual Performance Management System. At the end of March 2008, 85% of SARS employees have signed-off individual performance contracts as part of the implementation of the new Individual Performance Management System;
- Successful concluding of various Collective Agreements with Organised Labour, especially the multi-term Substantive (wage) Agreement that was negotiated and signed with National Education, Health and Allied Workers Union (NEHAWU);
- Achieving Employment Equity Black Profile targets (We achieved 65% Black representation within SARS);

People

- Establishing Primary Health Care Services at Customs land border posts; and
- Building additional capacity and capability in the HR Team to deliver. The HR professionalism ratio has increased with 18% from last year with specific focus on improving the HR Business Partner Concept.

SARS Staff who participated in a 2007 Tax Season advertisement

People

Workforce Profile

At the end of March 2008, headcount had increased with 535 permanent employees from 14,013 (March 2007) to 14,548. Temporary employees contributed to 3% of our staff resulting in an overall staff complement of 15,044.

Figure 4.1.1: Workforce Profile

The following figure illustrates staff distribution per grade:

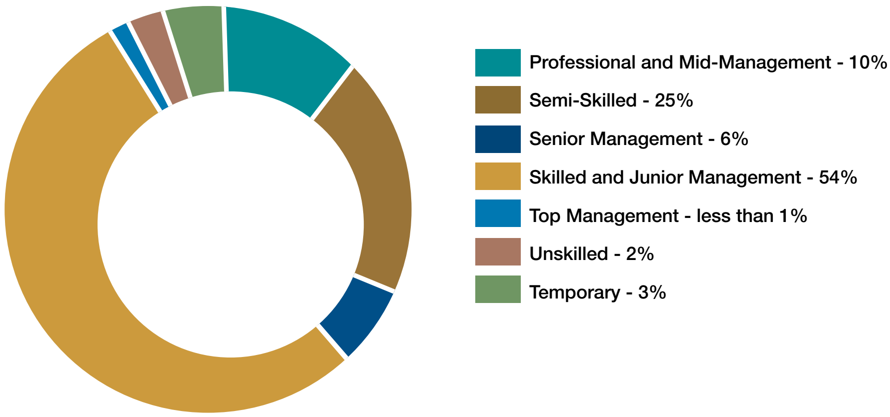
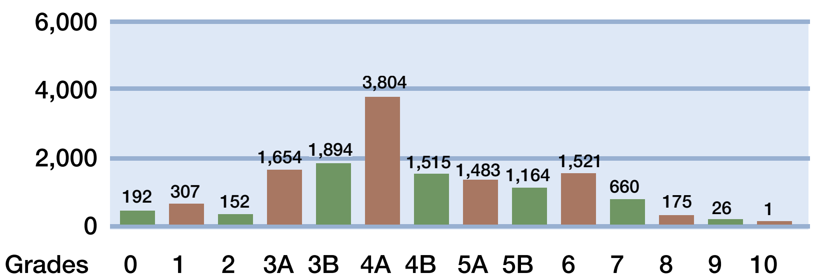


Figure 4.1.2: Grade Profile



During 2007/08:

- 92% of employees were in core business operations;
- 8% were in support business operations;
- The average length of service of employees is 9 years;
- The average age of our staff is 36 years;
- 65% of employees were black;
- 64% of employees were female;
- 1.5% of employees had a disability;
- Net staff turnover was 3.74%, with a net growth of 535 employees; and
- The sick absenteeism rate was 2.3%, 0.7% down on the previous year.

People

In total 1,595 new appointments were made. When compared with staff attrition of 1,061 employees, the result was a positive net staff growth of 3.74% (535 employees). Table 4.1.1 illustrates appointments and losses:

Table 4.1.1: Net staff turnover (2007/08)

External Recruitment	Attrition (Exits)	Attrition Rate (Exits) YTD	Recruitment Rate (YTD)	YTD Net Staff Turnover %
1 595	1,061	7.43%	11.17%	3.74%

In addition to the above appointments, the Graduate Recruitment and Development Programme have also successfully placed 175 graduates within the organisation.

Skills and Orientation

To support the highly specialised competencies required to meet SARS operational requirements and to reduce turn around times for placements, SARS has fully outsourced its recruitment process to a matrix of Specialist Recruitment Consultancies. The matrix of Assessment Providers was also reviewed to support the unique and varied Psychometric Assessment requirements of profiling at each level within the organisation. The SARS National Recruitment Centre was established and occupied in 2007. The SARS Employer Branding was aligned in the areas of attracting, engaging and retaining talent.

The SARS Academy was decentralised to local responsibility to better understand and respond to business requirements and to support a flexible staff compliment with the appropriate skills to respond to changing operational requirements. Through the national learning needs analysis process, 58,109 learning needs were identified. In total 20,743 learning programmes were planned and 28,796 learning interventions were delivered, exceeding the target for training.

In order to provide SARS employees with opportunities for career growth and development, SARS has developed an exciting new Career Model which will assist Employees to take self responsibility for Career Development with all the necessary support mechanism in place to bring about a professional cadre Tax and Customs Professionals.

The second SARS Employee Connexion survey was conducted this year to measure the improvement in levels of employee engagement. It measured employee motivation and commitment and a significant improvement was made compared to the previous year, in other words employees having a positive attitude towards the organisation and showing business enhancing behaviour. Based on the survey results a Programme of Action with immediate short, medium and long term commitments, emanating from the survey's findings, was implemented in July 2007.

The Programme of Action includes, among others:

- New long service awards policy and incentives;
- New reward and recognition excellence programme (Amakhwezi);
- Leadership development programme;
- Career development programmes and opportunities; and
- Revised performance management and development systems.

The Kulani no Hlayisa (Grow while Caring) Employee Wellbeing Programme continued to enhance the wellbeing of SARS employees by providing counselling and support services and online health and financial management support for employees, has created an integrated and holistic approach to promoting wellness among staff.

The EAP programme consists of the following channels:

- Telephonic and face-to-face counselling. For the year under review, 15% of SARS staff made use of these services. This compares favourably with the industry average of 13%. Telephone counselling is the most used service; and
- SARS' e-Care Programme is an integrated online wellbeing programme which includes comprehensive, up-to-date information on general health and wellness. This internet based programme is extremely well utilised by SARS employees with over 62% registered and over 73% of the users who are fully profiled which is above the national benchmark of 36%.

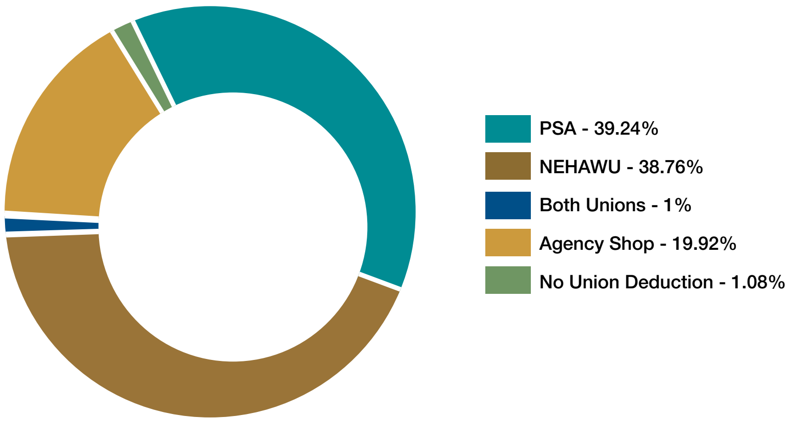
People

SARS continues to develop good long-term relationships with organised labour through regular forums, existing collective agreements and, where required, new ones. The focus has been on improving the skills of management and labour representatives in dealing with employee relations matters. The following Collective Agreements were negotiated and signed with organised labour:

- Wages and conditions of employment;
- Disciplinary and grievance codes and procedures;
- Negotiating an incapacity code and procedure;
- Constitution of the National Bargaining Forum; and
- An agency shop agreement.

SARS recently signed recognition agreements with the Public Service Association of South Africa (PSA) and the NEHAWU that will regulate the relationship. These agreements allow all interactions to be conducted with integrity and provide for the smooth resolution of conflicts. The figure below illustrates union representation at SARS as at 31 March 2008

Figure 4.1.3: Union representation (as a % of the SARS Headcount)



Human resource systems and process

The eIRP5 process was implemented and employee's can now access their IRP5's on the PeopleSoft self service system. Development work is underway to implement phase one of the SAP HR Module as part of the SARS Modernisation agenda strategy to implement an integrated SARS Enterprise Resource Planning strategy.

Significant improvement in SARS data integrity was achieved through the implementation of Employee Personal Data compliance, Manager Structural Data compliance and the roll out of the payroll compliance to managers as part of the Data Integrity clean-up.

Employment equity and workplace diversity

SARS is strongly committed to employment equity and diversity, and embraces employment equity as a coherent and systematic approach to redress the imbalances of the past. In line with the Employment Equity Act, the organisation is committed to eliminate unfair discrimination and implement measures to ensure equitable representation of designated groups across all occupational categories and levels. As such, SARS firmly integrates EE into all business functions and processes.

People

To comply with the letter and spirit of the employment equity legislation, SARS has revised the EE and Sexual Harassment Policies, developed and implemented a comprehensive EE Strategy and a three year plan inclusive of both non-numerical and numerical goals. Regional consultative committees have also been established and a Women's Networking Forum launched.

The table below indicates the total number of designated employees in each of the occupational levels.

Table 4.1.2: Workforce Profile with regard to Employment Equity

Occupational levels	Designated*							Non-Designated			Total
	Male			Female				White Male	Foreign Nationals		
	A	C	I	A	C	I	W		M	F	
Top management	9	3	4	2	0	1	1	7	0	0	27
Senior management	192	37	62	104	15	40	158	220	6	1	835
Professional	339	67	111	243	48	83	310	315	4	1	1 521
Skilled and junior	1 633	302	196	2 247	528	296	2 289	661	2	4	8 158
Semi-skilled	630	126	34	1 367	340	89	986	123	4	1	3 700
Unskilled	80	20	0	176	21	0	0	10	0	0	307
TOTAL	**2 883**	**555**	**407**	**4 139**	**952**	**509**	**3 744**	**1 336**	**16**	**7**	**14 548**

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

The figure below provides further details of the black (African, Indian and Coloured) workforce profile since 2004:

Figure 4.1.3: Black Workforce Profile 2004 – 2008

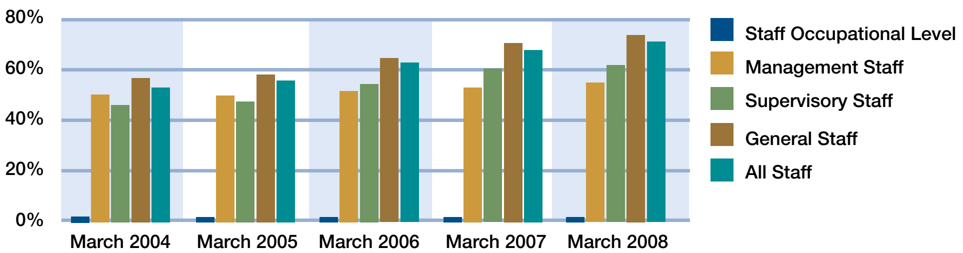


Table 4.1.4: Percentage of Black Workforce from 2004 – 2008

Staff Occupational level	March 2004 %	March 2005 %	March 2006 %	March 2007 %	March 2008 %
Management Staff	47%	51%	53%	54%	57%
Supervisory Staff	44%	48%	57%	60%	61%
General Staff	55%	58%	62%	65%	67%
All Staff	53%	56%	61%	63%	65%

The graph above illustrates a steady increase in the representation of black staff since 2004 with a 10% point increase at management level, 17% points at supervisory level, and 12% points among general staff.

People

The figure below provides further details of the female workforce profiles since 2004.

Figure 4.1.4: Female Workforce Profile 2004 – 2008

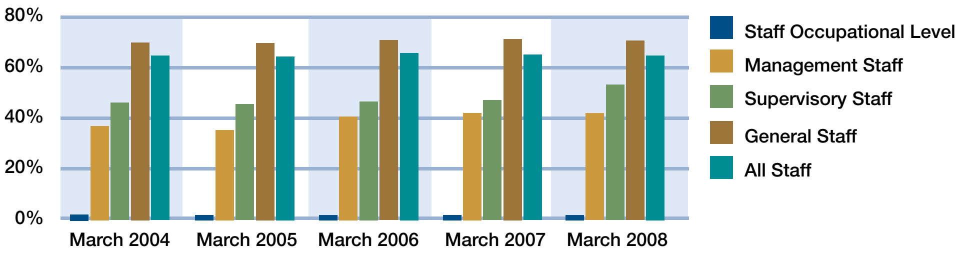


Table 4.1.4: Percentage of Female Workforce from 2004 – 2008

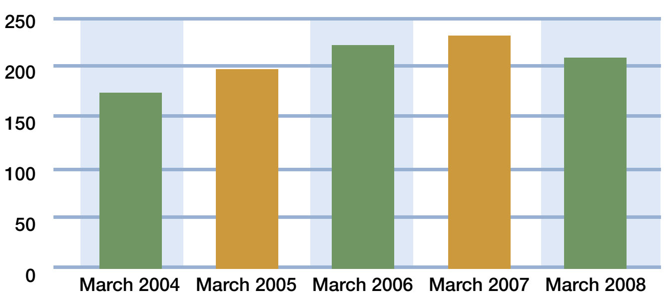
Staff Occupational level	March 2004 %	March 2005 %	March 2006 %	March 2007 %	March 2008 %
Management Staff	37%	35%	40%	42%	42%
Supervisory Staff	47%	45%	46%	47%	53%
General Staff	70%	70%	71%	71%	70%
All Staff	65%	64%	65%	65%	64%

The figure above illustrates an increase in female representation since 2004 with a 5% points at management level.

Awareness on gender and other challenges were raised through participation in campaigns such as the Take a Girl-Child to Work Day, Women's Month, Casual Day, and 16 Days of Activism against Women and Child Abuse.

For the year under review, people with disabilities accounted for 1.5% (213) of the total workforce, of which 50% comprised of people with physical, 25% sight and 16% hearing disabilities. The table below shows the representation of people with disabilities for the past five years.

Figure 4.1.6: Representation of people with disabilities 2004-2008



As part of raising awareness related to people living with a disability, SARS took part in the Casual Day campaign and we raised an amount of R68 067.

People

Progressive and capable managers

Various initiatives focused on at establishing a cadre of progressive and capable managers with SARS and the following results were achieved for the period under review:

- The decentralisation of the SARS Academy brought operational leadership development closer to business requirements;
- The Career Development Model enabled career progression of potential candidates into management positions;
- Leadership Development Programmes were developed, piloted and approved for implementation;
- Black representation on management level has improved with 5.5% from the previous reporting year;
- Female representation on management level has been maintained at 42% and has improved on supervisory level with 12.7% from the previous year;
- As competition for good talent is high, talent management remains an ongoing priority;
- To entrench a sense of fairness and equity within the SMT division and contribute towards staff retention and recruitment of necessary skills, a comprehensive industry benchmark review of all staff was conducted; and
- Relationships with external stakeholders have also been forged with the view to develop skills in short supply.

Performance management

Our strategic aspirations require us to continuously enhance our performance at all organisational levels. Overall alignment between organisational and individual performance objectives was further enhanced This was further enabled by shifting from collective based performance management processes to an individual based process , applicable to grade 1-7 staff. This ensured that an individual's contribution is fully aligned and effectively managed.

The SARS Bonus Scheme governed by the Senior Management Incentive Scheme (SMIS for grade 8 and 9) as well as the Performance Management and Development Scheme (PMDS for grade 1-7) policies were effectively utilised to ensure challenging targets which stretched the efforts of our employees. The SARS Bonus Scheme was enhanced to align the payment of differentiated performance bonuses to performance achievements at an organisational, divisional and individual level.

SARS also reached an agreement with Organised Labour on the management of poor work performance to ensure that there are consequences for poor performance. A new Total Rewards Strategy was introduced with the aim to increase SARS' value proposition and ensure the organisation is well positioned to attract new talent; and retain staff in critical areas in line with the Human Capital Strategy.

Conclusion

SARS continues to focus on attracting, developing and retaining staff, raising skills levels and addressing growth opportunities. We will set challenging targets and measures for staff, provide regular, clear and constructive feedback, and encourage innovation and new ideas. We recognise that a motivated, skilled workforce with high levels of engagement result in improved business success – and this is vital to achieve our mandate and aspirations.

The SARS Governance Framework details the structures and processes to facilitate and monitor effective management of the organisation, including mechanisms to ensure legal compliance and prevent improper or unlawful behaviour. The framework supports enhanced organisational performance while ensuring balance and alignment with conformance requirements

Performance Highlights

- Adoption of an integrated Governance, risk and compliance framework;
- Hosted ethics awareness workshops for 2,904 employees;
- Concluded Memorandum of Understanding between SARS and the Auditor-General and SARS and the Road Accident Fund; and
- Finalised the National Integrated Border Management Strategy (NIBMS).

Governance

Parliamentary committee members at the SARS Alberton Scanning Facility

Governance is the system which ensures that an organisation does the right things by directing, controlling, regulating and restraining itself with a view to enhancing external and internal trust in its ability to deliver within the parameters of the following:

- The Constitution (Section 195);
- National policies and developmental goals;
- The SARS Act, 1997;
- Public Finance Management Act, 1999;
- 45 other national statutes;
- International tax and customs standards;
- Relevant corporate principles such as the King II Report; and
- SARS principles, values and aspirations.

Governance

Governance in SARS is primarily about enhancing external and internal trust in the institution. It has to be embedded throughout the organisation and manifests at the strategic, operational and tactical levels. Governance enhancement is not a once-off initiative but requires ongoing commitment and must be sustained.

The Governance Framework adopted in the period under review directs SARS' high level approach to integrated governance, risk and compliance. In implementing the framework, we set out to do the following:

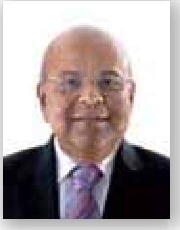
- Reviewing and improving the executive management framework;
- Strengthening direction setting through policy;
- Strengthening regulatory compliance;
- Embedding effective risk management throughout SARS;
- Strengthening planning and performance monitoring; and
- Amplifying and consolidating the governance institutional framework (responsive structures, processes systems).

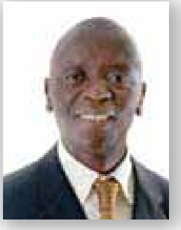
SARS is headed by a Commissioner, who is the Chief Executive Officer and Accounting Authority [SARS Act section 9(1)(d) and PFMA section 49(2)]. Mr Pravin Gordhan, was appointed by President Thabo Mbeki in 2004 to serve a second five-year term. The Commissioner is accountable to the Minister of Finance who is the Executive Authority. The Minister of Finance performs an oversight role over SARS through statutory reporting and regular meetings with members of SARS senior management.

The Commissioner established an Executive Committee (Exco) and various other governance committees. The Exco is chaired by the Commissioner and is accountable for the performance and affairs of SARS. Among the Exco's duties is proper governance of SARS, providing strategic advice to the Commissioner and maintaining open communications with SARS management.

Governance

SARS General Managers

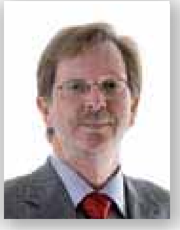

Pravin Gordhan: Commissioner


Matsobane Matlwa: Large Business Centre


Oupa Magashula: Corporate Services


Jonas Makwakwa: Enforcement

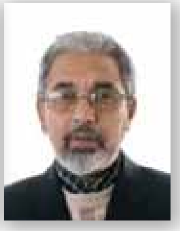

Mandisa Mokwena: Risk Management


Kosie Louw: Legal and Policy


Logan Wort: Communications and Corporate Relations


Barry Hore: Strategy, Modernisation and Technology


Gene Ravele: Government Relations


Ivan Pillay: Enforcement, Risk and Compliance


Nathaniel Mabetwa: Operations Strategy


Leonard Radebe: Customs


Jeannee Padiachy: Enterprise Planning and Performance Monitoring


Randall Carolissen: Operations Standards and Policies


Nonkumbulo Tshombe: Dispute Resolution

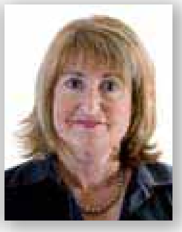

Edward Kieswetter: Chief Operating Officer


Mark Kingon: Operations Support


Vuso Shabalala: Small Business


Mukhtar Mohomed: Properties and Facilities


Franz Tomasek: Legislative Policy


Brenda Hore: Process & Information Management


Prakash Mangrey: Finance


Nico Alberts: Interpretation and Rulings


Fabian Murray: Performance


Thinus Marx: Managed Operations


Tau Mashigo: Chief Information Officer

The Executive Management framework

For the period under review SARS Exco consisted of the following members:

Pravin Gordhan	Accounting Authority
Ivan Pillay	GM: Enforcement, Risk and Compliance
Oupa Magashula	GM: Corporate Services
Jonas Makwakwa	GM: Enforcement
Mandisa Mokwena	GM: Risk Management
Kosie Louw	GM: Legal and Policy
Jeannee Padiachy	GM: Enterprise Planning and Performance Monitoring
Barry Hore	GM: Strategy, Modernisation and Technology
Edward Kieswetter	Chief Operating Officer
Matsobane Matlwa	GM: Large Business Centre
Vuso Shabalala	GM: Small Business
Leonard Radebe	GM: Customs
Logan Wort	GM: Communications and Corporate Relations
Prakash Mangrey	GM: Finance
Tau Mashigo	Chief Information Officer

In the period under review, Exco approved the revised executive committee structure. The changes were necessitated by SARS' need to become more responsive to changing policy, legislative, operational and organisational landscapes. The existing Exco Management committees were dissolved and the following new Committees were constituted as successors to the previous committees:

- **Business Review Committee**
  The Business Review Committee will have authority to approve all operational and business related activity within the organisation.
- **Modernisation Steering Committee**
  The Modernisation Steering Committee will set and monitor the Modernisation agenda of the organisation.
- **People Committee**
  The People Committee will have authority to approve all human resource related activity within the organisation.
- **Strategy Committee**
  The Strategy Committee will set the strategic direction for the organisation and the delivery framework within the allocated resource allocation.
- **Regulatory Compliance Committee**
  The Regulatory Compliance Committee will approve the regulatory compliance standards and procedures and monitor the compliance of discretionary SARS actions and transactions (e.g. dispute resolution, objections, appeals and write-offs) with the requirements of administrative justice.

Delegation of Authority

SARS has a policy for the orderly delegation of authority to individuals. Given the evolving nature of our work, this document is revised regularly and ratified.

The members of the executive committees have been given the authority and powers to address and dispose of matters or make recommendations to Exco depending on the nature of the issue. Exco as oversight body must be kept informed of decisions of all the committees to ensure that delegated power is being used appropriately. Membership of the committees is at the discretion of the Commissioner and consists of Exco members, General Managers who are not members of Exco, key senior managers and subject matter experts.

Governance

External Governance Committees

The SARS Act makes provision for the establishment of specialist committees to advise the Commissioner and the Minister of Finance on any matter concerning the management of SARS resources. The Public Finance Management Act (PFMA) also requires the establishment of an audit committee to assist the accounting officer in carrying out his responsibilities in terms of the Act.

The following external committees have accordingly been constituted:

- Audit committee; and
- Human Resource specialist committee and its remuneration subcommittee.

Audit Committee

The Audit Committee was established in terms of Section 51(1)(a)(ii) of the PFMA and paragraph 27.1.1 of the Treasury Regulations, which require the Commissioner to establish an audit committee to assist the accounting officer in carrying out the responsibilities in terms of the Act.

Audit Committee Members

Mr Bongani Nqwababa B.Acc, CA, MBA
Finance Director at Eskom Holdings Limited (New SARS Audit Chairperson from March /April 2006)
B. Acc (Hons), 1989, University of Zimbabwe; CA (Zim) 1991; MBA in Finance, 1999, Universities of Manchester and Wales, Bangor

Mr Mustaq Brey
CEO : Brimstone Investment Corporation Limited
B.Compt (Hons); CA (SA)

Ms Berenice Lue-Marais
Head: Africa, CSIR Market & Business Development; and International Development Finance Manager,
CSIR International Relations, CSIR, Pretoria
MBA International Finance, 1992; The American University, Washington, D.C.; Bachelor of Arts, BA Economics, 1988 August 1988; The University of the District of Columbia, Washington, D.C.; Diploma, Hotel Management, 1984; M.L. Sultan Technikon, Durban, South Africa

Prof Dillip Garach
Accounting Professor at Natal University; Consulting Partner at Garach & Garach
MCom; CA(SA); CFP
Note should be taken that for the period under review, Prof Dillip Garach temporarily recused himself from SARS Governance structures for personal reasons.

Governance

Human Resource Committee Members

Ms Judy Parfitt (Chairperson) - BJourn, HDE (Rhodes); BA (Hons); MA (PE); MA (Warwick)
Managing Director of Resolve Workplace Solutions, and Director of the Resolve Group

Mr Mike Olivier - M.Sc. Nuclear Physics (Wits); MBA (California)
Remuneration and Human Resources Consulting

Ms Liz Thebe
Group Executive – Human Resources: SA Post Office

Mr Adolf Maphutha - B.Com (Hons) SA; Dip.Workstudy; Dip.Labour Law; Dip.Energy Law
Portfolio Manager: Energy: Government Relations: Sasol Oil (Pty) Ltd

Mr Lionel Human - BA Industrial Psychology (Hons) UWC; Personnel Management Dip (Dam); Management Certificate Unisa
MD : Prima Personnel

Direction setting through policy

A fundamental function of governance is to ensure that appropriate policies are in place to direct the organisation. The policies may be enterprise wide, divisional or branch policies. Enterprise policies mainly relate to key governance deliverables. The Enterprise Policy Unit was established in December 2007 to provide enterprise wide policy direction across SARS by developing, formalising, publishing and maintaining enterprise policies and procedures and serving as the repository for all SARS policies.

Key deliverables for the year include:

- Identifying the key governance deliverables;
- Allocating roles associated with each key strategic deliverable such as the accountable party, the approver and the deliverer to specific persons;
- Linking each strategic deliverable to a consultative and decision making mechanism; and
- Partially mobilizing the policy making capacity.

In the coming year, the framework of policies required to manage the business effectively will be completed. Additional key governance deliverables will be identified and existing policies will be revised and a package of new directional policies will be developed in relation to each key strategic deliverable. The enterprise-wide policy on the governance of policy will be a priority for the coming year.

Regulatory and organisational compliance

The Governance Unit, established in December 2007, is also responsible to track regulatory compliance and organisational compliance with internal corporate policies. Regulatory and organisational compliance is the tactical action to mitigate risk. It is a component of regulatory risk management, but it also plays a central role in the management of operational, financial and even strategic risks. It is compliance with the organisation's own required procedures that enables management of the risks that endanger the entity.

In order to strengthen regulatory compliance, the register of laws against which SARS compliance is measured was revised and updated and a new compliance framework was developed and implemented for the Public Finance Management Act. Similarly, revised compliance frameworks will be developed in the coming year for all other relevant legislation. An organisational compliance framework to strengthen organisational compliance with SARS policies will be developed in the coming year.

Governance

In addition to the Governance Unit, the Office Compliance Unit has been established to conduct office inspections to audit adherence to operational policies and procedures and to instil standardization of these policies and procedures on a national basis. The office inspections cut across all tax types, as well as customs and quality management systems. Office inspections support the process of compiling management responses to the findings of the Auditor-General's Office thus contributing to a clean bill of health from the Auditor-General's Office for the last two years.

The role of the specialist resident within the Office Compliance Unit was extended to encompass modernisation with specific reference to the development of all relevant Filing Season returns, guides and business rules for the various systems. Stakeholder presentations to the accounting fraternity were presented on a national basis to promote an understanding of the Filing Season requirements.

In addition, an Income Tax Working Group was commissioned by this unit to ensure coordination and a common understanding within the various Assessment and Service, Process and Information Management (PIM) and Enforcement divisions. This further serves as a platform for the transferring of skills to new employers. The collection of the Skills Development Levies and Unemployment Insurance Fund contributions necessitated the continuous liaison with the Department of Labour. The unit took the responsibility for the management thereof as well as the provision of the monthly reporting and other data requirements.

Enterprise-wide risk management throughout SARS

Risk management is set to become an integral part of the organisation's activities and to formulate appropriate response to adverse exposures reducing risk to acceptable levels. The Enterprise Risk Management Unit was established to develop enterprise risk policy and facilitate implementation of enterprise risk management. An Enterprise Strategic Risk Register that identifies the major risks and potential threats to SARS strategic objectives has been developed and draft enterprise risk policy and strategy prepared.

At divisional level, the SARS operations risk policy was established to ensure sound business practices aligned with internationally accepted Risk Management principle and to further establish coordination with Enterprise Risk initiatives.

The Head Office structure will ultimately be staffed with qualified and experienced risk personnel that will provide risk services to all SARS operations covering critical areas in Business Continuity, Document Security, Employee Profiling Management, Fraud Prevention and Internal Controls on Safety Health and Environment. In Regional risk specialists will be appointed to attend to the day to day Risk Management and Business Continuity Planning for the regions.

All risks identified in operations by initiatives of the operational risk section, internal audit findings relating to operations, office compliance findings, external audit and enforcement have been loaded centrally onto risk management software. The risks are analyzed, evaluated, rated and treated by means of suitable mitigation measures. In so doing weaknesses in operational controls are continuously identified and strengthened

In the coming year, risk management will be consolidated and amplified throughout the various divisions and levels of business and improved risk co-ordination structures within SARS will be established and mobilized.

Planning and performance monitoring

The primary focus of planning and performance monitoring will be to standardize and put policies in place for planning and performance measurements and ensure that the entire process is well-documented for consistency. Emphasis was given to the development, communication and introduction of tools, procedures and structures for business planning and performance monitoring. Relationships to enable enterprise wide planning and performance monitoring were defined, clarified and enabled through appropriate staffing, boundary management, skills development and consultations.

Specific actions taken included:

- Embedding business planning processes and tools;
- Technical support to Divisions in business planning;
- Formalisation of Divisional business plans and the alignment of divisional scorecards to strategic and divisional plans;
- Divisional Score cards and the verification of information at Financial Year End; and
- Drafting of the SARS 2009 - 2011 Strategic Plan and 2008/09 Business Plans.

The next steps will entail embedding the process of standardised planning and performance motoring to the divisional, regional and branch levels, to ensure alignment and consistency between Strategic plan and Business delivery.

Standardised weekly, monthly and quarterly reports have been instituted to facilitate performance reviews and define corrective actions that will address non-performance to set standards. An example of the effects of these reports is the weekly management of inventory.

The Operational Performance Analysis unit was also instrumental in the development and roll-out of all Operations scorecards, which enable the measurement and tracking of individuals' performance throughout the year. The unit ensures that reliable operational reports produced on time to adhere to the PFMA requirements. These reports have been standardised and aligned to SARS' strategic intent.

The governance institutional framework

In order to support implementation of the governance framework, two significant institutional developments took place in the year under consideration. First, the Governance Unit was established in December 2007. which is responsible for governance, risk management and compliance in SARS.   Second, the Planning and Performance Monitoring function was institutionalised in February 2008, to create a culture of planning and performance monitoring to ensure timeous delivery on targets.

Building capacity and attracting the correct expertise, skills and SARS business knowledge remain challenges in the coming year to strengthen the governance structures.

Ethics and Integrity

SARS consistently strives at entrenching and enforcing ethical and moral behaviour throughout the organisation, and to building a corporate culture on a foundation of integrity.

The Ethics and Integrity Unit is responsible for embedding ethical behaviour in the organisation through a comprehensive education and awareness campaign, as well as providing an advisory service regarding ethical dilemmas and other ethical issues to SARS employees. With reference to Integrity its focus is on two important organisational stabilising functions, namely that of pre-employment screening and acting as a field work unit with reference to vetting. Pre-employment screening focuses on all new applicants, and comprises the necessary checks as set out within the applicable policy. Vetting field work involves a systematic process of obtaining the necessary information through sources, to enable the National Intelligence Agency to make determinations regarding a person's integrity and security competence.

During the relevant period the Ethics and Integrity Unit:

- Hosted ethics awareness workshops for 2 904 employees;
- Contributed to enhancing the integrity of SARS' human capital by subjecting an estimate of 5 590 individuals to a pre-employment screening process and subjecting a number of employees to the Personnel Security Vetting process;
- Issued several internal communiqués concerning aspects of fraud and corruption;
- Flighted screensavers on the SARS network regarding Ethics policies, namely the Gifts Policy and the Declaration of Private Interest Policy;
- Distributed an annual letter to vendors and suppliers as reminder of SARS' gifts policy;

Governance

- Delivered Ethics related inputs at SARS induction programmes; and
- Utilised an electronic declaration of interest process, followed by a 150% year-on-year increase in compliance.

The Unit continued to build strong relationships with external stakeholders and set an example for dealing with ethical dilemmas, fraud and corruption. In the period ahead, the Unit will intensify its Ethics Awareness Campaign and will continuously promote ethical conduct and decision making amongst all SARS employees.

Internal Investigations

The mandate and focus of the Internal Investigations Unit (IIU) relate to alleged wrongdoing which falls within their mandate, namely:

- The investigation of allegations of Customs and Tax fraud and corruption within SARS, facilitated and/or initiated by SARS employees;
- The internal prosecution of offenders of fraud and corruption as per cases referred to the Unit internally, as part of the SARS disciplinary process, and where appropriate, referral of the matter to the SAPS; and
- The provision of guidance on all forms of criminality involving SARS employees where requested or required to do so.

During the year under review the Internal Investigations Unit undertook such investigations and prosecutions, which culminated in the dismissal of 40 employees, and 33 cases being referred for criminal prosecution.

Physical Security

The mandate of the Physical Security Unit within SARS is primarily the institution of measures to safeguard the assets of the organisation. Activities undertaken in 2007/08 included the day-to-day provision of security, the investigation of all reported security incidents and or breaches, managing security for special events, which included the filing season and financial year end, configuring the security needs for new SARS facilities, enhancing existing systems and ensuring that they operated effectively and efficiently at all times.

Towards the end of the financial year a security assessment of the SARS internal operating environment was conducted, an appraisal of SARS controls and sites was undertaken, coupled with extensive consultations with relevant role-players to determine the way forward for the financial year 2008/09 to improve the measures needed to safeguard the organisation.

Information Security

In the year under review, Information Security at SARS was focusing more on an Information Technology perspective. Security in this regard paid more attention to issues relating to logical access and the protection of information in the electronic form. Risks Assessment and security appraisals pointed to a deficiency regarding the protection of non-electronic storage media. Capacity within the Anti-corruption and Security unit is currently being established to address the identified risks and threats that have been identified. The new Information Security capacity would ensure that there is a condition created by conscious provision and application of a system of document, personnel, physical, computer and communication security measures to protect sensitive information.

Information Security is constantly being reviewed and upgraded for potential information security weaknesses. This included expediting the encryption of end user devices, facilitating the secure exchange of information with third parties, and collaborating with newly formed units around enterprise security and governance to help formulate an integrated information security plan.

Internal Audit

The Internal Audit Division was established in terms of Section 51(1)(a)(ii) of the PFMA which requires the Commissioner to ensure that SARS has and maintains an internal audit system overseen by the audit committee. The unit is responsible for providing an independent and objective assurance and consulting service to SARS management and the audit committee on the adequacy and effectiveness of risk management, governance and control process through the evaluation of systems deployed within SARS. In order to provide reasonable assurance, the systems of people, processes, policies and technology employed in the execution of the SARS mandate and compliance with relevant legislation are evaluated.

The purpose, authority and responsibility of the Internal Audit Division are formally defined in its audit charter, as approved by the Audit Committee. The audit approach and methodologies of the division are based on the Standards for the Professional Practice of Internal Auditors and in accordance with Treasury Regulation 27.2.6.

A new head of the division was appointed with effect from 1 February 2008. The advisor to the head of the division acted in this capacity since the resignation of the previous head (September 2006). The head of the division is required to be independent and objective and therefore reports directly to the Commissioner and has unrestricted access to the chairperson of the Audit Committee.

The division's audit plan for 2007/08 – 2009/10 was drawn up in accordance with the relevant Treasury Regulations and Standards of the Institute of Internal Auditors. The audit plan was approved by the Audit Committee. Input from the Auditor–General's Office was considered in compiling the Internal Audit plan, to facilitate co-ordination of work between the two offices.

Internal Audit attends all audit committee meetings where a report is presented of the divisional activities and significant findings for the reporting period. Significant findings are reported to the Commissioner and organisational forums on an ongoing basis.

The Audit Plan for the financial year ending 31 March 2008 was executed as planned. Internal Audit conducted a total of 38 planned audits and 11 ad hoc audits for the financial year. Two projects were suspended and one project has been carried forward the next financial year. Internal Audit further assisted the organisation by:

- Consulting to business management during tender evaluations and the drafting of Memorandum of Understanding between:
  - SARS and the Auditor-General;
  - SARS and the Road Accident Fund;
- Evaluating the accuracy and completeness of Road Accident Fund certificates; and
- Attending the monthly audit steering committee meetings.

The majority of reviews indicated a satisfactory control environment. Management is addressing those areas needing attention and the results are evaluated through follow-up audits.

Internal Audit enjoys a healthy working relationship with all divisions and continues to build its operational efficiencies through staff training and upgrading its technologies and methodologies.

During the year under review, Internal Audit fulfilled all of its responsibilities as detailed in the PFMA and Treasury Regulations.

Governance - BCOCC

Border Control Coordinating Committee (BCOCC)

SARS assumed the role of Lead Agency at Ports of Entry and the Chairpersonship of the BCOCC in January 2007 in line with constitutional obligations of cooperative governance. This development has presented exciting opportunities to pilot joined up Government approaches and to implement integrated border management. At the same time, SARS has had to confront the challenges posed by inter-agency co-ordination and the rapidly changing border management and control landscape.

Accordingly, in the period under review, the focus has been on exploiting opportunities and mitigating challenges. In particular, this has been achieved by:

- Deepening the collective understanding of the lead role in the broader context of Government goals of integrated border management. The high level approach was set out in the BCOCC Organisational Framework Document which was approved by member departments and was endorsed by the JCPS Cluster in April 2007;
- Finding ways to align capital project and maintenance budgets of the Department of Public Works with SARS accountability for the BCOCC; and
- Embedding BCOCC governance including improved planning and performance monitoring through adherence to the Government-Wide Monitoring and Evaluation process.

For the first time, a single National Integrated Border Management Strategy (NIBMS) that sets out the overarching high level strategic direction for effective border management was approved in January 2008. The NIBMS is premised on the understanding that border management agencies should be able to effectively respond to the Government's increased expectations and be maximally empowered, legislatively and operationally, to respond to changing circumstances and new challenges. This requires border management agencies to be more strategic, agile, integrated and outcome-focused.

Based on the National Integrated Border Management Strategy, the BCOCC Programme of Action for 2007/08 was implemented. The main deliverables for the year were:

- Appointed and mobilised the BCOCC national management structure;
- Signed and implemented the Bilateral Memorandum of Understanding between the Republic of Mozambique and the Republic of South Africa on the Establishment of the One Stop Border Post at Lebombo and Resanno Garcia;
- Implemented the festive contingency plans for ports of entry with a first time incident-free outcome;
- Improved co-ordinated management of the National Border management Co-ordinating Centre;
- Established and mobilised the BCOCC 2010 FIFA World Cup Forum to support joint and co-ordinated planning and project implementation at ports of entry;
- Delivery on target against the Port of Entry Repair and Maintenance Programme;
- Implemented the first phase of the BCOCC Wellness Programme for ports of entry personnel at selected ports of entry; and
- Established the BCOCC Programme Office for the implementation of the NIBMS.

Scanner system at the Durban port of entry

At the centre of SARS' success is its administrative capability which ensures sound financial management, enables transparent communication, institutionalizes accountability to stakeholders and provides the institutional infrastructure, such as facilities, for efficient and effective performance.

Administration

Administration provides the management leadership to anchor and integrate the disparate achievements of corporate functions such as operations, modernisation, enforcement, governance and fiscal stewardship. It assists to create a productive work environment by providing the administrative framework to coordinate departmental activities and align them with the common goal of bettering service delivery.

Performance Highlights

- Sustained unqualified audit opinions over past years;
- Sourced offices (additional, and new) across the country;
- Renewed lease arrangements at several sites to ensure operational continuity;
- Ensured internal communications for campaigns including:
  – Small Business Tax Amnesty;
  – Filing Season 2007;
  – Odometer Campaign; and
  – Employee Engagement campaign and roadshows.
- Assumed lead media relations role for the BCOCC project;
- Resolved 85% of SARS Service Monitoring Office (SSMO) cases within set standard;
- Maintained infrastructure at 99.58% and Application Systems at 99.81% performance levels; and
- Outsourced Desktop and Server support services pursuant to BEE and SARS procurement policies and procedures.

Financial Management

Unqualified audit opinions have been sustained over the past few years. Sound financial planning and analysis resulting in the allocation (and reprioritisation where necessary) of financial resources, has enabled delivery of SARS' strategic and business plans.

The finance division provides financial, accounting management, accounting and procurement services to SARS. It comprises centres of excellence (expenditure accounting, revenue accounting, management accounting, procurement and financial transformation) and "partnerships" with business units (tax and customs operations, enforcement and support services).

The overall strategy of the division is the progressive development of the capability to be a strategic partner and value creation enabler, that supports the attainment of the corporate strategy and objectives and which balances the role of strategist and steward in delivering world class financial performance.

Improving tax collection administration

The old nominated FNB accounts were successfully closed with the assistance of various financial institutions. These accounts have been replaced with the new masked SARS banking accounts held at ABSA, FNB, Standard Bank, and Nedbank thereby eliminating issues relating to unknown payments.

The improved branch office collections accounting which introduced SAP accounting functionality was successfully rolled out to SARS offices.

Accounting Transformation – Generally Recognised Accounting Practice ("GRAP") for SARS Administered Revenue

SARS is currently permitted to report in terms of the cash basis of accounting. The continued use of this basis of accounting was approved by the Minister of Finance in April 2007 and remains applicable up to the 2011/12 financial year. SARS has embarked on a modernisation programme that will enable the organisation to build the necessary capabilities to progressively comply with accrual accounting standards by 2012.

Revenue recognition standards, GRAP 23: "Revenue from Non-exchange transactions (taxes and transfers)", was issued by the Accounting Standards Board (ASB) in February 2008. This standard provides SARS with the framework required to recognise, measure and report revenue from non–exchange transactions (taxes and transfers).

Key achievements in this project are:

- SARS input to the Accounting Standards Board drafting of GRAP statements - relating to financial instruments, non-exchange revenue and disclosure of budget information. GRAP 23 for revenue from non-exchange transactions (taxes and transfers) was issued by the Accounting Standards Board (ASB) in February 2008;
- Development of a financial reporting framework for Value-Added Tax (VAT), Pay-As-You-Earn (PAYE), Skills Development Levies (SDL), Unemployment Insurance Fund (UIF) and Diesel to improve the accuracy of financial reporting and operational decision making;
- Successful roll-out of the Customs Trial balance at all non-BLNS (Botswana, Lesotho, Namibia, Swaziland) offices, which do not fall within the Southern African Customs Union (BLNS customs union) and Head Office. This trial balance function assists in the management of financial operations at branch office level; and
- Development of accounting principles and associated legislative changes supporting the modernisation of Tax and Customs. This involved the development of principles relative to payment administration, account management, and interest and penalty administration.

Financial Management

Activity Based Management

Activity Based Management (ABM) was adopted to support business analysis and enable operational and strategic decision making.

ABM will assist in professionalising management processes and governance which will ensure that management is better informed to make both strategic and operational decisions such as process optimisation and automation, benchmarking performance and adoption of best operating practice, internal provision versus external outsourcing, value chain analysis and elimination of non value added activities, project investment decisions and benefits realisation monitoring and allocation of scarce resources to appropriate areas in the value chain.

ABM will integrate process-based performance metrics (how well the work is done) with the costs of achieving that performance (Activity Based Costing) and will assist with management planning and business processes, improve management information and integrate the data sets of human resources, financial and transactional processing.

The following key ABM implementation milestones have been achieved:

- Recruitment of key resources;
- Purchase and installation of software;
- Training of staff on software; and
- Communication and awareness.

It is anticipated that the project will deliver the Income tax pilot model in July 2008.

Training outside Public Practice

Training Outside Public Practice (TOPP) is programme accredited by the South African Institute of Chartered Accountants (SAICA) and is an alternative to the conventional TIPP (Training Inside Public Practice) career path. TOPP has a strong emphasis on financial management, taxation and internal auditing. Approval has been granted by SAICA for the intake of up to 36 trainees over three years. This forms an integral part of SARS' overall strategy to attract, develop and retain professional staff within the public sector. TOPP trainees will gain in-depth knowledge of and practical training experience in a wide range of relevant business areas within SARS. The programme has 10 trainees, with further intake planned for July 2008.

Procurement

A strategic sourcing and procurement framework was developed and approved by the SARS' Executive Committee. It will be implemented in the 2008/09 year. It will also assist SARS to find the most effective ways to manage its relationships with its suppliers through performance monitoring and assessment strategies, the establishment of proper communication channels and better management of strategic partners.

The framework includes best practice strategic sourcing principles, supplier relationship management, process optimisation, contract management and organisational structure which will enable a more focused delivery of strategic and business plans.

Procurement and Contract Negotiations

Through the negotiation of contracts with large IT providers, SMT achieved favourable terms and conditions and significant cost savings. The savings will exceed R140 million a year and will be sustainable in the years ahead. The largest savings were achieved in:

- Network contract - in excess of R300 million over seven years; and
- Central site hardware and support software - in excess of R180 miliion over three years.

In particular, significantly cheaper new enterprise license agreements were negotiated that also include more flexibility for SARS to move from proprietary software towards Open Source / Linux software.

Financial Management

It should be noted that SARS is constantly looking to leverage government contracts currently in place to expedite procurement and further drive down costs. During 2007/08 SARS changed to the Broad Based Black Economic Empowerment (BBBEE) model as prescribed by the Department of Trade and Industry. This model differentiates companies according to empowerment levels and classifies them in eight distinct categories. According to this model SARS spend on BBBEE is summarised in the table below.

Table 4.3.1: SARS BEE Expenditure for the 2007/08 Fiscal Year

BEE Contributor Level	Expenditure (R)	% of Total BEE Spend
Level 1	154,925,725	14.47%
Level 2	40,578,541	3.79%
Level 3	240,883,861	22.50%
Level 4	209,700,358	19.59%
Level 5	263,553,987	24.62%
Level 6	67,772,886	6.33%
Level 7	15,359,833	1.43%
Level 8	77,788,985	7.27%
Total (BEE)	**1,070,564,179**	**100%**

Total Procurement Expenditure	**1,744,559,231**	**61.37%**
Total BEE Spend	1,070,564,179	38.63%
Non BEE Spend	673,995,052	100.00%

Asset management

SARS requires both fixed and movable assets to execute its function. To that end, SARS manages an asset portfolio of approximately R799 million in about 200 locations nationwide. The assets cover a wide spectrum with IT assets constituting a significant part of the value of the total SARS asset register.

SARS manages its assets within the framework of the PFMA, 1999 that obliges SARS to exercise utmost care to ensure reasonable protection of its assets and records (section 50 (1) (a)). As part of this duty of care, SARS is responsible to manage the safeguarding of its assets (Section 51(1) (c) PFMA). In particular, this requires SARS to implement and maintain an asset management system that best responds to and supports SARS' business needs. As such, the system needs periodic review to adapt to SARS' changing needs.

The SARS organizational culture is to value taxpayers' money and, as such, its assets. To that end, SARS has put in place a working asset management system anchored in policies and standard operating procedures. The system is driven by a consolidated asset register and geared towards maintaining the register. However, the system in place was originally designed to support a more conventional and static service provision model and concomitantly there is less focus on individual accountability for assets. Increasingly, as the Modernisation programme is implemented, the SARS business is becoming more dynamic and the service footprint is expanding.

Financial Management

The current asset management system therefore no longer fully responds to business needs and requires review and strengthening of controls including a reorientation towards individual accountability. In particular, the current asset management system is challenged by the following:

- Ongoing people redeployments and movements especially where people move with assets to new locations;
- Changes in the configuration of locations and unconventional office configurations such as border posts, mobile service centres, call centres etc;
- Central acquisition of assets and decentralised distribution: SARS acquires certain categories of assets (IT equipment and standard furniture) through Head Office to achieve better control and the benefit of bulk purchases but these assets are distributed direct from the suppliers in a decentralized manner for expediency and operational efficiency; and
- Complex asset definition: Assets are defined in terms of constituent parts as opposed to composite units.

To ensure continued compliance with the PFMA, SARS has already taken a number of corrective actions such as appointing asset co-ordinators countrywide, extending the scope of application of the automated asset detection system and migrating the asset register to the SAP system. This lays the foundation for a significantly improved asset management system but it is recognized that additional interventions are required for the SAP system to become the single source of information for the register. The addition of the SAP HR system in the current year will further allow linkage of assets to people and thus improve the tracking of assets and create individual accountability.

In the year under review, the SARS asset register comprised approximately 220 000 assets. As part of the ongoing asset register update in the same period, SARS registered 47 063 new assets. The entity follows a policy to dispose of all identified obsolete assets which are disposed by means of a documented process. In the year under review the entity had in addition scrapped approximately 20 000 items of negligible value after concluding that the items could either not be sufficiently identified or had not been verified for a number of years. Most of these assets relate to assets carried over from legacy systems and are generally associated with furniture elements.

The challenge still facing SARS is to implement an improved asset management system and reconstruct the asset register without significantly compromising current asset management and controls. In bridging these positions, some transitional issues with the control of assets were experienced in the year under review, most notably:

- Some assets listed in the asset register could not be physically verified;
- Some assets verified in physical counts were not listed in the asset register; and
- Some assets were listed in the asset register but had no barcodes.

Accordingly, a concerted effort is under way to strengthen the overall control of assets. To that end, in the next two years, SARS envisages:

- Developing and implementing a revised comprehensive asset management policy and procedure that takes full account of the dynamic nature of SARS business, the decentralised nature of operations and the mobility of staff;
- Reconstructing and maintaining the asset register; and
- Monitoring compliance on an ongoing basis through, amongst others, enhanced individual accountability for assets and regular physical counts of assets.

Conclusion

Finance continues to make strides in the progressive development of the capability to be a strategic partner and value creation enabler, that supports the attainment of the corporate strategy and objectives, and which balances the role of strategist and steward in delivering world class financial performance, through the finance transformation initiatives (Migration to Generally Recognised Accounting Practice ("GRAP") for SARS Administered Revenue, Activity Based Management and strategic sourcing and procurement framework).

Communication and Corporate Relations

The mandate of the SARS Communications and Corporate Relations division is to promote and enhance the image and reputation of SARS both internally and externally. To do this the division aims to build, and to assist other business units in building, productive relations with all SARS' stakeholders through effective communication. SARS' stakeholders are numerous and varied: our staff, taxpayers, customs agents, traders, small and large businesses, employers, practitioners, the government and ultimately the people of South Africa.

The division endeavours to increase awareness about the role SARS plays in the administration of tax and Customs and the role taxpayers and traders play in contributing to the growth and development of South Africa. It also aims to ensure that all stakeholders are equipped with the information and motivation necessary to meet their obligations, thus strengthening the culture of compliance in our society.

Guided by SARS' compliance model, the division engages in a broad range of communication, education, marketing and direct engagement activities with key stakeholder groups including SARS' own staff (through internal communications), the media (through the media relations unit), the general public and taxpayers (through the marketing unit and campaigns unit) and specific industry stakeholder groups (through the corporate relations unit).

Communications has an internal and external focus: through commercial marketing and advertising (external); internal information channels to employees; formal stakeholder engagement (direct and indirect); and media and public relations. The 2007/08 year was one of tremendous change for SARS and its stakeholders – and the division played a key role in managing this change to ensure its impact was understood, accepted and implemented.

Outlined below are the main achievements of the division's units for the year under review SARS communications are guided by the Batho Pele principles of transparency and accountability in order to positions SARS as a public institution; to promote and manage the reputation of SARS publicly; and to promote popular understanding of the important responsibility to pay tax and of compliant behaviour in a democracy. Effective communication that informs public understanding and taxpayer behaviour must be accurate, understandable and able to educate and raise awareness across a broad spectrum.

Popular, mainstream media in South Africa and their audiences, rightfully, express keen interest in SARS and its programmes. Media management and engagement leverage opportunities to position SARS on the news agenda and to facilitate in the right of the media to access information in the public interest.

Communication and Corporate Relations

Internal Communications

SARS actively works to ensure organisation-wide internal communication through appropriate strategies and campaigns. Various internal communication channels, including newsflashes, intranet, screensavers, posters, road shows and electronic and printed newsletters are employed so that staff remains informed and thus motivated. This year, a comprehensive revised internal communications and channel management strategy with specific emphasis on enhancing divisional and regional communications was developed.

Specific ways in which we enhanced our communication with staff include:

- **The development and implementation of a number of internal communication campaigns:**
  - Financial Year-End (Revenue Target) Campaign;
  - An Ethics Awareness Campaign; and
  - A Budget and MTBPS education and awareness campaign.
- **Internal communications support to general communications campaigns:**
  - Small Business Tax Amnesty;
  - Filing Season 2007;
  - Odometer Campaign; and
  - Employee Engagement Awareness campaign and road shows.
- **The conceptualisation and development of a SARS motivational staff DVD (The Higher Purpose);**
- **A first time international web-cast broadcast** of a press conference by the Minister of Finance for the OECD Forum on Tax Administration conference in Cape Town (the concept was later adopted by National Treasury in consultation with SARS Communications for a web-cast for Budget 2008); and
- **A commemorative publication to mark the 10th anniversary of SARS** and the organisation of an "open day" at SARS offices inviting taxpayers to celebrate our 10th birthday with us.

Media liaison

The Communications efforts of SARS strive to provide effective mediums for information dissemination between the organisation and a mass base of taxpayers and stakeholders through strategic engagement with popular, commercial, mainstream and regional or community based news organisations. Some of the key initiatives for the year were:

- Implementation of a media strategy for MTBPS 2007 and Budget 2008 in partnership with National Treasury which promoted the tax and revenue elements of the Budget;
- Provision of media support to the OECD Forum on Tax Administration meeting hosted by SARS in Cape Town in January 2008;
- The media relations element of the Filing Season 2007 campaign including the hosting of press conferences to launch both Filing Season 2007 as well as the introduction of the new eFiling system and the engagement with editors and senior journalists during the campaign to ensure positive coverage; and
- Assuming the lead media relations role for the BCOCC especially over the peak December period.

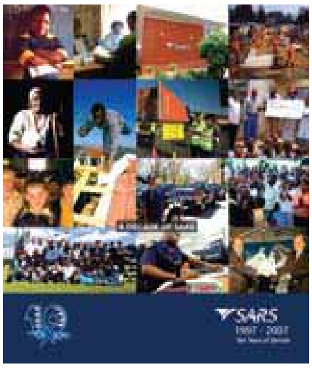
Communication and Corporate Relations

Marketing

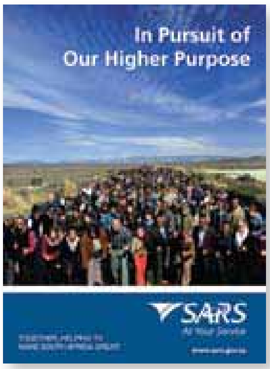
SARS external communications includes all advertising and promotions, market research and analysis.The highlights for the year were:

- The development and implementation of the highly successful Small Business Tax Amnesty, Filing Season 2007, Budget 2008, Odometer and Customs Day campaigns;
- The design and production of the SARS Annual Report, Strategic Plan and Business Plan;
- The development of a computer game, screensavers and revenue countdown map for the Revenue Target campaign, advertising material for the Small Business Tax Amnesty campaign, Odometer campaign and Customs Day campaigns and all branding for the OECD Forum on Tax Administration conference;
- The development and implementation of promotion strategies to advise stakeholders of the relocation of SARS offices in Sibasa and Rustenburg; and
- The implementation of and the continuous support for a SARS Research Committee.

Samples of work done by the SARS in-house design studio



Commemorative publication



Staff DVD

Tax Amnesty advert

Corporate Relations

The management of relations with key industry stakeholder representative organisations as well as the management of SARS' corporate social investment (CSI) programme is a critical component of the SARS communications strategy. It is important for us to raise awareness among both internal and external stakeholders about the role SARS plays in collecting revenue, facilitating trade, fostering compliance and promoting a culture of fiscal citizenship. Highlights for the year included:

- The organising of four high-level engagements as part of the OECD programme between the Commissioner and the chief executive officers of the major accounting firms, banks and insurance companies;
- The distribution of over 300 tons of confiscated second hand clothing to needy organisations in partnership with National Treasury and the Department of Social Development; and
- The management of the "Take a Girl Child" and "Take a Child" initiatives within SARS.

SARS actively works to build strategic relations with a number of key stakeholders, including the media, to promote its interests and spread awareness about new developments and changes pertaining to tax and Customs.

Girl learners attending the SARS Take a Girl Child to Work day Programme 2008

Properties and Facilities

The Properties and Facilities Division provides innovative, efficient and sustainable end to end property and facilities management solutions and practices whilst being a low cost service provider and business partner to assist SARS to achieve its strategic intent and objectives. This includes the establishment of new offices, maintenance programmes for all buildings and border posts and ensuring compliance with health and safety legislation.

Property Management

Key activities include the acquisition of properties and the review and revision of the existing portfolio to ensure alignment with business needs.

Table 4.3.2: The Property Portfolio currently comprises:

Commercial Leases	95
Parking Leases	10
State Owned Office buildings	23
Other State Owned	24
Residential Leases	4

For the financial year 32 new leases were activated, 28 leases were renewed; 7 leases were terminated and 3 state owned facilities were vacated and reduction in rental escalation was achieved for various sites including Cape Town International Airport; OR Tambo International Airport; Port Elizabeth; East London; Kimberley and Randfontein

Facilities Management

Facilities Operations Management ensures that all buildings utilised by SARS are functional at all times and comply with health and safety regulations. The program of works included the maintenance of air conditioners, lifts, plumbing, fire-detection and protection equipment, access control systems and CCTV and security systems at all operations as well as the provision of non technical services such as gardening, hygiene and sanitary, pest control, carpet and window cleaning and related ancillary activities. With regard to Health and Safety regular audits and inspections were conducted on all equipment and, where required, maintenance and repairs were carried out. Modifications were made at various offices to improve health and safety conditions and the regular site visits/audits has resulted in the necessary compliance to Health & Safety requirements.

Properties and Facilities

Design Standards and Planning

Accommodation norms were established for the newly structured BCOCC Division as well as the design & technical specifications of sleeping quarters, offices, gym facilities and clinics for "Parkhome" type accommodation at Border Posts.

The utilization of space was improved over the reporting period including:

- Increased call centre, eFiling , SMT and Finance Division presence at MWP;
- Scanning and file digitisation verification incorporated at the Alberton Campus;
- Reconfiguring of the Cape Town office to accommodate additional staff;
- Establishing Rissik street as an information storage and filing centre;
- Establishment of the Small Business Advisory unit at Randburg; and
- Increased TPS capacity in Bellville.

Conclusion

The Property and Facilities Division continually strives to ensure that the overall standard of SARS facilities improves thereby facilitating a better experience for all its stakeholders. For the coming year the strategic objectives of the division are to; continue the provision of an effective and efficient Property and Facilities Management Service; optimise Business Support Services for the organisation (e.g. Cell phones, Fleet); facilitate and implement the National Energy Management initiatives and Enhance Human Capacity and Capability within the Division.

International

Commissioner Gordhan and SARS officials hosting a high ranking delegation from Vietnam

South Africa's expansion in global and continental relations has resulted in a greater need for international technical cooperation that, in turn, requires an expanded international role and a proactive approach by SARS. This is reflected in the further development of its international relations over the course of the past financial year. Multilaterally, particular emphasis was placed on the role of South Africa within the WCO, the OECD and IBSA, with similar importance being placed on the regional work in the structures of the AU, SADC and SACU. Several bilateral tax and customs agreements were also concluded with strategic partners. In keeping with its commitment to developing tax and customs capacity on the continent, SARS continued to provide assistance to other African administrations in the form of workshops, study visits and attachments.

Multilateral Cooperation

Membership and Participation to International Bodies

To ensure that SARS continues to be a participating and contributing member of the global tax community, its membership in the following international structures has been continued and/or strengthened:

United Nations (UN)

A senior SARS official is an elected member of the Committee of Experts on International Cooperation in Tax Matters. A meeting of one of the Working Groups of this Committee was hosted in Cape Town during February 2008.

World Customs Organisation (WCO)

The main SARS contributions in respect of the WCO were provided at the June and December 2007 Policy Commission Sessions and the 2007 Council Sessions. SARS played a pivotal role in the preparation of the WCO strategic document on "Customs in the 21st Century" and was further tasked to host a high-level meeting to consider this document in early 2008.

In April 2007, South Africa hosted the "Global Forum V on Fighting Corruption and Safeguarding Integrity", in which the SARS Head of Customs chaired the session on "Trade and Customs Partnership to Fight against Corruption & Safeguard Integrity". SARS, in cooperation with the WCO, also hosted a related high-level event, the "Global Dialogue on Customs Capacity Building".

International

Organisation for Economic Cooperation and Development (OECD)

The most significant SARS engagement with the OECD over the past year was when South Africa hosted the 4th Meeting of the OECD's Forum on Tax Administration (FTA) in Cape Town in January 2008. The forum was chaired by Commissioner Gordhan, the first time by a non-OECD member country, and brought together the highest number of tax commissioners to date. One of the key outcomes of the meeting was the endorsement of a Study on the Role of Tax Intermediaries, in which SARS had provided input. SARS officials were also significantly involved with the drafting of the FTA communiqué. The FTA meeting, in a departure from previous meetings, also included discussions on:

- Global trends in business and the implications for revenue authorities, with the participation by CEOs of leading Multi-national Corporations; and
- Assisting African revenue administrations in developing their capacity, including the holding of a Conference in South Africa in the course of 2008.

Over the course of the year, SARS officials also participated in the regular meetings and work of the OECD's Committee on Fiscal Affairs and its various working parties, as well as in the Meeting of the OECD Advisory Group for Cooperation with Non-OECD Economies in Viña del Mar, Chile in March 2008.

India-Brazil-South Africa (IBSA)

Within the IBSA Revenue Administrations Working Group (RAWG), SARS played a leading role in developing the IBSA customs and revenue agreement as a response to the increased trade and investment flows among the three countries. The Trilateral Agreement on Customs and Tax Administration Co-operation was signed in October 2007 on the occasion of the 2nd IBSA Summit held in Pretoria, South Africa.

In line with the IBSA RAWG work plan, SARS hosted senior officials from the Indian and Brazilian Tax Administrations at its Large Business Centre (LBC) in March 2008. The three administrations also agreed to continue working on issues of electronic interconnectivity and cooperation in the fight against fraud and smuggling, the exchange of information, risk profiling and assessment, a common approach to customs procedures, capacity building and developing a common approach in multilateral fora.

Inter-American Centre for Tax Administrations (CIAT)

As an associate member, SARS participated in the 41st CIAT General Assembly in Barbados in May 2007. Within the broader theme of "Key Structural Aspects of Tax Administrations", SARS delivered a presentation on "Criteria for Departmentalization". An agreement between SARS and CIAT was signed at the meeting for South Africa to host the 2008 CIAT Technical Conference.

Other Multilateral Fora

SARS senior officials also participated in the Annual Conference of the Commonwealth Association of Tax Administrators (CATA) in Nairobi, Kenya in August 2007 as well as the International Tax Dialogue (ITD) Global Conference on Taxation of SMEs in Buenos Aires, Argentina in October 2007.

Tax Treaties and Protocols to Double Tax Agreements

To maintain and expand our tax treaty network around the globe and thus promote trade and investment, protect the tax base and facilitate information exchange, the following negotiations were dealt with:

- The text of double taxation agreements (DTAs) was finalised with Mexico, Syria and the United Arab Emirates;
- Protocols were finalised with Australia, Cyprus, Ireland, Netherlands and Oman in order to facilitate the switch of the Secondary Tax on Companies to a dividend tax on shareholders;
- DTA's and protocols were signed with Australia, Mozambique, Sudan and Switzerland;
- DTA's were ratified in South Africa in respect of Mozambique, Portugal, Saudi Arabia and Switzerland; and
- DTA's became operational with Ghana, Kuwait and Tanzania.

International

Trade Agreements (Rules of Origin)

The European Free Trade Association (EFTA) consists of Switzerland, Norway, Iceland and Liechtenstein. The Free Trade Agreement between the EFTA and SACU States covers trade in goods and lays the foundation for a further engagement of parties with regard to intellectual properties, investment, trade in services and public procurement.

The Agreement is aimed at establishing a free trade area through the following objectives:

- Liberalisation of trade in goods;
- Substantially increase investment opportunities in both parties; and
- Contribute to the harmonious development and expansion of world trade by the removal of barriers to trade.

The EFTA States will abolish all Customs duties on industrial products originating from SACU on implementation, and SACU States will progressively reduce customs duties on imports originating from EFTA States over a period of nine years beginning in 2008.

SARS also participated in trade negotiations for the following preferential trade arrangements:

- The preferential trade agreement between SACU and Mercosur (Brazil, Argentina, Paraguay and Uruguay). The negotiations for this agreement are almost complete and the agreement may be implemented in the next year;
- The SADC Economic Partnership Agreement with the European Union. South Africa did not initial the interim agreement and negotiations are continuing; and
- Initial trade negotiations also commenced with India.

Mutual Assistance Agreements (MAA)/Memoranda of Cooperation (MOC):

Recognising that international treaties and protocols are anchored in principles that include reciprocal contribution to institutional and human capacity building, SARS has continued its participation in mutual assistance agreements. SARS has drafted, finalised and/or signed:

- MOCs with Canada, Lesotho (two), Mozambique and the WCO;
- MAA with India; and
- Texts of multilateral agreements between SACU and Mercosur and the IBSA.

Regional and International Cooperation

At continental level, SARS is active in the African Union (AU) Subcommittee of Customs Directors-General, with the Head of Customs having been appointed to the position of Vice Chairperson of the Subcommittee for 2007/08. Regionally, SARS participates in the activities of the WCO East and Southern Africa region, the SADC and SACU.

Over the past year, SARS has continued to play a leading role in the activities of the SADC Heads of Customs Subcommittee and its advisory working groups aimed at the smooth implementation of the SADC Protocol on Trade and its objective of creating a free-trade area in the region. This work has focused on the development of an SADC transit system, and capacity building. Also, in February 2007, the SADC Heads of Customs inaugurated a pilot project designed to test and introduce the Regional Transit Management System along the North / South Corridors. The project, initially focusing on the Durban – Blantyre Corridor, was extended in February 2008 to include the Durban – Lubumbashi Corridor.

South Africa hosted the 5th SADC Tax Subcommittee "Heads of Tax" Meeting in May 2007, with SARS participation particularly in the Sub-committee's Indirect Tax Working Group (ITWG) and Tax Agreements Working Group (TAWG). SARS currently chairs the TAWG, where a draft SADC Multilateral Agreement for the Exchange of Information and Mutual Assistance in Tax Matters is being finalised.

International

A General Memorandum of Cooperation, with special annexes on Capacity Building and the Customs Automation Project, was signed between SARS and the Lesotho Revenue Authority in June 2007. Also, the Agreement on the One-Stop Border Project between Mozambique and South Africa was signed by the Heads of State of the two countries on 17 September 2007. The project has been developed to enhance border crossing performance, improve turnaround times, and provide a single stop for administrative processes, thereby eliminating duplication of border activities.

Relations with other strategic partners were also strengthened through the signing of a Memorandum of Cooperation with the Canadian Border Services Agency (CBSA) focus on Capacity Building in Customs, while a Memorandum of Understanding on Customs and Tax Administration Cooperation was also signed in January 2008 with Her Majesty's Revenue and Customs of the United Kingdom.

The visit by Commissioner Gordhan to Sweden in October 2007 re-energised the relationship with the Swedish Tax Agency and the Agreement for Institutional Co-operation between SARS and the STA was extended until the end of December 2008. It was also agreed that collaboration between SARS and the Swedish Customs Agency (SCA) would form part of the Agreement. Projects in the areas of Operations, Enforcement and Human Resources were the focus over the past year.

Capacity Building

SARS continues to provide assistance to other African administrations in building their capacity. This takes the form of providing policy, legal and operational assistance, hosting study and benchmarking visits, providing training interventions either in South Africa or in those requesting countries, seconding SARS officials to other administrations as well as hosting officials seconded by other administrations. In the latter respect, SARS hosted two senior African tax officials for a two-week attachment in November 2007 through its collaboration with the IMF East Africa Regional Technical Assistance Centre (East AFRITAC).

SARS hosted workshops, with the participation of OECD technical experts, for administrations of the SADC region on Tax Treaties in May, Auditing Multinational Enterprises in June, and Transfer Pricing in September 2007. Other tax workshops included workshops on international treaties for the Botswana Unified Revenue Service, the Rwanda Revenue Authority and ISTAX of Japan, as well as presentations on international treaties and VAT at the African Tax Institute. Within the context of the WCO Regional Training Centre for East and Southern Africa, SARS also provided training for the region on Harmonized System Training, Risk Management, Trade Facilitation and Valuation with financial assistance from the Dutch government.

Benchmarking Visits

Over the past year, SARS received visits from officials from the tax and customs administrations of Belgium, Botswana, China, Indonesia, Lesotho, Mozambique, Nigeria, Sierra Leone, Swaziland, Tanzania, Turkey and Uganda, as well as from the IMF-East Africa and Newcastle Business School. A delegation from the IMF on their annual Article IV Mission to South Africa also visited SARS in May 2007.

Dave Hartnett, Acting Chairperson of Her Majesty's Revenue and Customs of the UK and Commissioner Gordhan signing a bilteral Memorandum of Co-operation between the HMRC and SARS

Service Monitoring Unit (SSMO)

Service Monitoring Unit call centre agents

The mandate of the office is to resolve complaints and offer advice to clients about their rights.

The office also plays an important secondary role of educator in informing clients on SARS processes and changes in the SARS core business that might affect them. This creates an informed client base and gives better a understanding of why delays occur or more time is required in specific instances. This in itself does not necessarily reduce the number of complaints to the office but it reduce the level of aggravation that often accompany these complaints.

A steady year on year increase in queries and complaints has occurred that can be contributed to numerous environmental aspects and influences. Among other the awareness of the existence of the SSMO steadily increase on a yearly basis and by implication causes a higher influx of interaction with the office. This is viewed in a positive light as this brings SARS closer to an accurate market evaluation of service standards within the country. The continuous improvement of organisational activities is another contributing factor such as the new assessment process that was introduced in the 2007/08 year. This initiative increases effectiveness and ensure a faster and more streamlined service to clients but being new and advanced it takes time to grow accustom to the changes and initial fine tuning might lead to increased frustration on the client's side. This is viewed as an expected increase in complaints that will be alleviated going forward by the enhancements already made and the incorporation of new initiatives into the normal business processes.

The abovementioned increase had a natural effect on the percentage of cases resolved within the agreed turnaround time. A 4% decrease was documented taking the office from 85% of cases resolved within turnaround time in the previous year to 81% for this year. The table below gives and overall view of cases handled by the SSMO over the past five years.

Table 4.3.2: Cases handled by SSMO – 2004 – 2008

	2004	2005	2006	2007	2008
Complaints received	4,380	3,266	5,756	6,882	7,385
Quick logs received	9,818	10,445	11,531	8,940	7,336
% complaints resolved within SLA	46%	72%	82%	85%	81%

SARS South African Revenue Service

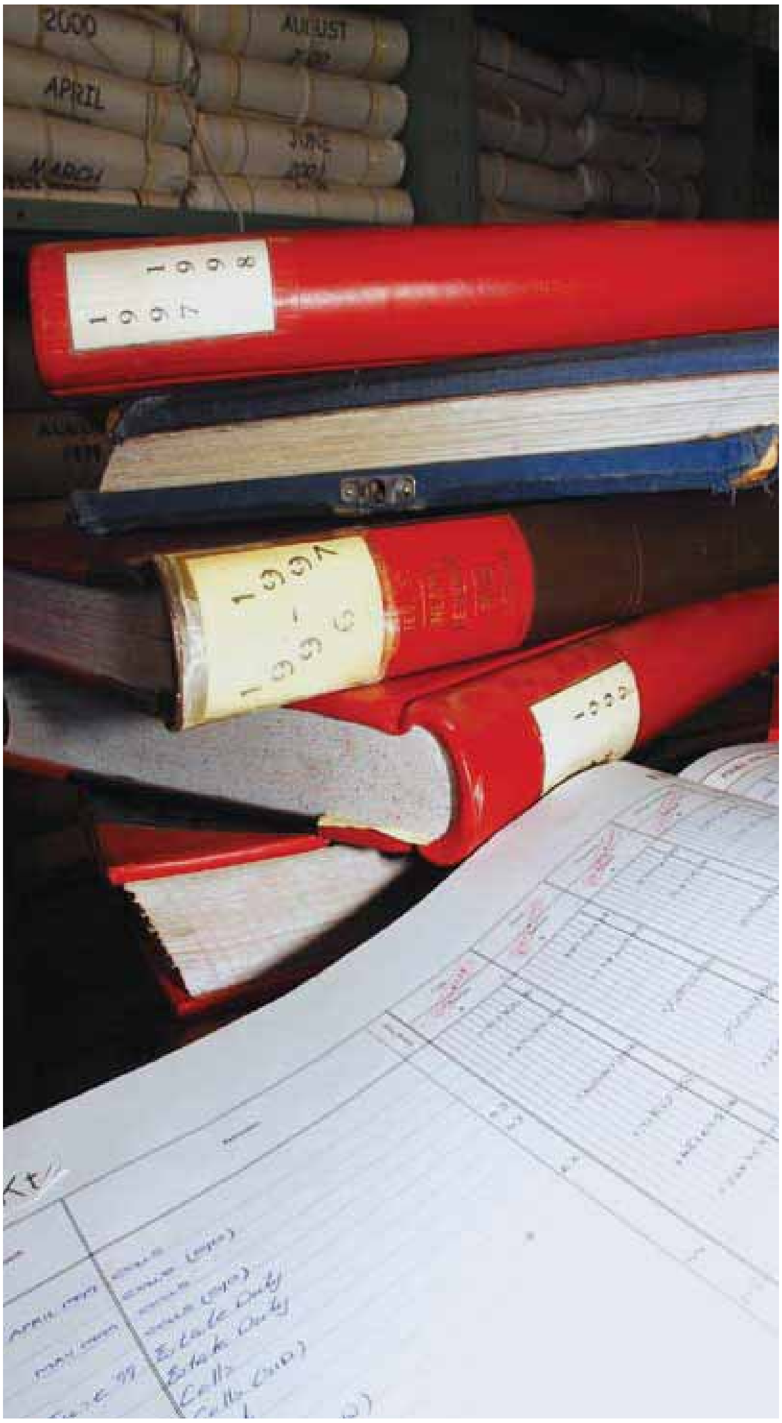
Technology

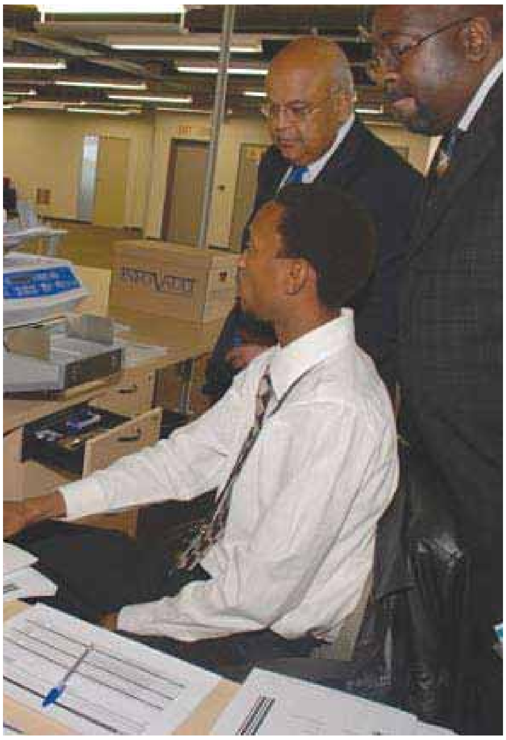
A key thrust of SARS' strategy is the recognition that technology is critical to the modernisation of SARS. SMT is the custodian of technological innovations that improve operational efficiencies and effectiveness. It is also responsible for SARS' technology architecture, application systems development, IT operations and "24x7" transaction processing.

Performance

Specific attention was paid to upgrading the Technology Infrastructure and ensuring the continued stability, availability and performance of the core systems. Efforts were also made to improve the speed and effectiveness of technology support services. Key achievements include:

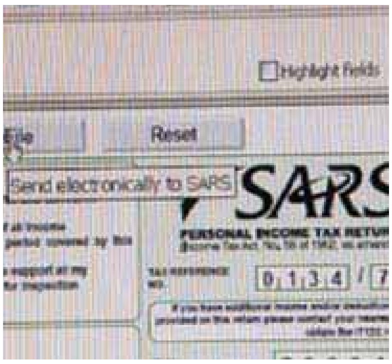
- Rationalisation of the central site mainframe and server infrastructure: this will lead to improved average service availability, simplified maintenance and on-going cost savings;
- Awarded the ICT Infrastructure tender. The necessary interim agreements and the transitioning from the old service providers are in progress;
- Improved processes for systems support and incident management were implemented, following the transition of the desktop and server support services to a new service provider and the implementation of a new ICT service desk solution;
- Successfully concluded an agreement for the provision of Disaster Recovery Services. In order to mitigate the risk of disaster, SMT planned for the provision and use of a syndicated disaster recovery site. The agreed plans will be implemented in the 2008/09 financial year;
- Awarded the Customs scanners tender and commissioned the first scanner at the Durban port.

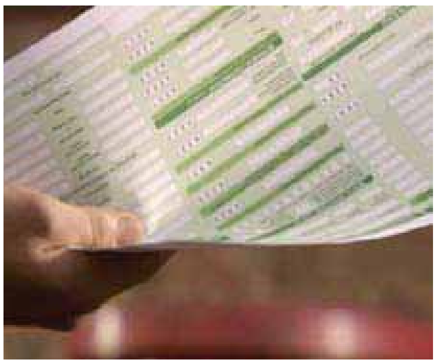




Part Five

Modernisation





The Modernisation Programme

2007/08 marked the first year of implementation of the modernisation programme aimed at improving SARS' ability to sustain its performance in the face of substantial increases in volumes of transactions and returns, the pressure on manual processes, the imperative to sustain and grow revenue collection, managing risk and non-compliance and the need to deploy people more efficiently.

Performance Highlights

Assessment programme

The success of the Filing Season can best be described by referring to a message sent out by the Commissioner to all SARS employees in whom the following remarkable achievements are mentioned:

- 3,8 million individual tax returns were processed automatically;
- 2,4 million returns were received electronically or scanned electronically;
- Nearly 2 million taxpayers received their assessments dramatically faster than before;
- eFiling submissions increased from 35 000 to over 1 million in one year; and
- significant reduction in risk and identification of non-compliant taxpayers.

Service programme

The infrastructure was put in place to support the changes introduced by the 2007 assessment programme. It was recognised early on that the success of the 2007/08 filing season would be heavily influenced by ensuring that the appropriate taxpayer support systems were in place, especially at the call centres and branches.

The modernisation agenda

It is anticipated that the full implementation of the 10 modernisation programmes will stretch over five to seven years and will be split into three phases of approximately two years each. The first phase, which relates to creating the capacity, design and foundations for modernisation, has made significant inroads.

Filing Season 2007

The Modernisation Programme

The 10 programmes are:

New Operating Model	Create a differentiated operating model	• Segment taxpayers/traders and develop strategies and operating model by segment • Relocation of resources • Long-term benefits once established
	Develop an integrated risk management system	• Capture of additional growth and closure of tax gap • Increase capacity and enhance capabilities of enforcement and risk
	Improve customer service, outreach and education	• Important for SARS to be responsive to taxpayers/traders • Maintain perception of being efficient revenue collector • Re-design service model to improve service levels and meet service charter targets
	Enhance core operations and build capabilities	• Imperative to stabilise and repair core functions for sustained performance • Build basic core operations capabilities (e.g. scanning, automation and eFiling) • Redesign core tax product processes
Additional Priorities	Strengthen border control	• National priority to protect borders and curtail illicit trade • Implement AEO accreditation programme and implement CBCU units • Prepare for tax and customs implications of 2010 World Cup
	Implement social security and wage subsidy	• Commitment to implement social security by 2010 and administer wage subsidy • Leverage synergies and interdependencies with core tax systems
Operational Foundation	Further professionalise management processes and governance	• Limited MIS capability and performance management in place • Professionalise management planning, tracking and reporting processes
	Transform SARS culture and further enhance capabilities	• 2007 Year of the People. People are critical enablers to any change agenda • Improve talent and performance management processes • Skills lacking in critical areas • Embedding of values
	Improve infrastructure (ICT and Facilities)	• Improve operational efficiency by upgrading operating systems and hardware • Upgrade and improve facilities to ensure compliance with health and safety regulations
	Effective communication and change management	• Create buy-in for change • Education of taxpayers / traders

The Modernisation Programme

Programme 1: Create a differentiated operating model

The key objective is to create a differentiated approach in engaging taxpayers and traders based on an understanding of their revenue contributions, service requirements and risk profiles. We aspire to achieve the following outcomes:

- Improved taxpayer and trader service experience and voluntary compliance;
- Segment focus for operations and stronger stakeholders relationships;
- Enhanced service, education and enforcement; and
- Stronger focus on people, process and systems.

The following progress has been made during the year under review:

- Following extensive research, ten segments of taxpayers and traders, each with specific needs and behaviours, have been identified;
- this segmentation translates Into a new operating model which will be systematically phased in; and
- a proposed organisational structure to match the changes in the new operating model has been defined and will be gradually phased in.

Programme 2: Develop an integrated risk management and enforcement system

The objective of this programme is to review SARS' risk philosophy and implement a differentiated enforcement approach for each taxpayer and trader segment. We aspire to achieve improved compliance and outreach by 2010 reduction of the overall burden to taxpayers and traders, and an increased use of more sophisticated methods including risk profiling, modelling and third party data thus ensuring better targeting of enforcement's human resource capacity.

A detailed analysis of the Personal Income Tax risk rules has been undertaken; this lead to the introduction of a new statistical model which is being constantly refined. This risk mechanism enables enforcement to now focus its activities on higher possible yield cases.

Enforcement is now also assisted by new systems which highlight exceptions such as third party data mismatches and create cases for automatic follow up. The improved performance on hit rate for investigative cases is attributed to improved case selection based on ever improving data analytics.

Programme 3: Improve customer service, outreach and education

The objective of this programme is to deliver against SARS' service charter by improving the ability and speed at which SARS can respond to and resolve Personal Income Taxpayer queries. We aspire to resolve the majority of queries at point of contact, following the "one and done" principle, and provide effective, easily available and efficient channels.

The following progress has been made during the year under review:

- informed and educated taxpayers about the new, simpler and improved eFiling forms and how these should be completed;
- developed case management software to facilitate workflow processing, which forms the foundation for tracking open and unresolved cases at both contact centres and branches; and
- the first version of the service manager software has been rolled out to the call centres, assessment centres and branch offices. Call centres are starting to be presented with a full view of case history, which allows for efficient reply to taxpayer queries.

Programme 4: Enhance core operations and build capabilities

The objective of this programme is to fundamentally modernise and redesign the core operations improving operational efficiencies and resources allocation. We aspire to enhance the core capabilities by minimising manual and paper-based transactions and improving employee productivity by re-engineering and automating routine functions, thereby freeing up staff to perform more value-added activities such as education, service and auditing.

The following progress has been made during the year under review. 2007 saw a fundamental re-look at how SARS interacts with taxpayers:

- Personal income tax returns were considerably simplified and new PIT assessment process rolled out nationally. This included:
  - a centralised scanning and imaging facility to digitise PIT returns;
  - a revamped eFiling platform which encouraged both personal income taxpayers and tax practioners to submit their data electronically. The need to provide paper schedules with the tax returns was done away with; and
- A new branch capture system enabling direct electronic interaction with taxpayers at branches lead to more than 2,4 million (need to check this) returns either being scanned or received electronically.

The assessment programme introduced a significant amount of change to the SARS operating model. The fact that it was landed on time and without causing any major operational disruptions are testament to the abilities of all involved and the successful deployment of formal project management methodologies.

Programme 5: Implement national social security tax and wage subsidy

We are committed to playing a role in these initiatives as we broaden our contribution to government's overall development agenda.

A high level operational design for social security administration was developed and shared with the interdepartmental task team. The proposals allow for delivery through either "in-house" and other existing government capabilities as well as through the private sector.

Programme 6: Strengthen border control (lead agency at ports of entry)

The objective is to facilitate trade, secure the logistics chain and protect the community.

The following progress has been made during the year under review:

- Scanner tender awarded – the first mobile scanner was put into operation in February 2008 at the Durban Container Terminal. In the first month of pilot testing, in excess of 700 containers were successfully scanned;
- Implemented the first phase of Customs Border Control Unit (CBCU). The first batch of CBCU trainees completed their training while another intake of 300 trainees commenced in March 2008;
- Implemented first phase of the authorised economic operator (AEO) accreditation programme in parallel with the AEO policy development The programme was developed as an initiative of the World Customs Organisation Framework of Standards to secure and facilitate global trade; and
- As lead agency:
  - The National Integrated Border Management Strategy has been adopted by Cabinet; and
  - Capacity has been created for the execution of the lead agency role.

The Modernisation Programme

Programme 7: Further professionalise management processes and governance

The objective is to improve the core management processes and to build capabilities by enhancing human resources, information management and support service delivery capabilities.

The following progress has been made by addressing several core areas:

Foundation:

Implementation of new HR ERP solution to simplify systems and business processes was initiated;

Performance and planning:

- An integrated approach to planning and budgeting has been adopted;
- Performance scorecards aligned to the modernisation agenda and strategic plan put in place at divisional, executive and senior management level; and
- Revised the performance management development system (PMDS) and rolled out nationally.

Enablement and policies:

- The governance unit has been established and the SARS governance framework adopted; and
- The strategic sourcing model has been reviewed.

Programme 8: Transform SARS' culture and further enhance people capabilities

The objective of this programme is to enhance our human capability by developing staff that have the appropriate skills and orientation; achieve employment equity and work place diversity; and build a cadre of tax and customs professionals while maintaining an acceptable level of engaged employees.

In this year, we:

- Conducted a Connexion survey which enabled the identification of improvement areas;
- Completed a SARS-wide awareness campaigns together with Quick Wins to "Show We Care" and launched the "SARS 4 U" lifestyle balance programme;
- Demonstrated an increase in the annual employee engagement Index measured in March – 4.8% improvement;
- Aligned the 360 degree behaviour review to SARS values and automated model implemented for mid-year reviews and year-end reviews;
- Presented the total rewards philosophy and variable pay principles to the remuneration committee, which was approved; and
- Opened our National Recruitment Centre in February with outsourced recruitment partners.

Programme 9: Improve infrastructure (Information & Communication Technology [ICT] and Facilities)

The objective of this programme is to upgrade the ICT foundation for legacy systems to enhance core operations, build capabilities for sustained performance and improve the conditions of buildings at border posts as well as upgrade the building portfolio to ensure compliance with business needs.

During the year under review, we made the following progress:

- Implemented a new simplified and optimised hardware configuration in central sites which will result in a decreased need for support and annual cost savings;
- Awarded the network tender covering a broad range of services including services such as managed networks, data and voice carriers, Internet service providers, workstation services, server services and printing services; and
- Renegotiated a number of technology contracts with IT suppliers. This will lead to significant annual savings being achieved in the years to come.

This year, we upgraded specific sites in line with business needs, health and safety standards and security. We also launched a programme to improve buildings at border posts.

Programme 10: Effective communication and change management

The objective of this programme is to use communication and change management effectively in support of the modernisation agenda. Part of this process is also to educate relevant stakeholders on outcomes or changes to SARS that arise as a result from the modernisation programmes. This includes educating taxpayers about the revamped Personal Income Tax returns and processes, as well as the new e-Filling platforms.

We have made the following progress during the year under review:

- Internal communications arranged a first ever satellite broadcast to all offices addressed by the Minister and Commissioner (to promote awareness and buy-in for the modernisation agenda);
- Employee Connexion road shows conducted to promote direct communication between the Commissioner, Exco and staff;
- Highly successful external communication campaign regarding the small business amnesty completed;
- External communication in support of the 2007 assessment programme and new e-filling capabilities was extensive; and
- Taxpayers, practitioners and employers engaged for input into proposed 2008 Personal Income Tax and PAYE reform respectively.

Conclusion

The past financial year has seen a radical transformation of the operating model at SARS. SARS has put in place the required systems and plans to ensure that the changes for the coming financial year, in many aspects as large and dramatic as those already introduced, are also successfully executed.

Part Six
SARS Financial Statements

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2008 in terms of Treasury Regulations 3.1.1.9 and 10 whereby the Audit Committee is required to report amongst others on the effectiveness of the internal controls, the quality of in-year management and monthly reports submitted in terms of the Division of Revenue Act as well as its own evaluation of the annual financial statements.

Audit Committee Members and Attendance

The Audit Committee operates in terms of written terms of reference, which deal with its membership, authority and responsibilities. These terms of reference are reviewed at least annually to ensure their continued relevance (Treasury Regulations 27.1.6).

The composition of the audit committee members is such that all Treasury Regulations requirements are met in terms of financial literacy and independence. The Audit Committee consisted of four external members listed hereunder and held three meetings for the financial year under review. Note should be taken that for the period under review, Prof Dillip Garach temporarily recused himself from SARS Governance structures for personal reasons.

Member	DATE OF MEETING		
	17 May '07	27 July '07	15 Nov '07
Mr Bongani Nqwababa (Chairperson) Finance Director at Eskom Holdings Limited • B. Acc (Hons), 1989, University of Zimbabwe. • CA (Zim) 1991; • MBA in Finance, 1999, Universities of Manchester and Wales, Bangor	√	√	√
Mr Mustaq Brey CEO: Brimstone Investment Corporation Limited • B.Compt (Hons); CA (SA)	√	√	√
Ms Berenice Lue-Marais Head: Africa, CSIR Market & Business Development; and International Development Finance Manager, CSIR International Relations, CSIR, Pretoria • MBA International Finance, 1992 The American University, Washington, D.C. • Bachelor of Arts, BA Economics, 1988 The University of the District of Columbia, Washington, D.C. August 1988	√	√	√
Prof Dillip Garach Accounting Professor at Natal University; Consulting Partner at Garach & Garach • MCom; CA(SA); CFP	Temporarily recused	Temporarily recused	Temporarily recused

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a)(ii) and 76(4)(d) of the PFMA, and Treasury Regulation 27.1. The Audit Committee has adopted appropriate formal Terms of Reference, has regulated its affairs in compliance with these Terms of Reference and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. From the various reports issued by the Internal Audit function, the external Audit Report on the Annual Financial Statements and management letters of the Auditor-General, it was noted that no significant or material non-compliance with prescribed policies and procedures have been reported.

In line with the PFMA and the King II Report on Corporate Governance, the Internal Audit function provided the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. A new Head for Internal Audit was appointed on 1 February 2008. The Audit Committee satisfied itself that SARS took the necessary steps to maintain the effective functioning of its Internal Audit unit through inter alia the appointment of an Acting Head and adequate handover after the new Head was appointed. Accordingly, the committee reports that the systems of internal controls for the period under review were effective and efficient.

Evaluation of Financial Statements

The Audit Committee has:

a) Reviewed and discussed the audited Annual Financial Statements to be included in the annual report with the Auditor-General and the Accounting Officer;
b) Reviewed the Auditor-General's management letters and management's responses thereto;
c) Reviewed accounting policies; and
d) Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.

Bongani Nqwababa
Chairperson: Audit Committee
21 August 2008

ADMINISTERED REVENUE
Financial Statements
31 March 2008

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Statement of Financial Performance	**135**
Statement of Changes in Net Assets	**136**
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The attached Financial Statements were approved and signed by:

Pravin Gordhan

-- Date: 29 July 2008

P Gordhan
Commissioner
South African Revenue Service

ADMINISTERED REVENUE
Report of the Auditor-General to Administered Revenue

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE SOUTH AFRICAN REVENUE SERVICE: ADMINISTERED REVENUE FOR THE YEAR ENDED 31 MARCH 2008

REPORT ON THE FINANCIAL STATEMENTS
Introduction

1. I have audited the accompanying financial statements of the South African Revenue Service (SARS): Administered Revenue which comprise the statement of financial position as at 31 March 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 134 to 142.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:
   - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
   - selecting and applying appropriate accounting policies
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 28 of the South African Revenue Service Act, 1997 (Act No.34 of 1997), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
   - appropriateness of accounting policies used
   - reasonableness of accounting estimates made by management
   - overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

ADMINISTERED REVENUE

Report of the Auditor-General to Administered Revenue

Basis of accounting

8. SARS policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.

Opinion

9. In my opinion the financial statements present fairly, in all material respects, the financial position of the South African Revenue Service (SARS): Administered Revenue as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the PFMA.

OTHER MATTER

Without qualifying my audit opinion, I draw attention to the following matter that relates to my responsibilities in the audit of the financial statements:

Matters of governance

10. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The public entity had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
Internal audit		
• The public entity had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	✓	
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines (section 55 of the PFMA).	✓	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	✓	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
• The prior year's external audit recommendations have been substantially implemented.	✓	

ADMINISTERED REVENUE
Report of the Auditor-General to Administered Revenue

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

11. I have reviewed the performance information as set out on pages 185 to 188.

Responsibility of the accounting authority for the performance information

12. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Responsibility of the Auditor-General

13. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

14. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment .

15. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

16. The assistance rendered by the staff of the SARS during the audit is sincerely appreciated.

Pretoria
30 July 2008

Auditor General.

AUDITOR-GENERAL

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

Statement of Financial Position

as at 31 March 2008

	Notes	2008 R'000	2007 R'000
ADMINISTERED ASSETS			
Amount due by National Revenue Fund		-	863,958
Current assets			
Bank	2	119,521	-
Cash and cash equivalents	3	21,642	4,562
Accounts receivable	4	3,123	5,312
Other assets	5	626	548
Total administered assets		**144,912**	**874,380**
ADMINISTERED LIABILITIES			
Amount due to National Revenue Fund		144,907	-
Current liabilities			
Other liabilities	6	5	10
Bank	2	-	874,370
Total administered liabilities		**144,912**	**874,380**

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

Statement of Financial Performance

for the year ended 31 March 2008

	Notes	2008 R'000	2007 R'000
Taxation		**589,094,667**	**508,664,175**
Income tax	7	332,045,467	279,989,859
Value-added tax		150,442,849	134,462,599
Customs duties		26,469,760	23,697,003
Fuel levy		24,065,146	21,578,281
Excise duties		19,698,901	17,652,061
Other taxes	8	12,440,992	10,947,960
Unemployment insurance fund		8,954,337	7,854,291
Road accident fund	9	8,855,313	6,998,978
Skills development levy		6,330,917	5,597,401
Air passenger tax		540,635	484,823
Universal service fund		181,085	152,120
Plastic bag levy		86,314	75,128
Small business tax amnesty		12,828	657
Diesel refunds		(1,029,877)	(826,986)
Non-taxation		**915,181**	**643,733**
Customs miscellaneous revenue	10	612,024	305,194
Non-tax revenue	11	214,342	342,682
Mining leases and ownership		56,032	(33,506)
Provincial administration receipts	12	32,783	29,363
TOTAL REVENUE		**590,009,848**	**509,307,908**
Less: South African Customs Union Agreement			
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	13	24,712,567	25,194,939
NET REVENUE FOR THE YEAR		**565,297,281**	**484,112,969**

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

Statement of Changes in Net Assets

for the year ended 31 March 2008

	R'000
AMOUNT DUE (TO) / BY NATIONAL REVENUE FUND	
Balance at 31 March 2006	**1,112,249**
Net gains and losses not recognised in the statement of financial performance	(248,291)
Net revenue for the year	(484,112,969)
Transfer to the National Revenue Fund	483,864,678
Balance at 31 March 2007	**863,958**
Net gains and losses not recognised in the statement of financial performance	(1,008,865)
Net revenue for the year	(565,297,281)
Transfer to the National Revenue Fund	564,288,416
Balance at 31 March 2008	**(144,907)**

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

Cash Flow Statement

for the year ended 31 March 2008

	Notes	2008 R'000	2007 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from operating activities	**14**	**589,277,353**	**509,311,537**
Taxation		588,362,172	508,667,804
Non - taxation		915,181	643,733
Cash transferred		**(589,000,983)**	**(509,059,617)**
Payments in respect of Customs Union Agreement		(24,712,567)	(25,194,939)
Cash to National Revenue Fund		(564,288,416)	(483,864,678)
Net cash (transferred)/retained from operations		**276,370**	**251,920**
Cash and cash equivalents at beginning of year		**(59,817)**	**(311,737)**
Cash and cash equivalents at end of year	**15**	**216,553**	**(59,817)**

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

Notes to the Financial Statements

for the year ended 31 March 2008

1. Accounting Policies

1.1 Basis of accounting

The annual financial statements have been prepared on the cash basis of accounting. In terms of the Public Finance Management Act No.1 of 1999 (PFMA), SARS is required to comply with generally accepted accounting practice unless the Accounting Standards Board approves the application of Generally Recognised Accounting Practice.

By virtue of the powers vested in the Minister of Finance by section 91(1) (b) of the PFMA, the Minister prescribed the Standards of Generally Recognised Accounting Practice as set by National Treasury in terms of section 89(1) (a) (ii), read with section 93(3) of that Act, for the annual financial statements of national public entities, in respect of taxes, duties, levies, fees and other monies collected by such entities which must be deposited into a Revenue Fund as defined in that Act. This was promulgated in government notice number R. 1095 dated 30 October 2001.

The Accounting Standards Board (ASB) approved the Revenue from Non-Exchange Transactions standard (GRAP 23) in February 2008. This standard provides for the accrual principle to be adopted when recognising and measuring taxation revenue arising from non-exchange transactions. This standard will become effective through the issue of a regulation, which will detail the implementation criteria based on the international guidelines and South African specific requirements. The international equivalent of this standard (IPSAS 23) provides for a five year transitional period from the effective date for the implementation of the standard.

Approval to remain on the cash basis of accounting for financial statements and audit purposes until at least March 2012 was obtained from the Minister of Finance on 23 April 2007.

In terms of the basis of accounting promulgated in government notice number R. 1095 dated 30 October 2001, the following policies are applied.

1.2 Revenue recognition

1.2.1 Definition of revenue

Revenue means all taxes, levies, duties, fees and other monies collected by SARS for the National Revenue Fund.

1.2.2 Recognition of revenue

Revenue is represented by gross collections net of refunds. Refunds are represented by cheques raised (issued) or the raising of electronic refunds.

Revenue is recognised on the cash basis when payments are allocated. This recognition of revenue has been extended to include all monies collected by the South African Post Office Limited which have not yet been paid over to SARS.

South Africa is the administrator of the Southern African Customs Union Agreement. All collections in respect of the Common Customs Union are included in the statement of financial performance as revenue according to the nature of the collection (duties, excise, etc) while refunds made to member countries are disclosed separately.

Stale cheques are written back to income while subsequent claims in respect thereof are treated as drawbacks from current revenue collections. Electronic refund and payment rejections are accounted for per bank statement date.

1.3 Revenue not recognised - tax evasion

SARS acknowledges that its fiduciary responsibilities to the Government are unavoidably affected by the incidence of tax evasion and other breaches of the taxation laws by individuals and entities who have a legal obligation to the Government. No assertion, either implicit or explicit, is made in the financial statements that all such transactions have been brought to account.

1.4 Cash and cash equivalents

Cash includes cash on hand which comprises amounts receipted by SARS as at 31 March but not yet deposited and cash at bank. These items are used in the cash management function of the central government on a day-to-day basis. SARS does not have any term loan or bank overdraft facilities. All balances at the major banks participating in the cash management function of central government are cleared to the National Revenue Fund on a daily basis.

1.5 Accounts receivable

Accounts receivable include all monies collected by the South African Post Office Limited which have not yet been paid over to SARS.

1.6 Bank

The bank balance comprises cheques issued but not yet presented for payment, net reconciling items not allocated to revenue and bank account balances on 31 March not transferred to the National Revenue Fund by the banks.

1.7 Amount due to/by the National Revenue Fund

Amount due to/by the National Revenue Fund reflect the cumulative difference between the transfer of revenue to the National Revenue Fund and revenue recorded per the Statement of Financial Performance.

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

Notes to the Financial Statements

for the year ended 31 March 2008 (continued)

	2008 R'000	2007 R'000

2. Bank

The bank balance of R119 521 174 for the 2007-08 financial year represents an asset whilst the bank balance of R874 370 408 for the 2006-07 financial year represented a liability. The reason for this movement results from the decline in the value of cheques not presented for payment by taxpayers at 31 March 2008 due to a change in policy during the 2007-08 financial year. Income tax refunds are now effected only by way of electronic fund transfer (EFT) to nominated taxpayer's bank accounts.

2007-08: Bank comprises monies not transferred to the National Revenue Fund by the banks at 31 March amounting to R135 533 167, cheques issued but not yet presented for payment amounting to R75 390 139 and net reconciling items amounting to R59 378 146.

2006-07: Bank comprises cheques issued but not yet presented for payment amounting to R809 991 133, monies not transferred to the National Revenue Fund by the banks at 31 March amounting to R43 220 023 and net reconciling items amounting to R21 159 252.

	2008 R'000	2007 R'000
3. Cash and cash equivalents	**21,642**	**4,562**
Cash on hand	21,642	4,562
4. Accounts receivable	**3,123**	**5,312**
South African Post Office Limited (VAT)	2,952	4,136
South African Post Office Limited (Stamp duty)	171	1,176
5. Other assets	**626**	**548**
Provincial administration	451	538
Receivables	175	10

The provincial debtor of R450 790 relates to monies owing by the Eastern Cape province as a result of an overpayment of provincial revenue by SARS during the 1999/2000 financial year.

	2008 R'000	2007 R'000
6. Other liabilities	**5**	**10**
Accounts payable	5	10

Accounts payable represent monies collected on behalf of SARS Own Accounts and paid subsequent to 31 March 2008.

	2008 R'000	2007 R'000
7. Income tax	**332,045,467**	**279,989,859**
Pay as you earn	158,106,165	133,760,368
Persons, individuals and companies	153,068,524	127,747,611
Secondary tax on companies	20,585,421	15,291,351
Tax on retirement fund industry	285,357	3,190,529
8. Other taxes	**12,440,992**	**10,947,960**
Transfer duties	7,408,173	6,773,960
Marketable securities tax	3,757,114	2,763,861
Estate duty	691,031	747,447
Stamp duty	531,027	586,162
Donations tax	27,551	47,022
Master fees	26,096	29,508

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

Notes to the Financial Statements
for the year ended 31 March 2008 (continued)

	2008 R'000	2007 R'000
9. Road accident fund	**8,855,313**	**6,998,978**
Road accident fund levy	8,150,071	5,905,632
Road accident fund (Recoupment)	705,242	1,093,346

Road Accident Fund levy is payable on the production of fuel. The recoupment represents the amount due to SARS by the Road Accident Fund in respect of that portion of the diesel refunds already effected to qualifying industries.

	2008 R'000	2007 R'000
10. Customs miscellaneous revenue	**612,024**	**305,194**
Customs miscellaneous revenue	624,319	297,180
Revenue in respect of other departments	(12,295)	8,014

Customs miscellaneous revenue primarily comprises payments from traders that have yet to be allocated to the appropriate duty types.

	2008 R'000	2007 R'000
11. Non-tax revenue	**214,342**	**342,682**
State miscellaneous revenue	212,236	339,171
State fines and forfeitures	2,104	3,477
State licenses	2	34

State miscellaneous revenue mainly comprises stale cheques now written back to revenue.

	2008 R'000	2007 R'000
12. Provincial administration receipts	**32,783**	**29,363**
Provincial administration consolidated account	32,783	29,363

The provincial administration consolidated account represents the net revenue collected on behalf of the Provincial Administrations. According to section 12(3) of the Public Finance Management Act No. 1 of 1999, the National Treasury must transfer all taxes, levies, duties, fees and other monies collected by SARS to that provinces' provincial revenue fund.

13. Payments in terms of Customs Union Agreement

	2008 R'000	2007 R'000
Contributions to the Common Customs Pool	**46,168,661**	**41,349,062**
Namibia	361,017	363,930
Botswana	149,636	173,647
Swaziland	135,074	161,713
Lesotho	100,318	86,556
Sub-total	**746,045**	**785,846**
South Africa	45,422,616	40,563,216

All Southern African Customs Union (SACU) member countries collect customs and excise duties at SACU border posts as well as excise duties from domestic producers and remit these into the Tax and Loan accounts held by SARS. Revenue collected by SARS is remitted continuously whilst Botswana, Lesotho, Namibia and Swaziland (BLNS) remit their collections in this regard to SARS on a quarterly basis.

	2008 R'000	2007 R'000
Received from the Common Customs Pool	**46,168,661**	**41,349,062**
Botswana	9,001,361	7,756,317
Namibia	6,621,845	8,161,170
Swaziland	4,989,031	5,321,147
Lesotho	4,097,684	3,944,970
Secretariat	2,646	11,335
Sub-total	**24,712,567**	**25,194,939**
South Africa	21,456,094	16,154,123

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

Notes to the Financial Statements

for the year ended 31 March 2008 (continued)

	2008 R'000	2007 R'000

Payments out of the SACU revenue pool from South Africa to the BLNS countries are effected at the beginning of each quarter. The share of these payments is determined annually according to the structure of the revenue sharing formula. The National Treasury effects these payments into the nominated bank accounts of the BLNS countries.

14. Reconciliation of net revenue for the year to total cash received

	2008 R'000	2007 R'000
Net revenue for the year as per statement of financial performance	565,297,281	484,112,969
Adjusted for:		
Payments in terms of Customs Union Agreement	24,712,567	25,194,939
(Increase) / Decrease in accounts receivable	2,189	(299)
Increase / (Decrease) in other liabilities	(5)	(48)
(Increase) / Decrease in other assets	(78)	390
Increase / (Decrease) cheques not yet presented for payment	(734,601)	3,586
Total cash received as per cash flow statement	**589,277,353**	**509,311,537**

15. Cash and cash equivalents in respect of cash flow statement

	2008 R'000	2007 R'000
15. Cash and cash equivalents in respect of cash flow statement	**216,553**	**(59,817)**
Bank (as per statement of financial position)	119,521	(874,370)
Cheques issued but not yet presented for payment	75,390	809,991
Cash and cash equivalents (as per statement of financial position)	21,642	4,562

16. Sureties

(i) Lien - Sanlam shares

1 327 692 (1 756 821: 2006-07) Sanlam shares with a market value of R25 358 917 (R35 136 420: 2006-07) are held in respect of amounts owing by 2 181 (2 860: 2006-07) taxpayers at 31 March 2008.

(ii) Lien - Old Mutual shares

2 016 600 (2 079 500: 2006-07) Old Mutual shares with a market value of R35 633 322 (R48 556 325: 2006-07) are held in respect of amounts owing by 6 122 (2 796: 2006-07) taxpayers at 31 March 2008.

During the 2007-08 financial year there was an increase in the number of Old Mutual shareholders that only now claimed their shares in respect of demutualization. At the time the attachment was issued, Old Mutual could only attach the shares that were claimed by the relevant shareholders.

(iii) Guarantees

Guarantees issued in favour of SARS amounting to R 55 211 955 (R206 611 067: 2006-07) are held as security for various taxes payable.

Guarantees issued by financial institutions in favour of SARS amounting to R4 605 802 668 (R4 267 587 794: 2006-07) are held as security for various duties payable.

17. Write-off of irrecoverable debt

Irrecoverable debt in respect of administered taxes to the amount of R3 845 376 807 (R6 682 847 696: 2006-07) has been written off on or prior to 31 March 2008. Amounts still awaiting approval for write-off do not form part of actual write-offs.

Irrecoverable debt in respect of administered duties to the amount of R105 651 955 (R215 571 919: 2006-07) has been written off on or prior to 31 March 2008. Amounts still awaiting approval for write-off do not form part of actual write-offs.

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

UNAUDITED ANNEXURES

31 March 2008

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Unaudited outstanding debt - duties (Receivables)	**146**

The annexures do not form part of the audited financial statements and are presented as additional information.

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

UNAUDITED ANNEXURE 1

TAXES

UNAUDITED OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2008

2007/2008	1 - 3 Months Rands	4 - 6 Months Rands	7 - 8 Months Rands	9 Months > Rands	Interest Rands	Total Rands	New Debt Rands	Total Debt Rands
Income Tax	1,169,990,478	732,343,991	519,332,272	19,079,226,093	9,513,884,330	31,014,777,164	5,002,874,422	36,017,651,586
Individuals	565,700,257	317,159,434	269,679,357	6,890,053,314	3,320,179,152	11,362,771,514	2,470,259,705	13,833,031,219
Trusts	23,301,026	12,673,749	11,032,917	196,105,467	93,868,534	336,981,693	229,487,775	566,469,468
Companies	580,989,195	402,510,808	238,619,998	11,993,067,312	6,099,836,644	19,315,023,957	2,303,126,942	21,618,150,899
PAYE	627,360,616	563,905,898	337,737,295	8,112,647,534	-	9,641,651,343	848,132,626	10,489,783,969
VAT	554,945,921	544,286,082	452,675,360	14,625,263,451	-	16,177,170,814	850,144,183	17,027,314,997
STC	324,647,549	91,393,872	49,922,732	1,540,175,433	624,558,493	2,630,698,079	277,512,979	2,908,211,058
Sub-Total	**2,676,944,564**	**1,931,929,843**	**1,359,667,659**	**43,357,312,511**	**10,138,442,823**	**59,464,297,400**	**6,978,664,210**	**66,442,961,610**
Diesel	-	-	-	-	-	1,158,910	-	1,158,910
SDL	-	-	-	-	-	684,111,268	-	684,111,268
UIF	-	-	-	-	-	1,080,761,965	-	1,080,761,965
Total	**2,676,944,564**	**1,931,929,843**	**1,359,667,659**	**43,357,312,511**	**10,138,442,823**	**61,230,329,543**	**6,978,664,210**	**68,208,993,753**

TAXES

UNAUDITED OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2007

2006/2007	1 - 3 Months Rands	4 - 6 Months Rands	7 - 8 Months Rands	9 Months > Rands	Interest Rands	Total Rands	New Debt Rands	Total Debt Rands
Income Tax	2,184,332,313	1,176,637,438	572,101,821	17,841,386,713	10,227,958,214	32,002,416,499	4,188,193,817	36,190,610,316
Individuals	601,859,935	406,126,170	218,942,058	7,238,685,943	3,549,289,904	12,014,904,010	1,550,368,907	13,565,272,917
Trusts	44,340,159	30,023,174	20,731,890	197,268,976	120,619,893	412,984,092	189,380,026	602,364,118
Companies	1,538,132,219	740,488,094	332,427,873	10,405,431,794	6,558,048,417	19,574,528,397	2,448,444,884	22,022,973,281
PAYE	503,627,954	489,579,010	271,520,203	7,666,226,962	-	8,930,954,129	625,213,689	9,556,167,818
VAT	622,114,785	548,126,482	390,585,345	15,068,369,246	-	16,629,195,858	736,513,537	17,365,709,395
STC	421,721,697	130,460,285	75,525,736	1,716,515,927	622,511,634	2,966,735,279	208,471,057	3,175,206,336
Sub-Total	**3,731,796,749**	**2,344,803,215**	**1,309,733,105**	**42,292,498,848**	**10,850,469,848**	**60,529,301,765**	**5,758,392,100**	**66,287,693,865**
Diesel	-	-	-	-	-	1,002,158	-	1,002,158
SDL	-	-	-	-	-	681,404,785	-	681,404,785
UIF	-	-	-	-	-	901,694,521	-	901,694,521
Total	**3,731,796,749**	**2,344,803,215**	**1,309,733,105**	**42,292,498,848**	**10,850,469,848**	**62,113,403,229**	**5,758,392,100**	**67,871,795,329**

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE
UNAUDITED ANNEXURE 2

UNAUDITED OUTSTANDING CREDITS (PAYABLES) AS AT 31 MARCH 2008

2007/2008	Total Credits Rands
Income tax	-8,664,137,615
Income Tax	**-8,664,137,615**
PAYE	-18,287,719,420
Returns not received	10,198,163,758
PAYE	**-8,089,555,662**
VAT	-21,613,635,745
Returns not received	8,175,218,533
VAT	**-13,438,417,212**
UIF	-1,215,802,374
Returns not received	707,338,616
UIF	**-508,463,758**
SDL	-1,102,236,766
Returns not received	596,599,323
SDL	**-505,637,443**
Sub-Total	**-31,206,211,690**
Diesel	-330,568,036
STC	-1,805,246,973
Total	**-33,342,026,699**

UNAUDITED OUTSTANDING CREDITS (PAYABLES) AS AT 31 MARCH 2007

2006/2007	Total Credits Rands
Income tax	-5,455,574,568
Income Tax	**-5,455,574,568**
PAYE	-16,640,332,126
Returns not received	8,014,370,286
PAYE	**-8,625,961,840**
VAT	-15,873,756,922
Returns not received	4,746,430,560
VAT	**-11,127,326,362**
UIF	-1,018,214,637
Returns not received	530,678,397
UIF	**-487,536,240**
SDL	-925,560,809
Returns not received	447,171,287
SDL	**-478,389,522**
Sub-Total	**-26,174,788,532**
Diesel	-135,470,126
STC	-1,617,670,599
Total	**-27,927,929,257**

SOUTH AFRICAN REVENUE SERVICE - ADMINISTERED REVENUE

UNAUDITED ANNEXURE 3

DUTIES

UNAUDITED OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2008

2007/2008	Debt Rands	Interest Rands	Total Rands	New Debt Rands	Total Debt Rands
Customs duty	472,289,497	153,175,010	625,464,507	21,608,351	647,072,858
Value-added tax	264,650,054	105,226,060	369,876,114	45,573,860	415,449,974
Surcharge	2,800,528	3,477,591	6,278,119	-	6,278,119
Fuel levy	1,290,681	820,617	2,111,298	-	2,111,298
P2A - Excise duty	55,781,221	8,756,052	64,537,273	139,079	64,676,352
P2B - Ad valorem	20,355,801	7,765,805	28,121,606	61,088	28,182,694
Penalties	52,552,970	-	52,552,970	2,202,737	54,755,707
Forfeiture	473,776,014	-	473,776,014	134,323	473,910,337
Unallocated	-388,958	-	-388,958	-	-388,958
Total	**1,343,107,808**	**279,221,135**	**1,622,328,943**	**69,719,438**	**1,692,048,381**

DUTIES

UNAUDITED OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2007

2006/2007	Debt Rands	Interest Rands	Total Rands	New Debt Rands	Total Debt Rands
Customs duty	382,058,814	128,698,996	510,757,810	36,701,746	547,459,556
Value-added tax	222,098,973	80,110,990	302,209,963	13,989,256	316,199,219
Surcharge	3,233,030	3,652,100	6,885,130	-	6,885,130
Fuel levy	15,934,886	15,787,873	31,722,759	-	31,722,759
P2A - Excise duty	47,669,499	7,781,629	55,451,128	2,654,287	58,105,415
P2B - Ad valorem	33,522,266	7,907,626	41,429,892	3,745,550	45,175,442
Penalties	77,518,929	-	77,518,929	6,085,622	83,604,551
Forfeiture	469,810,071	-	469,810,071	7,038,459	476,848,530
Unallocated	-1,033,910	-	-1,033,910	-1,470	-1,035,380
Total	**1,250,812,558**	**243,939,214**	**1,494,751,772**	**70,213,450**	**1,564,965,222**

OWN ACCOUNTS FINANCIAL STATEMENTS
31 March 2008

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The attached Financial Statements were approved and signed by:

Pravin Gordhan

------------------------------------ Date: 14 August 2008

P Gordhan
Commissioner
South African Revenue Service

OWN ACCOUNTS

Report of the Auditor-General to Own Accounts

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: OWN ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African Revenue Service (SARS): Own Accounts which comprise the statement of financial position as at 31 March 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 154 to 183.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:
   - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
   - selecting and applying appropriate accounting policies
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 28 of the South African Revenue Service Act, 1997 (Act No.34 of 1997), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
   - appropriateness of accounting policies used
   - reasonableness of accounting estimates made by management
   - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. SARS: Own Accounts policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.

Opinion

9. In my opinion the financial statements present fairly, in all material respects, the financial position of the South African Revenue Service (SARS): Own Accounts as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the PFMA.

OWN ACCOUNTS
Report of the Auditor-General to Own Accounts

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matter that relates to my responsibilities in the audit of the financial statements:

Late finalisation of the regularity audit of the Annual Financial Statements

10. As described on page 106 of the Annual Report and note 5 to the annual financial statements, the finalisation of the audit was delayed by the need to resolve problems identified during the verification process of the fixed assets of the entity.

Matters of governance

11. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The public entity had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
Internal audit		
• The public entity had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2	✓	
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines (section 55 of the PFMA).	✓	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
• The prior year's external audit recommendations have been substantially implemented.	✓	

APPRECIATION

12. The assistance rendered by the staff of the SARS during the audit is sincerely appreciated.

Pretoria
26 August 2008

Auditor General.

AUDITOR-GENERAL

REPORT BY THE ACCOUNTING AUTHORITY
for the year ended 31 March 2008

1. INTRODUCTION

The Accounting Authority presents his Annual Report that forms part of the Financial Statements for SARS Own Accounts for the year ended 31 March 2008. Specific reference has been made to Administered Revenue where applicable, alternatively all other statistics quoted are for Own Accounts.

The South African Revenue Service (SARS) was established in terms of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) as an organ of the state within the public administration, but as an institution outside the public service. It is listed as a national public entity in schedule 3A of the Public Finance Management Act, 1999, (PFMA).

In terms of the SARS Act, 1997, the Commissioner for South African Revenue Service is the Chief Executive Officer and Accounting Authority of SARS.

2. EXECUTIVE MEMBERS

The members serving on the Executive committee for the period under review were:

- Pravin Gordhan (Chief Executive Officer and Accounting Authority)
- Leonard Radebe
- Jeannee Padiachy
- Logan Wort
- Matsobane Matlwa
- Tau Mashigo
- Oupa Magashula
- Vuso Shabalala
- Kosie Louw
- Barry Hore
- Mandisa Mokwena
- Edward Kieswetter
- Prakash Mangrey
- Ivan Pillay
- Jonas Makwakwa

3. ORGANISATIONAL STRUCTURE

The organisational structure of SARS is reviewed as and when the need arises to enable it to fulfill its obligations towards Parliament and the Constitution.

Refer to the official organogram in the Annual Report page number 11.

4. PRINCIPAL ACTIVITIES

The SARS Act, 1997, gives the entity the mandate to perform the following tasks:

- Collect all revenues that are due
- Ensure maximum compliance with legislation it administers
- Provide a Customs service that will maximize revenue collection, protect our borders as well as facilitate trade.

REPORT BY THE ACCOUNTING AUTHORITY
for the year ended 31 March 2008

5. REVIEW OF OPERATIONS AND RESULTS (amounts disclosed in R' 000)

OWN ACCOUNTS

The Revenue for the year was made up as follows:

	% change	2008	2007
Transfers from government entities	**12.9%**	**5,511,031**	**4,879,591**
– National Treasury	13.1%	5,511,031	4,874, 591
– Criminal Assets Recovery Account (CARA)	-	-	5,000
Non operating revenue	**17.4%**	**332,662**	**283,269**
– Interest received	59.8%	119,779	74,977
– Other revenue	9.2%	212,883	194,901
– Funds received from international donors	-	-	2,066
– Foreign exchange (Net profit)	-	-	11,325
	13.2%	**5,843,693**	**5,162,860**

The Grant from National Treasury increased in line with the approvals obtained through the Medium Term Expenditure Framework (MTEF). Interest earned fluctuated in line with interest rates and funds temporarily available for investment.

Other operating revenue consists mainly of commissions earned from acting as the agent for the Department of Labour in collecting Unemployment Insurance Fund contributions (UIF) in terms of the Unemployment Insurance Contributions Act, 2002, and Skills Development Levies (SDL) in terms of the Skills Development Levies Act, 1999. Losses incurred are mainly due to compliance to the prevailing accounting standards and do not relate to unfunded activities.

The surplus for the year was as follows:

Balance accumulated surplus at 1 April		**404,525**	**348,909**
Adjustment in prior period			
Changes in accounting policy		-	48,302
Depreciation based on the revalued portion of assets		-	5
Restated balance 1 April		**404,525**	**397,216**
Net surplus for the year	3131.4%	236,180	7,309
Depreciation based on the revalued portion of assets		8	-
Balance accumulated surplus at 31 March		**640,713**	**404,525**

ADMINISTERED REVENUE

The net revenue for the year was R 565,297,281 (2007: R 484,112,969). Administered Revenue does not retain funds as taxes collected are transferred to the National Revenue Fund on a daily basis.

Revenue for Administered Revenue comprises the taxes, levies, duties, fees and other monies collected for the year. The net revenue is the amount collected after deduction of payments made by the National Treasury to the South African Customs Union. The operating expenditure for Administered Revenue is provided for in the Own Accounts budget.

REPORT BY THE ACCOUNTING AUTHORITY

for the year ended 31 March 2008

	% change	2008	2007
Total revenue	15.85%	590,009,848	509,307,908
SA Customs Union Agreement	(1.91%)	24,712,567	25,194,939
Net revenue	16.77%	565,297,281	484,112,969

Revenue collected is a function of the prevailing economic conditions, their effect on the South African economy and the level of compliance.

6. JUDICIAL PROCEEDINGS

SARS has been mandated by the provisions of the SARS Act to perform legal acts, or institute or defend any legal action in its own name. By virtue of its mandate SARS is involved in litigation on a continuous basis.

7. REVIEW OF THE FINANCIAL POSITION (Amounts disclosed in R' 000)

Reserves and accumulated surplus

Reserves and surpluses consist mainly of the initial capital reserve on establishment of SARS and the reserve for revaluation of assets.

Assets

For the period under review SARS has continued to invest in selected categories of assets to achieve its strategic objectives. The dynamic and increasingly mobile nature of the SARS business poses some challenges for the control of assets and, accordingly, in the next two years, SARS envisages implementing an improved asset management system.

8. PUBLIC/PRIVATE PARTNERSHIPS

There are currently no Public/Private Partnerships in operation or under consideration.

9. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There are no events subsequent to 31 March 2008 affecting the financial statements that require disclosure.

10. STAKEHOLDER RELATIONS

During the period under review, the SARS Corporate Relations Unit (CRO) deepened its stakeholder engagement particularly to advocate tax morality as a feature of corporate citizenship and good governance. South Africa's hosting of the OECD Forum on Tax Administration in January 2008 provided excellent exposure for the issue of tax avoidance and aggressive tax planning. The commitment by the gathering in the form of the Cape Town Declaration also produced a strengthened partnership of national tax authorities to respond to aggressive tax structuring and tax evasion by transnational companies.

The SARS Commissioner met with the chief executive officers of the major banks, insurance companies, legal and accounting firms to discuss the role of financial intermediaries in tax strategy and planning. SARS was able to raise concerns relating to tax morality and good tax practices.

Various changes introduced in the 2007 filing season also formed the basis of extensive stakeholder education. Business and accounting firm leaders were introduced to the changes as a precursor to the public announcements for co-operation and support. SARS corporate relations therefore partnered with the Large Business Centre to inform and promote the changes to a targeted audience of big clients.

REPORT BY THE ACCOUNTING AUTHORITY
for the year ended 31 March 2008

Corporate relations also promoted the small business amnesty among stakeholders. Using the channel of our partners in the form of industry and business organisations and professional associations, SARS was able to educate a targeted audience on the amnesty.

Corporate relations continued to facilitate regular feedback sessions with stakeholders via quarterly meetings with employers and payroll companies.

11. SARS CORPORATE SOCIAL RESPONSIBILITY

Towards the end of 2007, SARS Corporate Relations co-ordinated the distribution of over 300,000 kg of confiscated second hand clothing to 128 needy organisations across the country. This was done with the support of the National Treasury and the Department of Social Development. Disused office furniture was also donated to schools. SARS staff participated in the National SA Disability 2007 Conference.

SARS staff organised and participated in various socio-economic development and awareness raising projects eg. youth mentoring in the "Take a Girl Child to Work" initiative, 16 days of activism and World Aids Day.

12. ADDRESSES

The entity's business, postal and registered addresses are:

Business address	**Postal address**	**Registered address**
299 Bronkhorst street	Private bag X923	299 Bronkhorst street
Nieuw Muckleneuk	Pretoria	Nieuw Muckleneuk
0181	0001	0181

Addresses for other SARS offices are available from SARS.

Pravin Gordhan

-- Date: 14 August 2008

P Gordhan
Commissioner
South African Revenue Service

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Statement of Financial Position

as at 31 March 2008

	Note(s)	2008 R '000	2007 R'000
ASSETS			
Non-Current Assets		**798,569**	**577,569**
Property, plant and equipment	3	591,132	533,627
Intangible assets	4	207,437	43,942
Current Assets		**1,151,624**	**998,907**
Trade and other receivables	6	79,108	87,731
Cash and cash equivalents	7	1,072,516	911,176
TOTAL ASSETS		**1,950,193**	**1,576,476**
NET ASSETS AND LIABILITIES			
Net Assets		**673,888**	**437,708**
Reserves	8&9	33,175	33,183
Accumulated surplus		640,713	404,525
Liabilities			
Non-Current Liabilities		**423,955**	**483,161**
Interest bearing liabilities	10	212,174	277,812
Operating lease liabilities	11	201,609	188,155
Deferred income	12	1,673	8,056
Financial guarantee contracts	13	8,499	9,138
Current Liabilities		**852,350**	**655,607**
Interest bearing liabilities	10	76,741	28,499
Trade and other payables	14	433,803	342,163
Deferred income	12	6,899	7,103
Provisions	17	334,907	277,842
Total Liabilities		**1,276,305**	**1,138,768**
TOTAL NET ASSETS AND LIABILITIES		**1,950,193**	**1,576,476**

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Statement of Financial Performance

for the year ended 31 March 2008

	Note(s)	2008 R '000	2007 R'000
REVENUE		**5,843,693**	**5,162,860**
Transfers from government entities	18	5,511,031	4,879,591
Other income	19	332,662	283,269
EXPENSES		**5,607,905**	**5,156,126**
Administrative expenses	20	1,109,950	970,895
Amortisation		53,331	80,707
Depreciation		158,192	195,637
Employee costs		3,500,297	3,123,986
Professional and special services	21	746,837	669,418
Other expenses	22	8,306	72,043
Finance costs	23	30,992	43,440
Gains on sale of property, plant and equipment		392	575
SURPLUS FOR THE PERIOD		**236,180**	**7,309**

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Statement of Changes in Net Assets

for the year ended 31 March 2008

	Asset revaluation reserve R '000	Capital reserve R '000	Total reserves R '000	Accumulated surplus/ (deficit) R '000	Total R '000
Opening balance as previously reported	48,837	32,364	81,201	336,150	417,351
Adjustments:					
Prior period adjustments	-	-	-	12,759	12,759
Restated balance at 01 April 2006	**48,837**	**32,364**	**81,201**	**348,909**	**430,110**
Changes in equity:					
Surplus for the year	-	-	-	7,309	7,309
Changes in accounting policy	(48,302)	-	(48,302)	48,302	-
Depreciation based on the revalued portion of the assets	(5)	-	(5)	5	-
Surplus in revaluation of property	289	-	289	-	289
Total changes	**(48,018)**	**-**	**(48,018)**	**55,616**	**7,598**
Balance at 01 April 2007	**819**	**32,364**	**33,183**	**404,525**	**437,708**
Changes in equity:					
Surplus for the year	-	-	-	236,180	236,180
Depreciation based on the revalued portion of the assets	(8)	-	(8)	8	-
Total changes	**(8)**	**-**	**(8)**	**236,188**	**236,180**
Balance at 31 March 2008	**811**	**32,364**	**33,175**	**640,713**	**673,888**
Note(s)	8	9		2	

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Cash Flow Statement

for the year ended 31 March 2008

	Note(s)	2008 R '000	2007 R '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		**5,820,779**	**5,160,257**
Grant		5,511,031	4,874,591
Interest received		112,681	70,501
Other receipts		197,067	215,165
Payments		**5,204,144**	**4,818,692**
Employee costs		3,415,235	3,079,298
Suppliers		1,757,917	1,695,954
Interest paid		30,992	43,440
Net cash flow from operating activities		**616,635**	**341,565**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash from investing activities		**(437,901)**	**(321,004)**
Acquisition of property, plant and equipment	3	(221,620)	(178,409)
Proceeds on disposal of property, plant and equipment	3	545	802
Acquisition of intangible assets	4	(216,826)	(143,397)
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement in financial leases		**(17,394)**	**143,255**
Total cash movement for the year		**161,340**	**163,815**
Cash at the beginning of the year		911,176	747,361
Total cash at the end of the year	7	**1,072,516**	**911,176**

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

General Information

Financial Statements for the year ended 31 March 2008

Nature of business and principal activities

SARS was established as an organ of State on 1 October 1997 in terms of section 2 of the South African Revenue Service Act (the Act), (Act No. 34 of 1997). SARS' objective is the efficient and effective collection of revenue on behalf of the State. In the Act revenue is defined as: "income derived from taxes, duties, levies, fees, charges, additional tax and any other monies imposed in terms of legislation, including penalties and interest in connection with such monies". In terms of section 7(2) and (3) of Schedule 2 to the Act, SARS took ownership of all movable assets of the State used by it, immediately before the effective date, together with contractual rights, obligations and liabilities. Any surplus of assets over liabilities was treated as capital.

Legal form of entity

In accordance with the Public Finance Management Act (No.1 of 1999) (PFMA) chapter 6, paragraph 48, SARS is classified as a "National Public Entity".

Reporting entity

These financial statements are for the South African Revenue Service - Own Accounts. The financial statements encompass the reporting entity as specified in the relevant legislation (PFMA).

Notes to the Financial Statements

1. Accounting Policies

1.1. Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of land and buildings and certain financial instruments.

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP		Replaced Statement of SA GAAP	
GRAP1:	Presentation of financial statements	AC 101:	Presentation of financial statements
GRAP2:	Cash flow statements	AC 118:	Cash flow statements
GRAP3:	Accounting policies, changes in accounting estimates and errors	AC 103:	Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following changes in the presentation of the financial statements:

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

1.1.1. Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial position	Balance sheet
Statement of financial performance	Income statement
Statement of changes in net assets	Statements of changes in equity
Net assets	Equity
Surplus / Deficit	Profit / Loss
Accumulated Surplus / Deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

1.1.2. The cash flow statement can only be prepared in accordance with the direct method.

1.1.3. Specific information has been presented separately in the Statement of Financial Position such as:

(a) Receivables from non-exchange transactions, including taxes and transfers
(b) Taxes and transfers payable
(c) Trade and other payables from non-exchange transactions

1.1.4. Amount and nature of any restrictions on cash balances are required to be disclosed.

Paragraph 11 to 15 of GRAP 1 has not been implemented due to the fact that the local and international budget reporting standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non disclosure will not affect the objective of the financial statements.

1.2 Significant judgments, estimates and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgments include:

1.2.1. Provision for impairment of trade receivables

The company assesses its trade receivables for impairment at each financial position date. In determining whether an impairment loss should be recorded in the Statement of Financial Performance, the entity makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

1.2.2. Provisions

Provisions were raised and management determined an estimate based on the information available. Refer note 17.

1.3 Property, plant and equipment

Cost or fair value

Land and Buildings are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to equity in the revaluation reserve. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period. The decrease

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

is debited directly to equity in the revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Cost includes expenditure that is directly attributable to bringing the assets into its existing condition and location intended for use by management. Subsequent costs are included in asset's carrying amount only when it is probable that the future economic benefits associated with the item will flow to the entity.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are recognised separately in the Statement of Financial Performance.

Depreciation is provided on all property, plant and equipment so as to write off the cost of assets, other than assets under construction, over their estimated useful lives, using the straight-line-method.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The estimated useful lives, residual values and depreciation methods are reviewed at each year end with the effect of any changes in estimate accounted for on a prospective basis.

Item	Years
Buildings	50 years
Furniture and fixtures	6 years
Motor vehicles	5 years
Office equipment	
• Owned office equipment	5 years
• Leased office equipment	Over the life of the asset or the lease period whichever is the shorter
Computer equipment	
• Mainframe	5 years
• Desktop & peripherals	3 years
Cabling infrastructure	5 years
Leasehold improvements	Over the life of the asset or the lease period whichever is the shorter
Security equipment	5 years
Prefabricated buildings	5 years
Laboratory equipment	5 years
Kitchen equipment	6 years
Garden equipment	3 years

1.4 Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the following estimated useful lives:

Item	Useful life
Software (main frame)	3 years
Software (desktop applications)	3 years

1.5 Financial assets, investments and liabilities

1.5.1. Initial recognition

SARS recognises a financial asset or a financial liability on its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

1.5.2. Trade and other receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance within other expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other income in the Statement of Financial Performance.

1.5.3. Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction cost and subsequently measured at amortised cost.

1.5.4. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

SARS provides financial guarantees for employee housing loans to financial institutions.

Financial guarantees are initially recognised at fair value. Subsequent to initial recognition, the financial guarantee contract is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised.

1.6 Leases

Leases are classified as finance leases whenever the lease terms transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1.6.1. Finance leases – lessee

Fixed assets held under finance leases are recognised as assets of the entity at the lower of their fair value and the present value of the minimum lease payments.

Finance leases are capitalised at the lower of their fair value or present value of the minimum lease payments.

Subsequent to initial recognition the asset is accounted for in accordance with the accounting policy applicable to that asset.

Lease payments are apportioned between the finance charge and reduction of the outstanding liability.
The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

The corresponding rental obligations, net of finance charge are included as part of liabilities.

1.6.2. Operating leases – lessee

Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line-basis over the period of the lease.

1.7 Employee benefits

1.7.1. Short-term employee benefits

Remuneration to employees is charged to the Statement of Financial Performance. Provisions are made for accumulated leave and performance bonuses.

1.7.2. Retirement benefit plans

Entitlement to retirement benefits is governed by the rules of the GEPF (Government Employees Pension Fund) which is a defined contribution plan retirement fund. The entity has no legal or constructive obligation to pay for future benefits which responsibility vests with National Government.

Current contributions on behalf of employees to the Government Employees Pension Fund are charged to the Statement of Financial Performance in the year to which they relate.

1.8 Revenue recognition

SARS' chief source of income is an annual grant from Parliament for its services, based on estimated expenditure for performing any specific act or function on behalf of Government in the collection of administered revenue. The annual grant and any additional grants that pertain to expenditure not budgeted for are accounted for as and when they are accrued.

Interest income is accrued on a time basis by reference to the principal amount outstanding and the interest rate applicable.

1.9 Donations

Where donations are received in kind, the amounts are not brought to account as revenue, but the approximate value of benefits received are disclosed by way of note refer to note 31.

1.10 Other Revenue

Other revenue earned by SARS consists mainly of commissions earned in its function as an agent for collection of contributions to the Skills Development Levy as well as the Unemployment Insurance Fund.

1.11 Translation of foreign currencies

Foreign currency transactions

Foreign exchange transactions are translated at the prevailing rate ruling at the date of transaction. At reporting date monetary items denominated in foreign currencies are retranslated at the rates prevailing at the Statement of Financial Position date. Gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

2. Reclassification of comparative figures

	2007 R'000
Prior year reclassification	

2.1 Housing guarantees:

The restatement of housing guarantees is due to the reconsideration of valid guarantees.

The effect of this adjustment on the results of 2006 is as follows:

Statement of changes in Net Assets	
Increase in accumulated surplus as at 1 April 2006	7,526
Statement of Financial Position	
Increase in accumulated surplus	7,526
(Decrease) in current liabilities	(7,526)

The effect of this adjustment on the results of 2007 is as follows:

Statement of Financial Performance	
(Decrease) in expenses	(15)
Increase in surplus	15
Statement of Financial Position	
Increase in accumulated surplus	15
(Decrease) in financial guarantee contracts	(15)

2.2 Operating leases (properties):

Restatement of the prior year figures is as a result of removal of operating costs from the provision.

The effect of this adjustment on the results of 2006 is as follows:

Statement of changes in Net Assets	
Increase in accumulated surplus as at 1 April 2006	27,259
Statement of Financial Position	
Increase in accumulated surplus	27,259
(Decrease) in operating lease liabilities	(27,259)

The effect of this adjustment on the results of 2007 is as follows:

Statement of Financial Performance	
Increase in expenditure	37,804
(Decrease) in surplus	(37,804)
Statement of Financial Position	
(Decrease) in accumulated surplus	(37,804)
Increase in operating lease liabilities	37,804

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

	2007 R'000

2.3 Leave pay provision (old leave):

Restatement of the prior year figures is as a result of the percentage provision for prior 1999 applied to age groups younger than 55.

The effect of this adjustment on the results of 2006 is as follows:

Statement of changes in Net Assets	
(Decrease) in accumulated surplus as at 1 April 2006	(25,458)
Statement of Financial Position	
(Decrease) in accumulated surplus	(25,458)
Increase in provision	25,458

The effect of this adjustment on the results of 2007 is as follows:

Statement of Financial Performance	
(Decrease) in expenses	(641)
Increase in surplus	641
Statement of Financial Position	
Increase in accumulated surplus	641
(Decrease) in provisions	(641)

2.4 Leave pay (prepayments and reclassification):

Restatement of the prior year figures is as a result of leave provisions reclassified as prepayments and accruals.

The effect of this adjustment on the results of 2007 is as follows:

Statement of Financial Position	
Increase in trade and other receivables	17,791
(Decrease) in provisions	(95,428)
Increase in trade and other payables	113,219

2.5 Cut off (accruals):

Restatement of the prior year figures to correct overstated accruals.

The effect of this adjustment on the results of 2006 is as follows:

Statement of changes in Net Assets	
(Decrease) in accumulated surplus as at 1 April 2006	(32)

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

	2007 R'000
Statement of Financial Position	
(Decrease) in accumulated surplus	(32)
Increase in trade and other payables	32

The effect of this adjustment on the results of 2007 is as follows:

Statement of Financial Performance	
Increase in expenses	2,584
(Decrease) in surplus	(2,584)
Statement of Financial Position	
(Decrease) in accumulated surplus	(2,584)
Increase in trade and other payables	2,584

2.6 Finance lease:

Restatement of the prior year figures due to incorrect disclosure of the lease

The effect of this adjustment on the results of 2006 is as follows:

Statement of changes in Net Assets	
Increase in accumulated surplus as at 1 April 2006	3,464
Statement of Financial Position	
Increase in accumulated surplus	3,464
Increase in intangible assets	4,370
Increase in interest bearing liabilities	906

The effect of this adjustment on the results of 2007 is as follows:

Statement of Financial Performance	
(Decrease) in expenses	(17,740)
Increase in surplus	17,740
Statement of Financial Position	
Increase in accumulated surplus	17,740
Increase in intangible assets	20,052
(Decrease) in property, plant and equipment	(552)
Increase in interest bearing liabilities	1,760

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

	2007 R'000
Summary of Adjustments	
The effect of this adjustment on the results of 2006 is as follows:	
Statement of changes in Net Assets	
Increase in accumulated surplus 1 April 2006	12,759
Statement of Financial Position	
Increase in accumulated surplus	12,759
(Decrease) in financial guarantee contracts	(7,526)
(Decrease) in operating lease liabilities	(27,259)
Increase in provisions	25,458
Increase in trade and other payables	32
Increase in intangible assets	4,370
Increase in interest bearing liabilities	906
The effect of the adjustment on the results of 2007 is as follows:	
Statement of Financial Performance	
Increase in expenses	21,992
(Decrease) in surplus	(21,992)
Statement of Financial Position	
(Decrease) in accumulated surplus	(21,992)
(Decrease) in financial guarantee contracts	(15)
Increase in operating lease liabilities	37,804
(Decrease) in provisions	(96,069)
Increase in trade and other receivables	17,791
Increase in trade and other payables	115,803
Increase in intangible assets	20,052
(Decrease) in property, plant and equipment	(552)
Increase in interest bearing liabilities	1,760

3. Property, plant and equipment

	2008 R'000 Cost / Valuation	2008 R'000 Accumulated depreciation	2008 R'000 Carrying value	2007 R'000 Cost / Valuation	2007 R'000 Accumulated depreciation	2007 R'000 Carrying value
Land	11,945	-	11,945	11,945	-	11,945
Buildings	168,919	(6,753)	162,166	168,919	(3,375)	165,544
Furniture, fixtures and office equipment	144,873	(62,550)	82,323	93,280	(43,751)	49,529
Motor vehicles	87,436	(69,168)	18,268	96,166	(70,370)	25,796
IT equipment	480,145	(287,223)	192,922	428,158	(306,136)	122,022
Leasehold improvements	249,622	(144,567)	105,055	249,384	(92,875)	156,509
Assets under construction	15,450	-	15,450	-	-	-
Low value assets	63,249	(63,249)	-	71,340	(71,340)	-
Security equipment	6,785	(3,782)	3,003	6,641	(4,359)	2,282
	1,228,424	**(637,292)**	**591,132**	**1,125,833**	**(592,206)**	**533,627**

Reconciliation of property, plant and equipment 2008

	Opening Balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	11,945	-	-	-	-	11,945
Buildings	165,544	-	-	(3,378)	-	162,166
Furniture, fixtures and office equipment	49,529	60,374	(55)	(26,901)	(624)	82,323
Motor vehicles	25,796	3,682	(50)	(10,861)	(299)	18,268
IT equipment	122,022	140,131	(48)	(64,412)	(4,771)	192,922
Leasehold improvements	156,509	238	-	(51,692)	-	105,055
Assets under construction	-	15,450	-	-	-	15,450
Low value assets	-	(188)	-	188	-	-
Security equipment	2,282	1,933	-	(1,136)	(76)	3,003
	533,627	**221,620**	**(153)**	**(158,192)**	**(5,770)**	**591,132**

Proceeds on disposal of fixed assets: R 545k (2007: R 802k)

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

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for the year ended 31 March 2008

Reconciliation of property, plant and equipment 2007

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Impairment loss	Depreciation	Total
Land	11,847	-	-	-	98	-	-	11,945
Buildings	165,160	3,568	-	-	191	-	(3,375)	165,544
Furniture, fixtures and office equipment	28,745	50,343	(53)	-	-	(464)	(29,042)	49,529
Motor vehicles	30,000	9,379	-	-	-	(262)	(13,321)	25,796
IT equipment	185,520	32,589	(173)	-	-	(1,729)	(94,185)	122,022
Leasehold improvements	98,870	21,270	-	74,951	-	-	(38,582)	156,509
Assets under construction	25,581	49,370	-	(74,951)	-	-	-	-
Low value assets	-	10,199	-	-	-	-	(10,199)	-
Security equipment	3,569	1,691	(1)	-	-	(194)	(2,783)	2,282
	549,292	**178,409**	**(227)**	**-**	**289**	**(2,649)**	**(191,487)**	**533,627**

Assets subject to finance lease (Net carrying amount)

Land and Buildings held under finance leases are represented by land and buildings with a carrying value of R 172,949m (2007: R 176,313m).

Furniture, fixtures and office equipment held under finance leases is represented by office equipment with a carrying value of R 18,289m (2007: R 19,075m).

Computer equipment held under finance leases is represented by computer equipment with a carrying value of R nil (2007: R 9,994m). Refer note 10.

Refer to note 2 "Reclassification of comparative figures" for restated prior period figures.

Land and buildings carried at fair value

Land and buildings comprise three houses for Customs purposes purchased in 2003 at a total value of R 365k and the Alberton Campus procured and developed under a Finance Lease at a total cost of R 179.7m

Had the land and buildings been measured on a historical cost basis, their carrying amount would have been as follows:

	2008 R'000	2007 R'000
Land	11,541	11,541
Buildings	161,760	165,130
	173,301	**176,671**

Assets taken on at zero cost and zero depreciation

Included in the amounts are approximately 46 000 items that were capitalized at zero cost and zero accumulated depreciation. These assets were all taken on from the legacy systems prior to the implementation of SAP.

Notes to the Financial Statements

for the year ended 31 March 2008

4. Intangible assets

	2008 R'000 Cost / Valuation	Accumulated amortisation	Carrying value	2007 R'000 Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	461,172	(253,735)	207,437	244,389	(200,447)	43,942

Reconciliation of intangible assets 2008

	Opening Balance	Additions	Impairment loss	Amortisation	Total
Computer software	43,942	216,826	-	(53,331)	207,437

Reconciliation of intangible assets 2007

	Opening Balance	Additions	Impairment loss	Amortisation	Total
Computer software	53,828	143,397	(68,425)	(84,858)	43,942

Assets held under finance leases

Intangible assets under finance leases have no carrying value. (2007: R nil).

Refer to note 2 "Reclassification of comparative figures" for restated prior period figures.

5. Scrappings of assets

Material impairment losses recognised

	2008 R'000	2007 R'000
Property, plant and equipment and intangible assets	5,770	71,075

Assets impaired generally represent assets that are either obsolete or not physically verifiable. Events and circumstances which have led to assets being scrapped are similar for all asset categories.

The impairment losses charged to the Statement of Financial Performance are the excess of the carrying value over the recoverable amount. The impairment losses have been included in the line item other expenses in the Statement of Financial Performance.

During the previous period, SARS carried out a review of the recoverable amounts of its assets, having regard to its ongoing modernisation and technology programme. The review led to the recognition of an impairment loss of R 68,425m for certain software programmes and licenses that have been recognised in the Statement of Performance. In considering the impairment and recoverable amount the entity concluded that the solution could be better achieved with alternative software whilst remaining within the original solution budget and original solution primary provider and that the impaired software could be disposed of.

The intended timing of the sale of such software is at this stage uncertain.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R'000	2007 R'000
6. Trade and other receivables		
Government departments	31,112	27,896
Employee costs in advance	11,636	17,791
Prepayments	18,271	31,732
Refundable deposits	2,934	2,818
Advance tax ruling (ATR) debtors	230	31
Staff accounts receivable	1,649	1,554
Other receivables	13,276	5,909
	79,108	**87,731**
Staff accounts receivable	4,078	4,072
Less: provision for doubtful debts	(2,434)	(2,552)
	1,644	**1,520**
Accounts receivable (ex-staff)	4,650	4,176
Less: provision for doubtful debts	(4,645)	(4,142)
	5	**34**

Refer to note 2 "Reclassification of comparative figures" for restated prior period figures.

Fair value of trade and other receivables

Trade and other receivables	79,108	87,731

Trade and other receivables are carried at original invoice amounts, which approximates their fair value, less provision made for impairment of these receivables.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 31 March 2008, R 14,566m (2007: R 13,755m) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	11,920	843
2 months past due	141	157
3 months past due	2,505	12,755

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R'000	2007 R'000

Trade and other receivables impaired

As at 31 March 2008, trade and other receivables of R 7,079m (2007: R 6,695m) were impaired and provided for.

	2008 R'000	2007 R'000
The amount of the provision was R 7,079m as at 31 March 2008 (2007: R 6,695m).		
The ageing of these loans is as follows:		
Over 6 months	7,079	6,695
The carrying amount of trade and other receivables is denominated in the following currencies:		
Rand	79,108	87,731

Reconciliation of provision for impairment of trade and other receivables

	2008 R'000	2007 R'000
Opening balance	6,695	6,329
Provision for impairment	564	445
Amounts written off as uncollectible	(180)	(79)
	7,079	**6,695**

The creation and release of provision for impaired receivables has been included in operating expenses in the Statement of Financial Performance (note 22). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

7. Cash and cash equivalents

Bank balances and cash comprise cash and short-term investments that are held with registered banking institutions. The carrying amount of these assets approximate their fair value.

Cash and cash equivalents included in the Cash Flow Statement comprise the following statement of amounts indicating financial position:

	2008 R'000	2007 R'000
Cash on hand	386	381
Balances with banks	1,072,130	910,795
	1,072,516	**911,176**

8. Asset revaluation reserve

	2008 R'000	2007 R'000
Balance at beginning of the year	819	48,837
Movement during the year:		
– Transferred to accumulated surplus		
Change in accounting policy	-	(48,302)
Depreciation based on the revalued portion of the assets	(8)	(5)
– Revaluation of land and buildings	-	289
Balance at 31 March	**811**	**819**

9. Capital reserve on establishment

	2008 R'000	2007 R'000
Surplus of assets over liabilities transferred from Government on 1 October 1997	**32,364**	**32,364**

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R'000	2007 R'000
10. Interest bearing liabilities		
Land and buildings - Alberton lease		
Minimum lease payments due		
– within one year	17,928	16,756
– in second to fifth year	85,173	79,601
– later than five years	135,940	159,441
	239,041	255,798
less: future finance charges	(100,213)	(115,530)
Present value of minimum lease payments	**138,828**	**140,268**
Land and buildings - Alberton acquisition		
Minimum lease payments due		
– within one year	-	15,039
	-	15,039
less: future finance charges	-	(2,499)
Present value of minimum lease payments	**-**	**12,540**
Computer software and hardware		
Minimum lease payments due		
– within one year	72,962	75,695
– in second to fifth year	72,962	72,962
	145,924	148,657
less: future finance charges	(16,481)	(16,548)
Present value of minimum lease payments	**129,443**	**132,109**
Office equipment		
Minimum lease payments due		
– within one year	14,570	13,407
– in second to fifth year	11,915	10,816
	26,485	24,223
less: future finance charges	(5,841)	(2,829)
Present value of minimum lease payments	**20,644**	**21,394**
Included in the financial statements as:		
Current interest bearing borrowings	76,741	28,499
Non-current interest bearing borrowings	212,174	277,812
	288,915	**306,311**

Refer to note 2 "Reclassification of comparative figures" for restated prior period figures.

	2008 R'000	2007 R'000

Land and buildings - Alberton lease

The Lessor developed the Alberton South Building for SARS at a cost of R179,7m.

The finance lease commenced on 2 January 2006 for a twelve (12) year period. Rental will be R1,125m per month (exclusive of VAT); with an annual escalation of 7% (compounded) per annum.

Transfer of ownership and risks takes place at the end of the lease term provided all lease payments have been made.

Land and buildings - Alberton acquisition

This finance lease represents the purchase price for the Alberton South building payable in 3 annual instalments of R 12,54m, R13,693m and R 15,04m with the 1st instalment payable at the commencement of the lease.The last instalment was paid in January 2008.

Computer hardware and software

These finance leases represent the acquisition of computer hardware, software and professional services. The leases comprise mainframe equipment as well as mainframe software and associated services. Lease terms are up to four years.

Office equipment

Certain photocopiers and fax machines were capitalised and the corresponding finance lease liability raised in accordance with IAS 17. The leases are payable in 36 monthly instalments.

11. Operating lease liabilities

	2008 R'000	2007 R'000
Non-current liabilities	**201,609**	**188,155**

Operating leases on property represent the differential between lease payments on a cash basis and payments calculated on the straight-line-method.

Refer to note 2 "Reclassification of comparative figures" for restated prior period figures.

12. Deferred income (Tenant allowances)

	2008 R'000	2007 R'000
Non-current liabilities	1,673	8,056
Current liabilities	6,899	7,103
	8,572	**15,159**

Tenant allowances represent amounts received from landlords for improvements made by the tenant to leased properties.

13. Financial guarantee contracts

	2008 R'000	2007 R'000
Housing guarantees	**8,499**	**9,138**

Housing guarantees are issued in terms of the State Housing Programme to qualifying employees.
Refer to note 2 "Reclassification of comparative figures" for restated prior period figures.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R'000	2007 R'000

14. Trade and other payables

	2008 R'000	2007 R'000
Trade accounts payable and accruals	260,254	184,931
Accruals for salary related expenses	172,434	150,369
Projects	-	5,815
Retentions	-	270
Other credits	1,115	778
	433,803	**342,163**

Refer to note 2 "Reclassification of comparative figures" for restated prior period figures.

15. Other financial liabilities

The carrying amounts of financial liabilities at amortised cost are denominated in the following currency:

	2008 R'000	2007 R'000
Rand	**722,717**	**648,474**

16. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2008	Financial liabilities at amortised cost	Fair value through profit or loss held for trading	Fair value through profit or loss designated	Total
Finance lease obligation	288,915	-	-	288,915
Trade and other payables	433,802	-	-	433,802
	722,717	**-**	**-**	**722,717**

2007	Financial liabilities at amortised cost	Fair value through profit or loss held for trading	Fair value through profit or loss designated	Total
Finance lease obligation	306,311	-	-	306,311
Trade and other payables	342,163	-	-	342,163
	648,474	**-**	**-**	**648,474**

17. Provisions

Reconciliation of provisions 2008

	Opening Balance	Additions	Utilised during the year	Unutilised provision	Adjustment of provisions	Total
Leave Pay	43,342	-	-	-	1,565	44,907
Performance Bonuses	234,500	290,000	(229,289)	(5,211)	-	290,000
	277,842	**290,000**	**(229,289)**	**(5,211)**	**1,565**	**334,907**

Reconciliation of provisions 2007

	Opening Balance	Additions	Utilised during the year	Unutilised provision	Adjustment of provisions	Total
Leave Pay	41,343	-	-	-	1,999	43,342
Career Development Programme	6,498	620	(7,118)	-	-	-
Performance Bonuses	185,400	240,932	(191,832)	-	-	234,500
	233,241	**241,552**	**(198,950)**	**-**	**1,999**	**277,842**

Career Development Programme

During the previous year the entity embarked on a programme to address development needs within the organisation as agreed between the employer and organised labour.

Performance Bonuses

Performance bonuses represent the obligation for annual performance bonuses payable to employees in terms of performance agreements.

Leave Pay

Leave pay represents the entitlements of amounts due to personnel for leave accumulated prior to 1999.

Old leave prior to 1 January 1999

The leave provision for leave prior to 1 January 1999 was calculated based on the following percentages of probability applied to the various age groups:

25 years to 35 years	10%
36 years to 45 years	25%
46 years to 54 years	50%
55 years and older	100%

Refer to note 2 "Reclassification of comparative figures" for restated prior period figures.

	2008 R'000	2007 R'000
18. Revenue		
National Treasury	5,511,031	4,874,591
Criminal Assets Recovery Account (CARA)	-	5,000
Transfers from government entities	**5,511,031**	**4,879,591**
19. Other income		
Commissions received	186,945	171,521
Interest received	119,779	74,977
Other revenue	25,938	23,380
Funds received from international donors	-	2,066
Profit and loss on foreign exchange transactions	-	11,325
	332,662	**283,269**
20. Administrative expenditure		
Administrative expenditure	**1,109,950**	**970,895**

The main expenses include:

- Printing and postage
- Communications
- Subsistence and travel
- Bank charges
- Building maintenance & accommodation
- Filing season expenses
- Insurance premiums

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

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for the year ended 31 March 2008

	2008 R'000	2007 R'000

21. Professional and special services

Professional and special services	**746,837**	**669,418**

The main expenses include:

- Audit fees
- Legal fees
- IT maintenance
- Consultation fees
- Security services

22. Other expenses

Other expenses	**8,306**	**72,043**

The main expenses include:

- Net losses on exchange rate differences of R1,430m
- Impairment losses/scrappings on assets (Refer note 3 and 4)

23. Finance costs

Finance charges mainly as per finance lease (Refer note 10)	**30,992**	**43,440**

24. Cash generated from operations

	2008 R'000	2007 R'000
Surplus for the year	236,180	7,309
Adjustments for:		
Depreciation and amortisation	211,523	276,344
(Profit) on sale of assets	(392)	(575)
Movements in operating lease liabilities	13,454	(18,957)
Movements in provisions	57,065	44,600
Losses on scrapping of property, plant and equipment	5,768	71,075
Changes in working capital:		
Trade and other receivables	8,623	(31,622)
Trade and other payables	91,640	(1,739)
Deferred income	(6,587)	(3,555)
Movement in financial guarantee contracts	(639)	(1,316)
	616,635	**341,564**

25. Operating leases

At 31 March the future minimum operating lease commitments were:

	2008 R'000	2007 R'000
Within one year:		
Property (2007 restated)	239,369	204,680
Between two and five years:		
Property (2007 restated)	703,102	695,907
In more than five years:		
Property (2007 restated)	571,283	601,835
	1,513,754	**1,502,422**

The operating leases consist of property rentals of which renewal terms and escalation clauses differ from contract to contract. Operating lease expenses are recognised on a straight-line-basis over the lease term.

	2008 R'000	2007 R'000

26. Contingencies

Contingent liabilities

Accumulated leave prior to 31 December 1998	45,245	47,319

The contingent amount for accumulated leave pertains to the period up to 31 December 1998. Up to this point there was no limitation on the number of leave days that could be accumulated. The value of such accumulated leave is only payable in the event of employees retiring or leaving SARS' employment due to ill health or upon their death in service.

As from 1 January 1999, limitations have been set on the amount of annual leave that can be accumulated. Provision for such accumulated leave has been made and disclosed as part of note 17.

27. Capital commitments

Authorised capital expenditure

Already contracted for but not provided for in the financial statements.

Property, plant and equipment	453,848	592

28. Financial instruments and risk management

SARS' operations are exposed to certain financial risks. Financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on SARS' financial performance.

Market risk: Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

SARS' operations utilise various foreign currencies and consequently, are exposed to exchange rate fluctuations that have an impact on cash flows and financing activities. Foreign exchange risks are managed through the entity's financing policies and the selective use of forward exchange contracts.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. SARS is exposed to credit-related losses in the event of non performance by counterparties to financial instruments.

- Cash and cash equivalents owing to dealing with reputable financial institutions;
- Staff debts are recovered in terms of the applicable policy and procedures directly from the employees salary and/or pension;
- Debts for Government departments are recovered in accordance with terms dictated by the PFMA;
- Housing guarantees are recovered from the employees salary and/or pension.

SARS does not regard there to be any significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. SARS manages its liquidity risk to ensure it is able to meet estimated expenditure requirements. This is achieved through prudent liquidity risk management which includes maintaining sufficient cash and cash equivalents.

SARS' chief source of income is an annual grant from Parliament for funding of SARS' operational and capital requirements. This grant is allocated in accordance with the provisions governing the Medium Term Expenditure Framework (MTEF). SARS follows an extensive planning and governance process to determine its operational and capital requirements. This is considered to be adequate mitigation for liquidity risk.

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Cash flow interest rate risk

Exposure to interest rate risk on financial assets and liabilities is monitored on a continuous and proactive basis. The debt of the entity is structured on a combination of floating and fixed interest rates. The benefits of fixing or capping interest rates on the entity's various financing activities are considered on a case-by-case and project-by-project basis, taking the specific and overall risk profile into consideration.

Fair value

Profiles of financial instruments	**0 -12 Months**	**1 - 5 Years**	**Beyond 5 years**	**Total**
For the year ended 31 March 2008	**R'000**	**R'000**	**R'000**	**R'000**
Financial assets				
Trade and other receivables				
– Staff accounts receivable	1,649	-	-	1,649
– Advance tax ruling (ATR) debtors	230	-	-	230
– Government departments	31,112	-	-	31,112
– Refundable deposits	2,934	-	-	2,934
– Other receivables	13,276	-	-	13,276
Cash and cash equivalents	1,072,516	-	-	1,072,516
Financial liabilities				
Trade and other payables				
– Trade accounts payable and accruals	260,253	-	-	260,253
– Accruals for salary related expenses	172,434	-	-	172,434
– Other payables	1,115	-	-	1,115
Interest bearing borrowings	76,741	107,837	104,337	288,915
Financial guarantee contracts	-	-	8,499	8,499
For the year ended 31 March 2007				
Financial assets				
Trade and other receivables				
– Staff accounts receivable	1,554	-	-	1,554
– Advance tax ruling (ATR) debtors	31	-	-	31
– Government departments	27,896	-	-	27,896
– Refundable deposits	2,818	-	-	2,818
– Other receivables	5,910	-	-	5,910
Cash and cash equivalents	911,176	-	-	911,176

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Notes to the Financial Statements
for the year ended 31 March 2008

Profiles of financial instruments For the year ended 31 March 2008	0 -12 Months R'000	1 - 5 Years R'000	Beyond 5 years R'000	Total R'000
Financial liabilities				
Trade and other payables				
Trade accounts payable and accruals	184,931	-	-	184,931
– Accruals for salary related expenses	150,369	-	-	150,369
– Other payables	778	-	-	778
– Retentions	270	-	-	270
– Projects	5,815	-	-	5,815
Interest bearing borrowings	28,499	162,028	115,784	306,311
Financial guarantee contracts	-	-	9,138	9,138

At year end the carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximated their fair values.

29. Executive members remuneration

No remuneration reflected in the current year indicates that the respective members did not serve on the Executive Committee.

29.1 Executive Managers (past and present) emoluments

	Salary	Bonus	Allowances including leave payments	Contributions medical & pension	2008 R'000 Total	2007 R'000 Total
Commissioner for SARS	1,928	763	268	292	3,251	2,767
GM: Strategy, Modernisation and Technology (2007: 9 months)	1,841	647	166	38	2,692	1,363
GM: Corporate Services (2007: 3 months)	1,484	560	331	36	2,411	1,618
GM: Compliance and Risk Management (2007: 4 months)	-	-	-	-	-	569
GM: Risk Management (2007: 9 months)	1,004	247	156	30	1,437	853
Deputy Chief Operations Officer	817	235	200	128	1,380	1,274
GM: Enforcement and Risk	1,084	418	221	164	1,887	1,368
GM: Enforcement (2007: 9 months)	760	255	164	27	1,206	644
GM: Finance	779	204	206	122	1,311	1,214
GM: Legal and Policy	1,156	418	270	170	2,014	1,442
Chief Operations Officer	1,627	580	157	36	2,400	2,095
Deputy Chief Operations Officer	990	274	182	30	1,476	1,277
GM: Large Business Centre	1,411	365	157	34	1,967	-
Chief Information Officer (2008: 6 months)	752	-	73	15	840	-
GM: Office of the Commissioner (2007: 9 months)	680	263	225	110	1,278	610
GM: Corporate Relations (2007: 11 months)	990	250	155	30	1,425	1,020
	17,303	**5,479**	**2,931**	**1,262**	**26,975**	**18,114**

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

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30. Related parties

SARS is a Schedule 3A Public Entity in terms of the PFMA. Related parties include other state-owned entities, government departments and all other entities within the spheres of Government.

Related party transactions

The Government provides SARS with a grant to cover its operating expenditure and to fund specific projects. The transactions with related parties are summarised as follows:

Receiving of Services

	2008 R'000	2007 R'000
With other related parties: Government, major public entities and other related parties		
Airports Company of South Africa	549	182
Alexkhor	-	1
Department of Foreign Affairs	1,634	3,079
Department of Public Works	618	1,670
Department of Water Affairs and Forestry	82	-
ESKOM	2,915	2,959
Government Communications	292	304
Government Printing	1,844	2,502
Human Sciences Research Council	-	1,790
Independent Regulatory Board	15	19
KwaZulu Natal Provincial Government	-	1
Local Municipalities	1,350	1,081
National Museum	3	5
National Ports Authority	1,168	999
Pension funds	191,111	186,092
SA Broadcasting Commission	3,701	3,007
SA Bureau of Standards	36	210
SA Post Office Limited	7,941	20,791
South African Airways	34	33
South African Reserve Bank	5	1
State Attorney	22,947	22,790
Telkom SA Limited	141,037	160,992
Transnet Limited	-	31
Unemployment Insurance Fund	18,393	17,117
Vodacom (as subsidiary of Telkom SA Limited)	12,775	11,299

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R'000	2007 R'000
Trade and other payables		
Airports Company of South Africa	16	17
Department of Foreign Affairs	201	96
Department of Public Works	54	-
ESKOM	336	229
Government Employee Pension Fund	1	12
Government Printing	415	32
Independent Regulatory Board	5	5
Local Municipalities	137	106
National Ports Authority	108	71
State Attorney	4,210	-
Telkom SA Limited	8,589	7,660
Unemployment Insurance Fund	-	1
Vodacom (as a subsidiary of Telkom SA Limited)	1,129	1,011

The transactions with key management personnel are summarised as follows:

With key management personnel

Executive members remuneration	26,975	18,114

The transactions by services rendered to related parties are summarised as follows:

Rendering of services

Department of Housing (services)	120	-
National Treasury (grant and CARA)	5,511,031	4,879,591
Public Investment Corporation (services)	1,579	(55)
SARS Administered Revenue (attendance fees Customs)	7,216	12,281
Skills Development Levy (commissions earned)	52,569	53,146
Unemployment Insurance Fund (commissions earned)	134,376	118,375

Trade and other receivables

SARS Administered Revenue (attendance fees Customs)	570	12,281
Department of Housing (services)	120	-
Public Investment Corporation (services)	2,023	445
Skills Development Levies (commissions earned)	4,490	4,392
Unemployment Insurance Fund (commissions earned)	23,909	10,778

Terms and conditions of transactions with related parties

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. No provision for doubtful debt relating to outstanding balances has been made and no expense has been recognised during the period in respect of bad or doubtful debts due from related parties.

SOUTH AFRICAN REVENUE SERVICE - OWN ACCOUNTS

Notes to the Financial Statements
for the year ended 31 March 2008

31. Donations

Particulars of each donation or bequest accepted by SARS must be disclosed in accordance with section 24 2 (b) of the South African Revenue Service Act (Act No. 34 of 1997):

	2008 R'000	2007 R'000
1) SIDA - Swedish International Development Agency		
Accommodation in Blantyre, Malawi	-	2
2) Japan Customs and Tariff Bureau		
Accommodation and airfares for seminar	62	70
3) The Container Security Initiative		
Accommodation and traveling to Virginia, US for Simposium	40	-
4) SAAB Technologies		
Accommodation and traveling to Sweden	9	-
5) NTA - National Tax Agency of Japan		
Taxation course for developing countries (ISTAX), accommodation and airfares	37	-
6) National Gambling Board		
Gaming Regulators Africa Conference, accommodation and airfares	45	-
7) The Commonwealth Secretariat		
Accommodation and traveling to Brussels	190	-
8) USDOJ - US Department of Justice		
Accommodation and traveling to Nigeria	60	-
9) Tanzania Revenue Authority		
Airfares and traveling in Tanzania	-	66
10) IPFA - Institute of Public Finance and Auditing		
All costs including airfare and accommodation	-	16
11) SACU - South African Customs Union		
Accommodation and traveling costs to Namibia	-	8
12) SADC - Southern African Development Community		
Accommodation and airfares for SADC Customs Working Groups Workshop	15	130
13) Namibia Customs		
Accommodation and traveling costs to Namibia	-	12
14) FIAS - Foreign Investment Advisory Service		
All expenses including accommodation and airfares in Sierra Leone	-	50
15) UN - United Nations		
Airfares and accommodation in Geneva	55	21
16) Rwanda Revenue Authority		
Airfares and accommodation in Rwanda	21	8
17) SITPRO Ltd		
Flight to Livingstone, Zambia	-	5
18) World Bank		
Accommodation and airfares in Nairobi	31	48
19) WCO - World Customs Organisation		
Accommodation and traveling costs to Zimbabwe	-	9
20) US CBP - United States Customs and Border Protection		
Assistance with the implementation of the Framework of Standards	735	17

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R'000	2007 R'000
21) ILEA - International Law Enforcement Academy		
Accommodation and airfares in Botswana	85	10
22) NTB - National Tax Board of Sweden		
Airfares and accommodation in Sweden	-	24
23) Akmal - Akademi Kastam Diraja Malaysia		
Malaysian Technical Cooperation Programme, accommodation, airfares and subsistence allowance	-	42
24) AU - African Union		
Accommodation and traveling to Nairobi	18	-
25) Malaysian Government		
Accommodation in Malaysia	31	-
26) ESAAMLG - Eastern and Southern Africa Anti-Money Laundering Group		
Accommodation and traveling to Botswana	7	-
27) The Ministry of Commerce of China		
Accommodation and traveling to China	30	-
28) US Department of Energy		
Accommodation and traveling to Argentina	48	-
29) Dutch Government		
Assistance with training under the RTC Programme	862	-
	2,381	**538**

The above amounts were paid directly to the suppliers of the services. No monies were directly received by SARS. Amounts have been converted at exchange rates ruling at the time.

32. Retirement benefits

Post retirement medical aid benefit

For the purpose of post-retirement benefits, SARS falls under the Public Service Act. According to the Act, the State will continue to contribute to medical aid payments of employees after retirement if certain criteria are met. SARS as an autonomous entity, has no obligation to pay post retirement medical benefits to its retired employees or contribute to their continuance of membership of any medical aid.

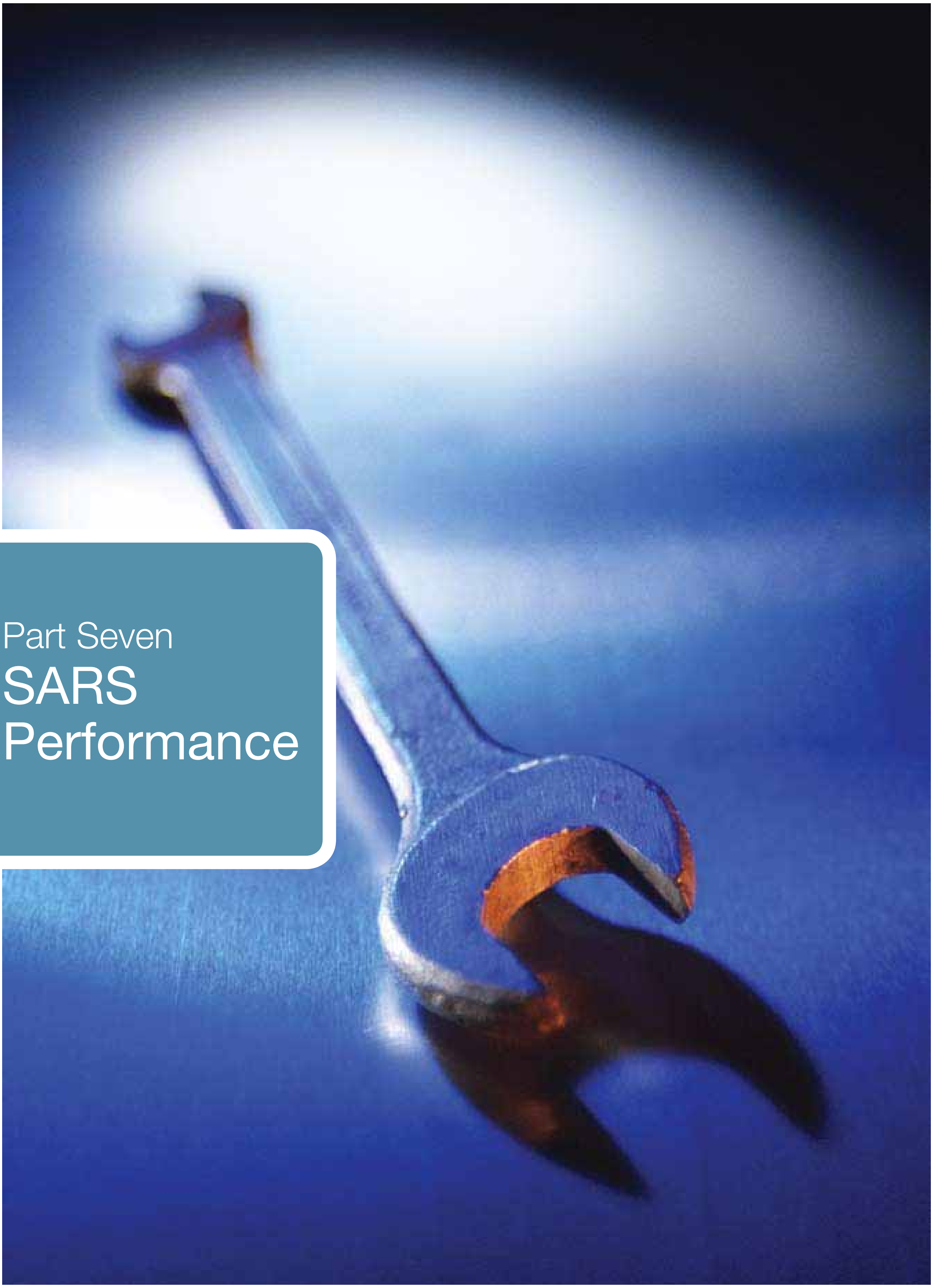
Defined contribution plan

Obligations for contributions to defined contribution plans are recognised as an expense in the Statement of Financial Performance when they are due. SARS has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee services in the current and prior periods. Retirement benefits are provided by membership of the Government Employees Pension Fund.

	2008	2007
Pension fund contributions (employer contributions included in personnel expenditure in the Statement of Financial Performance)	**191,111**	**186,092**

33. Tax status

SARS is exempt from the payment of income tax in terms of section 10(1)(cA) of the Income Tax Act of 1962.



Part Seven
SARS Performance

SARS Scorecard

Strategic Objective: Optimise revenue collection

- Optimise collections
- To advise on appropriate tax policy and legislative interventions

DELIVERABLES	TARGET	ACHIEVEMENT	ANNUAL REPORT REFERENCE
Revenue collected	R571,1 bn	R 572,9 bn	Pg 18
Debt book outstanding: (Debt to revenue ratio)	13%	10.68%	Pg 29

Strategic Objective: Better taxpayer and trader experience

Outcomes

- Targeted communication, taxpayer education and expectation management
- Enhanced service processes and responses to queries
- Perform against SARSservice charter
- Effective, easily available and efficient channels
- Efficient dispute resolution

DELIVERABLES	TARGET	ACHIEVEMENT	ANNUAL REPORT REFERENCE
CALL CENTRE			
Telephone calls answered within 20 seconds	60%	49%	Pg 36
Call abandonment rate	15%	15%	Pg 36
First time call resolution	70%	77%	Pg 36
BRANCH			
Average Service TAT Peak (excluding queue time) -10 min	6.3 min	5.13 min	Pg 37
First time query resolution	98%	98.6%	Pg 37

Strategic Objective: Improved compliance and risk reduction

- Understand and segment the tax base and develop appropriate compliance strategies
- Improve compliance culture
- Assess and mitigate risk

DELIVERABLES	TARGET	ACHIEVEMENT	ANNUAL REPORT REFERENCE
AUDIT			
Coverage: Total number of audit cases completed	66,000	69,118	Pg 54
Success rate of investigative audits.	70%	73%	Pg 53
OUTSTANDING RETURNS			
% of outstanding returns reduced (annual reduction of 5%)	5.00%	6.67%	Pg 57
CRIMINAL INVESTIGATIONS			
CI cases completed: 500 cases per annum (medium & complex)	500	412	Pg 55

SARS Scorecard

Strategic Objective: Greater operational efficiencies

Outcomes

- Optimise throughput
- Maintain / enhance quality
- Establish an operational management system
- Optimise processes
- Improve cost efficiency / value for money

DELIVERABLES	TARGET	ACHIEVEMENT	ANNUAL REPORT REFERENCE
RETURN THROUGHPUT			
Turnaround time on income tax assessments			
• Non Peak – 34 working days	70%	83%	Pg 32
• Peak Period – 90 working days	80%	96%	Pg 32
TURNAROUND TIME ON REFUNDS			
• IT refunds - 30 working days (FAU 001)	90%	59%	Pg 34
• VAT refunds - 21 working days	95%	89%	Pg 34
RETURN THROUGHPUT			
Inventory			
Year To Date Inventory as % of throughput received	9%	17%	Pg 35

Strategic Objective: Governance, Policy and Administration

Outcomes

- Entrench our Governance Framework throughout the agency
- Implement a single National Integrated Border Management Strategy

DELIVERABLES	TARGET	ACHIEVEMENT	ANNUAL REPORT REFERENCE
The percentage of governance framework implemented across the organisation	100%	100%	Pg 97
National Integrated Border Management Strategy developed	Adopted by Cabinet	Adopted by Cabinet by 31 January 2008	Pg 102
Ethics framework / Enhance integrity of employees	Implemented ethics framework over 3 year period	On track	Pg 99

Strategic Objective: Enhanced Human Capacity

Outcomes

- A staff complement with the appropriate skills and orientation
- Enhance human resource systems and process
- Achieve employment equity and workplace diversity
- A cadre of progressive and capable managers
- A well established performance management system

DELIVERABLES	TARGET	ACHIEVEMENT	ANNUAL REPORT REFERENCE
A people development strategy in which individual and organisational performance is the gateway to individual development, career growth and mobility within SARS	Over 3 year period	Repositioning SARS as a "value proposition" for current and future employees in our quest to become an "Employer of Choice". A new recruitment process and service level agreements were implemented with the aim to reduce the Recruitment Cycle with up to 50%. An exciting new Career Model which will assist Employees to take self responsibility for Career Development with all the necessary support mechanism in place to bring about a professional cadre Tax and Customs Professionals	Pg 88
A comprehensive human resource administrative system	Over 3 year period	The implementation of the SAP HR module is on track as per implementation plan	Pg 89
Improved relations with labour	Over 3 year period	Successful concluding of various Collective Agreements with Organised Labour, especially the multi-term Substantive (wage) Agreement that was negotiated and signed with NEHAWU	Pg 89
An employee engagement programme	Over 3 year period	Our Employee Attitude levels, which we measure through the Employee Engagement Survey has been determined with the successful implementation of a programme of action resulted in a significant improvement in positive business enhancing behaviour from the previous year.	Pg 88
A rigorous Performance Management and Development System	Over 3 year period	Enhanced and implemented the new Individual Performance Management System. At the end of March 2008, 85% of SARS employees have signed-off individual performance contracts as part of the implementation of the new Individual Performance Management System.	Pg 92

SARS Scorecard

Strategic Objective: Improved Trade Administration and Border Security

Outcomes

- To implement the general annex to the revised Kyoto Convention
- Efficient implementation and management of trade agreements
- Increased ability to detect illicit trade and enhanced anti-smuggling activity
- Visible border control and pro-active deterrence

DELIVERABLES	TARGET	ACHIEVEMENT	ANNUAL REPORT REFERENCE
TRADE FACILITATION			
Electronic transactions processed			
Import - International	90%	86%	Pg 68
Export - International	50%	54%	Pg 68
Export - SACU	15%	23%	Pg 68
Transactions cleared within target (Imports) – INT - 4hrs	*96%*	*100%*	*Pg 68*
- INT – 24hrs	96%	100%	Pg 68
- SACU – 24hrs	96%	100%	Pg 68
Transactions cleared within target: (Exports 4hrs)	96%	99%	Pg 68
Exports 24hrs	90%	99%	Pg 68
Turnaround time on Customs refunds	90% within 30 days	102% within 30 days	Pg 69
CARGO STOP SUCCESS RATIO			
Imports – International	25%	25%	Pg 71
Imports – SACU	15%	15%	Pg 71
CARGO STOP SUCCESS RATIO			
Exports – International	20%	47%	Pg 71
Exports – SACU	10%	6%	Pg 71
Inbound – Passengers & vehicles (Stop success ratio)	Int: 10%	25%	Pg 73
– Passengers & vehicles (Stop success ratio)	SACU: 5%	1%	Pg 73
Outbound – Passengers (Stop success ratio) (ORTIA)	5%	1%	
PCI AUDIT SUCCESS RATIO			
Risk Based	50%	34%	Pg 74
Regulatory	25%	29%	Pg 74

ADR	Alternative Dispute Resolution: a cost-effective and quicker alternative to litigation
ASB	Accounting Standards Board
ATR	Advance Tax Rulings
BCOCC	Border Control Operational Coordinating Committee
BEE	Black Economic Empowerment
BIU	Business Intelligence Unit: a SARS unit that specialises in gathering, organising and analysing relevant data
BLNS countries	Botswana, Lesotho, Namibia and Swaziland
BOE	Bill of Entry
CBCU	Customs Border Control Unit
CCA	Customs Controlled Area
CIT	Corporate Income Tax: all provisional and assessed taxes paid by corporate entities (net of refunds and including interest paid on overdue income tax)
CITES	Convention on International Trade in Endangered Species
CRO	Corporate Relations Office: manages relations with major stakeholders and also administers SARS' corporate social investment programme
CSI	Container Security Initiative
Customs duty	Duties levied on goods imported into the Republic
EDW	Enterprise Data Warehouse: a central repository for housing SARS' data and information
EDI	Electronic Data Interchange

Glossary

eFiling	The online performance of interactions of taxpayers/clients with SARS and third parties such as banks
Filing Season	The period after the ending of the tax year during which taxpayers are required to submit their tax returns.
FTR	First-Time Resolution: The resolution of taxpayer or trader queries when they are made without having to refer the queries to back-office or other SARS functions
Fuel levy	The levy is paid on fuel levy goods (such as petrol and diesel) manufactured in or imported into the Republic
GAAR	General Anti-Avoidance Rule
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GRAP	Generally Recognised Accounting Practice
IBSA	India-Brazil-South Africa
ICE	Integrated Customs and Enforcement
ICRAS	Integrated Customs Risk Analysis System
ICT	Information and Communications Technology
IDZ	Industrial Development Zones
IFAC	International Federation of Accountants
ITAC	International Trade Administration Commission of South Africa
Kyoto Convention 1974, revised 1999	Was developed to promote a highly facilitative international travel and trading environment while maintaining appropriate levels of regulatory control
LBC	Large Business Centre
MIDP	Motor Industry Development Programme
MTEF	Medium-Term Expenditure Framework
MPC	Monetary Policy Committee (SA Reserve Bank)

Glossary

NPA	National Prosecuting Authority
NBF	National Bargaining Forum
NCF	National Consultative Forum
NEHAWU	National Education Health and Allied Workers Union
OECD	Organisation for Economic Cooperation and Development
PBO	Public Benefit Organisation
PCI	Post Clearance Inspections refer to those examinations and audits aimed to ensure compliance with Customs and Excise legislation
PIT	Personal Income Tax: all assessed and provisional taxes as well as PAYE paid by individuals (net of refunds and including interest on overdue tax)
PIM	Process and Information Management
PMDS	Performance Management and Development System
PSA	Public Servants Association of South Africa
SAD	Single Administrative Document: a Customs declaration designed to simplify and speedup cross-border trade administration
SADC	Southern African Development Community
SACU	Southern African Customs Union. SACU provides for the imposition of a common external tariff by the five SACU countries on goods imported from third countries and the duty-free movement of goods between the territories of the SACU countries
Service Charter	A charter adopted by SARS which aligns its mandate and public expectations against measurable benchmarks and performance standards
SMME	Small, Medium and Micro Enterprises
STC	Secondary Tax on Companies: refers to taxes paid on profits distributed by companies
SSMO	SARS Service Monitoring Office
TOPP	Training Outside Public Practice: a programme that accredits organisations to train Chartered Accountants outside of public practice
SARS Act	South African Revenue Service Act (1997)
SMT	Strategy, Modernisation and Technology Division: supports SARS strategy, business processes, technology applications and technology infrastructure
TPS	Taxpayer Service: SARS staff that directly interface with taxpayers and clients
VAT	Value-Added Tax: levied on the supply of goods and services by registered vendors
WCO	World Customs Organisation, a 169-member global organisation working towards the harmonisation of Customs processes and procedures
WTO	World Trade Organisation, 149-member global international organisation dealing with the rules of trade between nations

Map (indicating various SARS locations)

Map and Contact Details

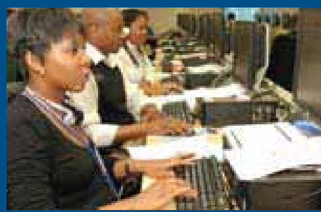
Contact details

Contact	Telephone	Fax
SARS head office	012 422 4000	
SARS fraud/anti-corruption hotline	0800 00 28 70	
SARS service monitoring office (SSMO)	0860 12 12 16	012 431 9695
Call centre (KwaZulu-Natal, Western Cape, JHB)	0860 12 12 18	
Large Business Centre	011 602 3536	011 602 3518
OR Tambo International Airport	011 923 2400	011 923 2467
Cape Town International Airport	021 934 0221	021 934 2355
Durban International Airport	031 469 1919	031 469 3569
Tax Exemption Unit	012 422 8800	012 422 8830

SARS South African Revenue Service







Lehae La SARS

299 Bronkhorst Street, Nieuw Muckleneuk 0181

Private Bag X923, Pretoria 0001, South Africa

Telephone: +27 12 422 4000

Fax: +27 12 422 5181

SARS At Your Service

www.sars.gov.za