SOUTH AFRICAN REVENUE SERVICE

ANNUAL REPORT 2006/07

SARS
At Your Service

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SARS ANNUAL REPORT 2006/07

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MESSAGE FROM THE MINISTER

1. MESSAGE FROM THE **MINISTER**

The South African Revenue Service tables this annual report as it approaches an important milestone in its short life.

As this third democratic Parliament leads the important task of legislative oversight and holding state institutions accountable to our constitutional values and imperatives, the fact that SARS is entering its 10th year as a unified, autonomous organ of state, allows us to review its organisational performance and contribution over the past decade.

When Parliament passed the SARS Act of 1997, it established the legal framework for a consolidated revenue and customs administration, which was crucial to sustaining a tax system capable of supporting South Africa's economic transformation. This was necessary to enable government to create a developmental state with a clear public mandate to deliver to the poor.

Our review of SARS must recognise the importance of its contribution to national development by increasingly delivering the revenue necessary to pay for public resources. As a result, government has been able to strengthen its efforts to create a better life for all without compromising public finances with the burden of debt.

SARS has managed to establish itself as an institution that administers the collection of tax revenue effectively, while at the same time enhancing South Africa's economic competitiveness.

Over the years, tax policy and administrative reforms have been tabled, debated and considered by this Parliament and our predecessors. Collectively, we have witnessed how this journey of transformation has broadened the tax base, established structural cohesion in tax policy administration and legislative reform, eliminated damaging tax arbitrage opportunities, and continuously persuaded the hearts and minds of our citizens to become part of a growing culture of tax compliance.

Maximising revenue collection is only one of the criteria by which to measure the success of SARS. The millions of ordinary taxpayers may apply other criteria when they evaluate SARS. They may ask, for instance, whether dealing with revenue officials is now easier, and whether they are now enjoying a better, more efficient and more effective service.

As the Minister charged with the executive responsibility for this public institution, I am confident that the majority of taxpayers would join me in answering in the affirmative.

The SARS 2006/07 Annual Report illustrates in detail the administration's efforts to continue the growth trajectory in revenue collection performance and innovation in organisational reform to meet the challenges of a growing, modern, changing and globally competitive economy.

Revenue collection for the period under review reflects strong growth as a result of buoyant economic activity and a GDP growth figure of about 5%. In addition, there has been a growing level of tax compliance and tax base expansion, accompanied by SARS's efforts to challenge aggressive tax avoidance schemes and to ensure that provisional corporate tax payments reflect the latest profit earnings for large corporations. The effect of these interventions produced significant gains in revenue yield.

For the financial year under review SARS collected R495,5 billion in revenue, exceeding the revised printed estimate by R5,9 billion.

While seeking to maximise efficiency in service provision, SARS has to contend with a rapidly growing taxpayer base (about 8% last year) and the demands of increased cross-border trading activity.

An additional call on SARS's resources in the year under review was the introduction of the small business tax amnesty. SARS's effort in this regard was geared at providing businesses with a turnover of less than R10-million an opportunity to regularise their tax affairs, grow the tax register and contribute to bridging the divide between the formal and second economy. A major focus of the campaign was to provide the taxi industry a window of opportunity to register for tax – a requirement of the government's taxi recapitalisation programme.

Given the positive outlook of further economic growth over the medium term and the government programmes of job creation, infrastructure investment and poverty alleviation, SARS has to develop and maintain organisational and systems capability to respond to the challenges of such growth.

Let's join SARS in a collective effort to strengthen our development for the next 10 years.

Trevor A. Manuel, MP
Minister of Finance

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COMMISSIONER'S REVIEW

2. COMMISSIONER'S REVIEW

The 2006/07 financial year once again provided the South African Revenue Service (SARS) with a favourable yet challenging environment for the achievement of its objectives of revenue collection, trade facilitation and enhanced compliance.

Economic growth continued for the seventh consecutive year, providing a strong platform for revenue gains and tax register growth. This contributed to government posting its first budget surplus ever, as it moved tantalisingly close to revenue yield of half a trillion rand.

The key factors in the year's collection results were:

- **Personal income tax:** Total collections were R141,4 billion, exceeding the original estimate by R8,2 billion. Continued job creation, a 9% increase in compensation for employees and higher-than-anticipated bonuses were key contributing factors in this growth, along with enhanced levels of compliance and an 8% growth in the tax register. Despite exceeding the target by just less than 6%, overall contributions by individuals amounted to 28.5% of total revenue, down from 30.3% in 2005/06 and continuing the trend that has seen personal income tax fall from 36.1% of total revenue in 2001/02.
- **Corporate income tax:** Collections amounted to R120,1 billion, exceeding the original estimate by nearly R23,8 billion. The continued economic upswing and a weaker rand resulted in reported gross operating surpluses of more than 15% in 2006, boosting profitability, especially in export and resource industries such as mining and quarrying, petroleum and coal. Retail, financial services, transport and communication also continued to do well, boosted by strong consumer spending. Corporate income tax grew to 24.2% of overall revenue during the year in review, up from a relatively steady 20% average over the past four years.
- **VAT:** While VAT collections of R134,5 billion again exceeded expectations, interest rate increases helped to curb consumer spending and consequently this total was only R3,3 billion above the printed estimate.
- **Customs duty:** Strong consumer spending and a more stable rand were linked to a growth in demand for imported products, which saw R23,7 billion in customs duties collected during the year – R497 million more than the original estimate.

The combination of sustained economic growth, enhanced service and efficiency within SARS, and a constantly improving culture of taxpayer compliance, has helped to nearly double revenue collection since 2001/02, providing government with the financial resources to expand and accelerate its programme of delivery.

But this same pattern of growth in collections, expansion of the tax register and rapidly rising trade volumes has presented SARS with significant operational challenges.

The number of assessments processed each year has increased steeply – from 4,5 million in 1995/96 to 15,2 million during the year in review. Over the same period, import and export transactions have trebled. This expansion has outpaced the growth in available SARS resources, requiring a fundamental shift from the current manual, paper-based processes to a streamlined, more efficient process that makes better use of technology. Making this shift is particularly important now as SARS prepares to implement and administer the social security tax and wage subsidy.

This is the basis of our modernisation agenda, which we began developing in the latter part of the review period. One of the more visible manifestations of this approach is the introduction of the new income tax assessment process, planned for the 2007 year of assessment.

The small business tax amnesty presented SARS with the challenge to locate the many thousands of small businesses, both formal and informal. We faced the stark reality that the small business market is rather fragmented and that there is very little research into this sector of the economy. SARS had to employ innovative strategies to engage small businesses throughout the country. Direct contact with potential applicants through mass-based campaign work and an intensive outreach drive became the foundation of our approach. The insights and lessons learnt in the field have enabled SARS to identify new challenges, particularly in the area of research and tax product design.

Many changes are planned for the years ahead – including transforming and developing our own people to better serve the people of South Africa. We have already started this as part of our "Year of the People" within SARS during 2007.

In October 2007 SARS will celebrate its 10th anniversary. I have had the honour to be a part of the extraordinary transformation and development of SARS during much of this decade. None of the achievements outlined in this and previous annual reports would have been possible without the passion, dedication and commitment of each and every member of this organisation.

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 leadership, inspiration, motivation and encouragement they unwaveringly provide to all of us at SARS.

Finally, to all the people of South Africa who through their tax contributions – big and small – provide us with a reason to be, and South Africa with the means to achieve its ambitions, thank you. You are making South Africa great!

Pravin Gordhan

Pravin Gordhan
Commissioner

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YEAR AT A GLANCE

3. YEAR AT A GLANCE

SARS Modernisation Agenda
- Modernisation Strategy adopted
- Modernised assessment process for 2007/08 Filing Season
- New strategic direction defined for Customs

eFiling
- R53,7 billion VAT revenue collected via eFiling
- R26,7 billion PAYE revenue collected via eFiling
- 599 490 eFiling registrations

Improved compliance
- R17,7 billion debt collected
- 69 270 audits conducted
- 447 guilty verdicts attained
- Outstanding Returns Book reduced by 6% to 5,9 Million
- Debt book redused by 3.75%

Revenue Growth

Tax Revenue collected increased from R417,3 Billion in 2005/06 to R495,5 Billion in 2006/07

Employment Equity
- 14 709 employees
- 26 626 training interventions delivered to 10 388 employees

Volume growth
- 8,2 million Taxpayers
- 15,2 million assessments processed
- 4,2 million calls received

Service Charter
- 89% IT returns processed within 90 days
- 81% IT refunds processed within 30 days
- 83% VAT refunds processed within 21 days
- Dedicated Taxpayer Education Unit established
- 2 755 workshops held where 115 777 taxpayers were trained
- Practitioners Unit established

Customs
- Customs Border Control Unit established
- Lead agency at ports of entry and chair of the BCOCC
- 4 706 anti-smuggling seizures
- R354 million worth of counterfeit good seized
- R250 million worth of cigarettes seized

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STRATEGIC FOUNDATION

4. **STRATEGIC** FOUNDATION

The legislative mandate of SARS is to contribute to South Africa's development as a globally competitive economy by facilitating legitimate trade, promoting tax compliance and supporting economic growth. We administer an efficient tax and customs system, advocating the value of compliance and promoting a culture of good fiscal citizenship across all sectors of society.

Our vision is to be 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.

Our mission is 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.

Our relationships, business process and conduct are based on the following values:

- mutual respect and trust;
- equity and fairness;
- integrity and honesty; and
- transparency and openness.

The South African Revenue Service Act (1997) (the SARS Act) gives SARS the mandate to:

- Collect all revenues that are due;
- Ensure maximum compliance with relevant legislation; and
- Provide a customs service that will maximise revenue, facilitate trade and protect ports of entry against smuggling and other illegal trade.

Thirteen years into democracy, South Africa is still reconstructing and developing the country and building strong state institutions. SARS is fully committed to government's developmental agenda. We contribute to South Africa's development, and to government's programme of action, by:

- Providing sustainable revenue for government programmes;
- Running an efficient tax administration system;
- Broadening the tax base;
- Building a culture of tax compliance;
- Lowering the cost and burden of compliance; and
- Facilitating trade and protecting the economy from prohibited goods and substances.

To this end, SARS has set out the following seven strategic objectives:

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

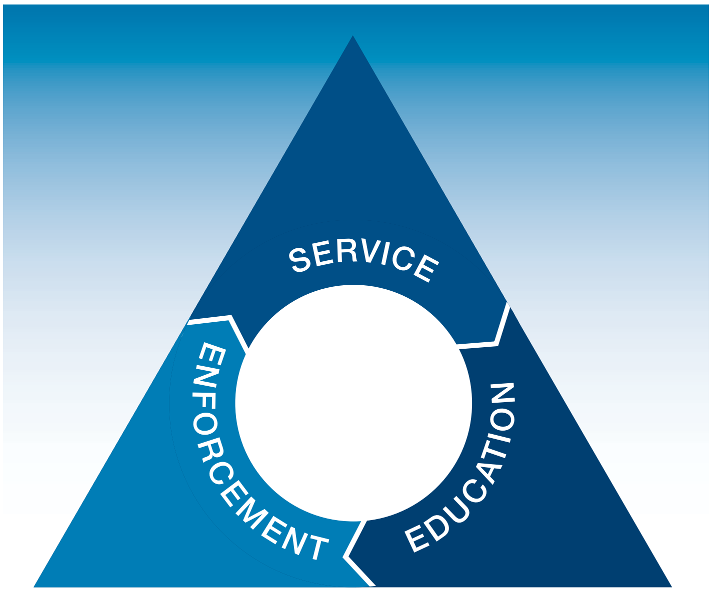
- **Ensuring a better taxpayer and trader experience** through promoting awareness and understanding of tax obligations among taxpayers and traders and to make it easier for them to comply by simplifying procedures and processes and improving our service.
- **Improving enforcement** by punishing non-compliance and reducing the opportunities for tax evasion. The goal is to ensure that every taxpayer and trader fully meets their legal obligations.
- **Continuing staff development and promoting a culture of integrity and professionalism** throughout the organisation.
- **Enhancing trade facilitation and border control** through improved trade supply chain management. We also aim to increase our capability to detect illicit goods by enhancing our anti-smuggling capabilities, upgrading and deploying a stringent accreditation and licensing system, and ensuring proper classification and valuation of imported goods.
- **Ensuring greater efficiency** by using staff effectively, upgrading and automating our core tax systems and improving our processes.
- **Ensuring good governance and administration** in compliance with the regulatory framework.

SARS's Compliance Model

SARS uses a compliance model to assess taxpayer and trader behaviour. This model is based on approaches used by other revenue authorities and is tailored to South Africa's historical and social context.

The compliance model has three cornerstones: **education, service and enforcement.** The overall objective of this approach is to increase voluntary compliance.

Figure 4.1: The Compliance model



Education

We focus on broadening the tax base by educating the public about their tax obligations. SARS believes that most taxpayers would prefer compliance to non-compliance, provided they are kept informed. We recognise that, for historical reasons, there is a low awareness of taxation among the majority of our citizens, underlining the need for public education.

Service

SARS focuses on making compliance easier for taxpayers by improving service levels and reducing the administrative burden associated with paying tax. We are committed to meeting and exceeding the standards set out in the Service Charter, and to providing taxpayers and traders with a more responsive, accessible and efficient service.

Enforcement

SARS works to deter and catch non-compliant taxpayers. We recognise that the behaviour of taxpayers varies from compliance to accidental non-compliance to evasion – and that our responses must be appropriate. We believe that credible, legitimate and firm enforcement, with appropriate sanctions, will discourage tax evasion.

Conclusion

SARS is steadily transforming itself into a flexible and professional organisation accessible to and trusted by the taxpaying public. We place a high priority on good customer service.

Over the medium term, in line with government's priorities, SARS must contribute to the implementation of the new social security system and wage subsidy, be the lead agency at South Africa's ports of entry and support the successful hosting of the 2010 Soccer World Cup.

To achieve these goals, SARS is modernising its operations along three strategic lines:

- Developing a new operating model that allows for sustained performance, improved service and greater work volumes;
- Delivering on additional government priorities while concentrating on the core tax function; and
- Strengthening our organisational foundation to ensure sustainable delivery of programmes.

5

OPTIMISING REVENUE COLLECTION

5. OPTIMISING REVENUE COLLECTION

Highlights

- Total tax revenue collection of R495,5 billion exceeded the revised February 2007 target by R5,85 billion.
- Strong revenue growth contributed to a budget surplus of 0.6% of GDP – the first such surplus in South African history.
- Corporate income tax contributed R120,1 billion (24.2%) to total tax collections, exceeding the Revised February 2007 Estimate by R4,3 billion.
- R141,4 billion in personal income tax was collected.
- R12,1 billion in tax relief was granted to individuals.
- VAT revenue of R134,5 billion was collected, only slightly below the Revised February 2007 Estimate.

Overview

SARS once again exceeded its revenue target. The 2006/07 revenue overrun largely mirrored those of the preceding years in that it was driven primarily by the following factors:

- Continued economic growth;
- Improved efficiency at SARS;
- Further gains in the culture of voluntary compliance, supported by SARS's focus on education, service and enforcement; and
- The implementation of policies and legislative changes aimed at broadening the tax base.

The most significant component of the surplus was Corporate Income Tax (CIT), where collections exceeded the forecast by R4,3 billion (4%), as a result of continued positive business conditions and higher-than-anticipated corporate profits. Personal Income Tax (PIT) was R1,4 billion (1%) above forecasts, consistent with the strong growth in wages and employment.

Economic Performance

South Africa's economy, in its seventh consecutive year of economic growth, provided a favourable environment for revenue collection. Real economic growth was sustained at 5% in 2006, about the same level as in 2005 (5.1%).

Economic buoyancy was underpinned by strong domestic demand and tax relief of R19,1 billion during the 2006/07 tax year, which contributed to consumer spending power. The economy remained robust despite a decline in the average exchange value of the rand, which decreased by 15.4% in 2006, and the 200-basis–point increase in the repurchase (repo) rate in response to inflation concerns.

Strong consumer spending was evident in real gross domestic expenditure, which increased by 8.8% in 2006 compared with 6% in 2005.

Employment grew during 2006, and growth in compensation of employees also increased, from 8.3% in 2005 to 9% in 2006.

The gross operating surplus of business enterprises rose from 10% in 2005 to 15.3% in 2006. Share prices on the Johannesburg Securities Exchange rose rapidly, and buoyant trading was reflected in the Marketable Securities Taxes collected. The total market capitalisation of the Johannesburg Securities Exchange increased by 48% to R5 294 billion in February 2007, while the dividend yield receded to 2.2% in February 2007.

Imports grew by 32.5% and exports by 20.9% during 2006.

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 results provide for a 2006/07 national government surplus of 0.6% of GDP before borrowing and debt repayment, compared to the originally budgeted deficit ratio of 1.2%.

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

The fiscal outcome provided substantial room for government to pursue the objectives stated above whilst attaining a budget surplus of 0.6% of GDP and allowing a reduction in the debt-to-GDP ratio to an all-time low of 2.9%.

Figure 5.1 sets out the key macro economic indicators for the 2006 calendar year and figure 5.2 provides selected macro economic indicators for the fiscal year 2006/07.

Figure 5.1: Selected macro economic indicators per calendar year

	Actual	2006/07 Budget 2006	2006/07 MTBPS 2006	2006/07 Budget 2007	Actual
Calendar year	**2005**	**2006**	**2006**	**2006**	**2006**
% change unless otherwise indicated					
Final household consumption	6.6	4.9	6.6	7.0	7.3
Final government consumption	5.2	4.8	5.6	5.6	5.4
Gross fixed capital formation	9.6	9.4	9.5	12.0	12.7
Gross domestic expenditure	5.9	5.6	7.2	7.9	8.7
Exports	8.0	7.1	2.7	3.9	5.5
Imports	10.7	9.4	13.0	14.3	18.4
Real GDP growth	**5.1**	**4.9**	**4.4**	**4.9**	**5.0**
GDP defiator	4.7	5.2	6.5	5.8	6.9
GDP at current prices (R billion)	**1 539.0**	**1 674.6**	**1 693.4**	**1 709.1**	**1 727.5**
CPIX (Metropolitan and urban, average for the year)	3.9	4.3	4.6	4.6	4.6
Current account balance (% of GDP)	(4.0)	(4.4)	(5.7)	(5.5)	(6.5)

Figure 5.2: Selected macro economic indicators per fiscal year

	Actual	2006/07 Budget 2006	2006/07 MTBPS 2006	2006/07 Budget 2007	Actual
Fiscal year	**2005/06**	**2006/07**	**2006/07**	**2006/07**	**2006/07**
GDP at current prices (R billion)	1 579.2	1 714.5	1 745.8	1 755.3	1 787.4
Real GDP growth	4.7	4.8	4.5	4.9	5.2
GDP inflation	5.4	4.9	6.9	5.9	7.6
CPIX (metropolitan and urban)	4.1	4.2	5.1	4.9	4.9

Source: Budget Review 2006, 2007; Medium Term Budget Policy Statement (October 2006); South African Reserve Bank Quarterly Bulletin March and June 2007

Revenue forecasts are based on a set of assumptions about the performance of key macro economic indicators as well as administrative factors. In 2006/07 the actual performance of these indicators was an improvement on most of the assumptions. This is reflected in higher-than-expected performance in GDP growth, underpinned by domestic expenditure, fixed capital formation, exports and imports.

Tax Revenue in 2006/07

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 151, does not reflect revenue in terms of this definition. To ensure clarity, it is prudent to disclose Tax Revenue as set out in the figure below (the calculation on the achievement of SARS’s revenue target is based on this approach).

The Net Revenue for 2006/07 increased by R74,2 billion to R484,1 billion, from R409,9 billion in 2005/06. The Tax Revenue of R495,5 billion is arrived at by adding back the SACU payments less payments to the Unemployment Insurance Fund (UIF) and Road Accident Fund (RAF), provincial administration receipts, state fines and forfeitures.

Figure 5.3: Tax revenue for the year ended 31 March 2007

	2007 R million	2006 R million
NET REVENUE FOR THE YEAR	**484 113**	**409 934**
Adjustments	**11 402**	**7 400**
Add:		
Southern African Customs Union Agreement	25 195	14 145
Less:		
Unemployment Insurance Fund	7 855	6 716
Road Accident Fund	5 906	-
Provincial administration receipts	29	26
State fines and forfeitures	3	3
TAX REVENUE	**495 515**	**417 334**

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.

Figure 5.4: Detailed budget revenue performance for 2006/07 against Estimates

Revenue performance 2006/07 Source of Revenue (R million)	Budget Estimate Feb 2006	Budget Estimate Feb 2007	Actual Result	Increase/ decrease on Feb 2006 Estimate	Increase/ decrease on Feb 2007 Estimate
Taxes on income and profits	245 816	274 300	279 991	34 175	5 691
Personal Income Tax including interest	133 245	140 000	141 397	8 152	1 397
Corporate Income Tax including interest	96 321	115 850	120 112	23 791	4 262
Secondary Tax on Companies	13 850	15 700	15 291	1 441	-409
Tax on Retirement Funds	2 400	2 750	3 191	791	441
Value-Added Tax	131 200	134 562	134 463	3 263	-99
Customs Duties	23 200	23 500	23 697	497	197
Fuel Levy	21 800	21 750	21 845	45	95
Excise Duties	16 616	16 100	16 369	-247	269
Skills Development Levy	5 600	5 850	5 597	-3	-253
Other taxes and duties	12 554	13 600	13 553	999	-47
TOTAL TAX REVENUE	**456 786**	**489 662**	**495 515**	**38 729**	**5 853**
Non-tax revenue	9 320	11 346	10 649	1 329	-697
Less: SACU payments	19 744	25 172	25 195	5 451	23
TOTAL BUDGET REVENUE	**446 362**	**475 836**	**480 969**	**34 607**	**5 133**

Each broad category of tax has its own key economic indicators and other factors that affect 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 R280 billion, which was R34,2 billion and R5,7 billion higher than the Printed February 2006 and Revised February 2007 Estimates, respectively.

Personal Income Tax, including interest (PIT)

Collections exceeded the Printed Estimate by R8,2 billion and were slightly above the Revised Estimate, by R1,4 billion. The increase was mainly due to increased employment as well as a 9% increase in compensation to employees.

The increase in collections also reflects exceptional bonuses paid to employees in the financial sector, the success of the Filing Season campaign and growth of the income tax register.

Corporate Income Tax, including interest (CIT)

Collections exceeded the Printed and Revised Estimates by R23,8 billion and R4,3 billion respectively, due mainly to continued strong economic growth and a more comprehensive approach to improve corporate compliance by the SARS Large Business Centre.

Growth in gross operating surpluses of business enterprises increased by 15.25% in the 2006 calendar year, against 10% in 2005. The improved performance occurred mainly in the following sectors:

- Finance, insurance, real estate and business services;
- Manufacturing;
- Wholesale and retail trade;
- Transport, storage and communication;
- Mining and quarrying; and
- Coal and petroleum products.

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 R16,4 billion in 2006/07 compared with R12,5 billion in 2005/06 and R7 billion in 2004/05. This involved better relationship management between SARS and some companies, and, where necessary, the application of paragraph 19(3). In addition, tracking and active follow-up ensured that taxes were paid on time.

Secondary Tax on Companies (STC)

Collections exceeded the Printed Estimate by R1,4 billion and were R409 million below the Revised Estimate. Corporations declared sizeable increases in dividends.

Tax on Retirement Funds (RFT)

Collections were R791 million above the Printed and R441 million above the Revised Estimate. This was mainly due to a 200-basis-point increase in the bank lending rate and increased rentals during the fiscal year. This collection performance occurred in spite of the reduction in the retirement funds tax rate from 18% to 9% from 1 March 2006.

Value-Added Tax (VAT)

VAT collections were R3,3 billion above the Printed Estimate and R99 million below the Revised Estimate. The increased collections were mainly due to the increase in real gross domestic expenditure from 6% in 2005 to 8.8% in 2006, which also led to a 32.4% increase in imports during the 2006 calendar year. Growth was evident in real final household expenditure, which rose from 6.6% in 2005 to 7.3% in 2006 and in fixed capital formation, which rose from 9.6% in 2005 to 12.8% in 2006.

Customs Duty

Customs duty collections were R497 million above the Printed Estimate and R197 million above the Revised Estimate. This was mainly due to strong domestic demand, especially for machinery and equipment, which resulted in a significant increase in the quantity of goods. A weakening of the rand, which started during June 2006, further increased the cost of imported goods.

Fuel Levy

Fuel levy collections were above the Printed and Revised Estimates by R45 million and R95 million respectively, mainly due to slightly higher-than-expected consumption. The fuel levy comprises fuel levy collections, recoupment of levies from the Road Accident Fund (RAF) – including a once-off payment of R575 million – and diesel refunds. As of 1 April 2006, SARS has collected the RAF levy; this amount is not included in fuel levy receipts but is reported separately in the Statement on Financial Performance on page 151.

Excise Duties

Excise duty collections were R247 million below the Printed Estimate and R269 million above the Revised Estimate, the latter being mainly due to higher-than-expected collections on wine (R282 million) and beer (R95 million), while cigarettes were R116 million lower than expected.

Skills Development Levy (SDL)

Skills development levy (SDL) collections were R3 million and R253 million below the Printed and Revised Estimates respectively, mainly due to the full effect of growth in the remuneration of employees not filtering through to SDL (a number of employers such as government departments are exempt).

Other Taxes and Duties

Revenue collection for other taxes and duties amounted to R13,6 billion, which was R1 billion above the Printed Estimate and R47 million below the Revised Estimate. This was mainly due to collections from transfer duties being better than expected despite the increase in the transfer duty thresholds during the year.

Revenue Performance 2001/02 to 2006/07

Major tax administration reforms in recent years have improved tax system efficiencies and yielded equity gains through a broadening tax base. Figure 5.5 provides a breakdown of the nominal amounts collected during the period.

Figure 5.5: Breakdown of revenue collected

Year (R millions)	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total Tax Revenue	GDP	Total Tax as % of GDP
2001/02	90 976	42 979	7 163	61 057	14 923	8 632	26 568	252 298	1 048 755	24.1
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	1 288 952	23.5
2004/05	111 697	71 629	7 487	98 158	19 190	12 888	33 931	354 980	1 430 711	24.8
2005/06	126 416	87 326	12 278	114 352	20 507	18 303	38 152	417 334	1 579 242	26.4
2006/07	**141 397**	**120 112**	**15 291**	**134 463**	**21 845**	**23 697**	**38 710**	**495 515**	**1 787 431**	**27.7**

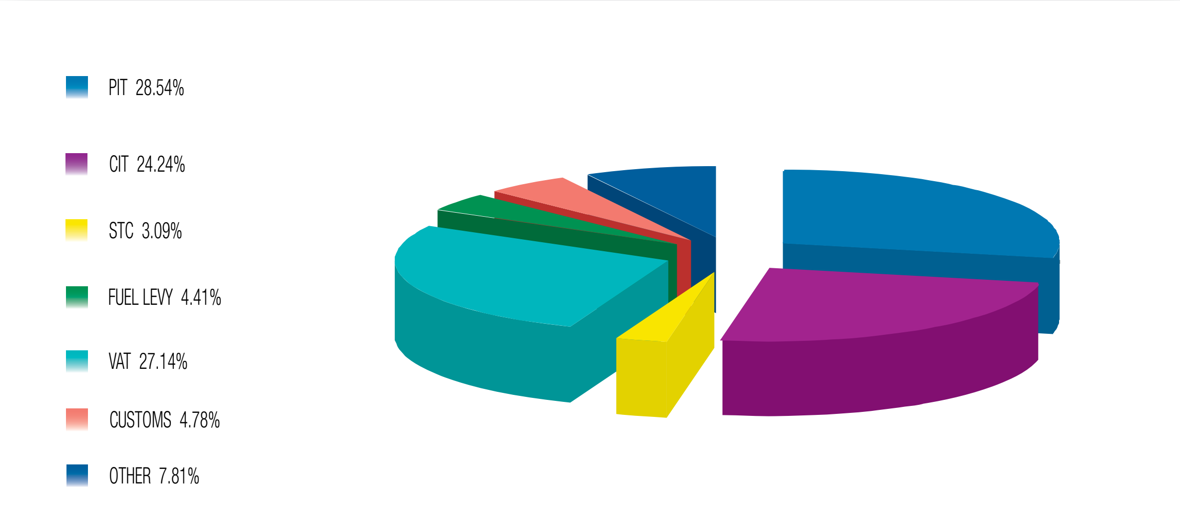
The contributions of different types of tax to total tax revenue collection have changed over the period, as reflected in Figure 5.6, which sets out the percentage contribution of the various taxes to total taxes collected.

Figure 5.6: Percentage contribution to tax revenue

Year	PIT %	CIT %	STC %	VAT %	Fuel Levy %	Customs %	Other %	Total Tax Revenue %
2001/02	36.06	17.04	2.84	24.20	5.91	3.42	10.53	100.00
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**

Figure 5.7 provides a graphical breakdown of the 2006/07 different tax type contributions to total tax revenue collections.

Figure 5.7: % Contribution to Tax Revenue 2006/07



Tax Relief

The benefits of tax reforms have become tangible in the form of tax relief, the effect of which can be seen by the relative decline in the contribution of PIT collections as a percentage of total tax revenue, from 36.1% in 2001/02 to 28.5% in 2006/07. Total tax revenue as a percentage of GDP increased from 22.9% in 1994/95 to 27.7% in 2006/07.

In the past six years more than R70 billion in tax relief has been granted to the South African public. Individual taxpayers have enjoyed tax relief of close to R60 billion, whilst corporates have been given relief of almost R7 billion. The figure 5.8 below gives the figure for tax relief over this period.

Figure 5.8: Summary effects of tax proposals 2001/02 to 2006/07

Year (R millions)	DIRECT				INDIRECT				Total Relief
	PIT	CIT	Other	Total	Excise	Fuel Levy	Other	Total	
2001/02	-8 308		-1 011	-9 319	779	363	- 878	264	-9 055
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**

Tax Rates

In 2006/07, the rate on Tax on Retirement Funds was reduced from 9% to 0%.

Figure 5.9: Maximum Marginal Tax rates

From - Until	PIT *	CIT	STC	VAT	RFT
01/04/01 - 31/03/02	42.0%	30%	12.5%	14%	25%
01/04/02 - 28/02/03	40.0%	30%	12.5%	14%	25%
01/03/03 - 31/03/03	40.0%	30%	12.5%	14%	18%
01/04/03 - 31/03/04	40.0%	30%	12.5%	14%	18%
01/04/04 - 31/03/05	40.0%	30%	12.5%	14%	18%
01/04/05 - 28/02/06	40.0%	29%	12.5%	14%	18%
01/03/06 - 31/03/06	40.0%	29%	12.5%	14%	9%
01/04/06 - 28/02/07	**40.0%**	**29%**	**12.5%**	**14%**	**9%**
01/03/07 - 31/03/07	**40.0%**	**29%**	**12.5%**	**14%**	**0%**

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

Personal Income Tax Rates

In the 2006 Budget significant relief for individuals during the 2006/07 tax year was announced. This took into account the effects of inflation and it provided for a real reduction in individuals' tax burden. This was achieved by the widening of the income brackets and the increase of the upper bracket from R300 000 to R400 000. This resulted in an estimated 73% of the relief being provided to those individuals that had a taxable income of R250 000 or less. The figures below set out the personal income tax rates that were in effect during the 2005/06 and 2006/07 tax years.

Figure 5.10: Personal Income Tax Rates

Personal Income Tax Rates 2005/06	
Taxable income	**Rates of tax**
R0 - R80 000	18% of each R 1
R80 001 - R130 000	R14 400 + 25% of the amount above R80 000
R130 001 - R180 000	R26 900 + 30% of the amount above R130 000
R180 001 - R230 000	R41 900 + 35% of the amount above R180 000
R230 001 - R300 000	R59 400 + 38% of the amount above R230 000
R300 001 - and above	R86 000 + 40% of the amount above R300 000

REBATES OF TAX

Primary	R6 300
Age 65 and over (additional to primary rebate)	R4 500

TAX THRESHOLD

Below the age of 65	R35 000
Age 65 and over	R60 000

Personal Income Tax Rates 2006/07	
Taxable income	**Rates of tax**
R0 - R100 000	18% of each R 1
R100 001 - R160 000	R18 000 + 25% of the amount above R100 000
R160 001 - R220 000	R33 000 + 30% of the amount above R160 000
R220 001 - R300 000	R51 000 + 35% of the amount above R220 000
R300 001 - R400 000	R79 000 + 38% of the amount above R300 000
R400 001 - and above	R117 000 + 40% of the amount above R400 000

REBATES OF TAX

Primary	R7 200
Age 65 and over (additional to primary rebate)	R4 500

TAX THRESHOLD

Below the age of 65	R40 000
Age 65 and over	R65 000

Personal Income Tax Including Interest (PIT) - 2001/02 to 2006/07

PIT comprises all assessed and provisional taxes, as well as employees tax paid by individuals (net of refunds).

PIT contributions to total tax revenue declined from 36.1% in 2001/02 to a current low of 28.5% – an overall decrease of 7.6% – mainly due to substantial tax relief. The year-on-year growth in collections has increased substantially since 2004/05, mainly due to less relief being granted to individuals. Tax relief in the 2001/02 to 2003/04 period amounted to R36,6 billion or 12.8% of PIT collected, while the relief in the 2004/05 to 2006/07 period amounted to R23,3 billion or 6.1%. The figure below illustrates the steady decline in PIT contributions to total tax revenue.

Figure 5.11: PIT including interest 2001/02 to 2006/07

Year	R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	90 976	4.6	36.1	8.7
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**	**7.9**

Corporate Income Tax including interest (CIT) - 2001/02 to 2006/07

CIT comprises all provisional and assessed taxes paid by companies (net of refunds).

From 2001/02 to 2002/03, CIT collections grew vigorously due to robust growth in corporate earnings, underpinned by cost cutting, improved commodity prices and a depreciating rand that favoured exporters. This was supported by improved SARS enforcement and compliance processes, including:

- 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 and capital gains;
- Improved enforcement and compliance in the banking sector; and
- The enhanced debt collection capability provided by the outbound call centre.

The rate at which CIT collections grew declined in 2003/04 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.

The rapid growth in CIT collections resulted in an increase in the CIT/GDP ratio from 4.8% in 2003/04 to 6.7% in 2006/07, and a contribution of 24.2% to total tax collections in 2006/07 – considerably higher than the 17% recorded in 2001/02. The figure below illustrates the steady increase in CIT contributions to total tax revenue.

Figure 5.12: CIT including interest 2001/02 to 2006/07

Year	R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	42 979	43.5	17.0	4.1
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**	**6.7**

Secondary Tax on Companies (STC)

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

STC collections declined from 2001/02 to 2003/04, mainly due to companies retaining earnings rather than declaring dividends. Since 2003/04, corporate profits have increased significantly, resulting in companies revising dividend policies and increasing distribution of corporate earnings, especially in the resource and financial sectors.

STC contributed 3.1% to total tax revenue in 2006/07, increasing its percentage of GDP from 0.5% in the 2002/03 to 2004/05 period to 0.9%.

Figure 5.13: STC 2001/02 to 2006/07

Year	R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	7 163	77.7	2.8	0.7
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**	**0.9**

Value-Added Tax (VAT) - 2001/02 to 2006/07

VAT is 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 (input tax) is greater than the VAT levied (output tax) by the vendor on goods and services supplied to its customers.

VAT as a percentage of GDP increased from 5.8% in 2001/02 to 7.5% in 2006/07, driven by growth in domestic VAT collections and growth in customs VAT during 2006/07.

Sectors that have contributed to this growth include:

- Financing, insurance, real estate and business service;
- Construction;
- Agencies;
- Food, drink and tobacco; and
- Retail trade.

The figure below illustrates the steady increase in VAT contributions to total tax revenue.

Figure 5.14: Total VAT 2001/02 to 2006/07

Year	R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	61 057	12.1	24.2	5.8
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**	**7.5**

Customs Duty – 2001/02 to 2006/07

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

After a steady decline over the period to 2003/04, customs duty as a percentage of tax revenue increased to 3.6% and then to 4.8% over the past three years. As a percentage of GDP, customs duty increased from 0.8% in 2001/02 to 1.3% in 2006/07.

The increase in customs duty reflects the rise in imports due to increased consumer demand, sparked by positive economic growth. Household expenditure and gross fixed capital formation have almost doubled since 2002 (based on seasonally adjusted annualised rate). This has subsequently fuelled the growth in imports to meet domestic demand. Since 2002, the value of imported goods has increased by over 70% to over R460 billion in 2006 and collections of custom duties have almost tripled to R24 billion. In recent years, the growth in duties has been mainly driven by imports of vehicles, electrical machinery and equipment, clothing, footwear and textile and plastics. The figure below confirms this upward trend.

Figure 5.15: Customs duty 2001/02 to 2006/07

Year	Customs R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	8 632	9.9	3.4	0.8
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**

Fuel Levy - 2001/02 to 2006/07

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

Fuel levy collections as a percentage of total tax revenue collections decreased steadily over the review period to 4.4%, while its percentage of GDP remained constant at 1.3% over the period 2002/03 to 2005/06, only dipping to 1.2% during 2006/07. Fuel levy collections include debt recovered from the Road Accident Fund as well as diesel refunds, which explains the difference with the fuel levy figure as disclosed in the Statement of Financial Performance. The figure below illustrates the steady contribution made by the fuel levy to total tax revenue.

Figure 5.16: Fuel levy 2001/02 to 2006/07

Year	Fuel Levy R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	14 923	3.0	5.9	1.4
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**

Conclusion

SARS is acutely aware that its role in collecting revenue is crucial to government's ability to fund its development goals. SARS will continue to 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.

6

OPERATIONS:
Enhancing Efficiency

6. OPERATIONS: Enhancing Efficiency

Highlights

- Improved the processing of assessments by 2.4%.
- Improved turnaround times for income tax returns by 10%.
- Grew the tax register by 8%.
- Processed 81% of income tax refunds and 83% of VAT refunds within 21 days.
- Processed 96% of income tax and PAYE payments within five working days.
- Collected Tax Revenue of R495,5 billion at a cost of 1,04 cents per rand.

Overview

During the review period SARS has focused on stabilising operations, improving performance and enhancing the quality of services provided to taxpayers and traders. Even with 13.5% fewer staff in 2006/07, Operations was able to cope with the volume of returns received because of efficiencies gained by enhancing and streamlining procedures and automating core processes.

Against a growth in the tax register of 8% (617 000), it was able to increase the number of returns processed by 2.4% (356 000). These gains were made while also effecting improvements in turnaround times.

The division is committed to attaining and exceeding the standards set out in the SARS Service Charter. To this end it succeeded in processing 81% of income tax refunds and 83% of VAT refunds within 21 days.

The Operations Support units played their part in improving efficiency by the introduction of a reporting methodology that allows for comprehensive feedback and analysis of data, enabling SARS to continuously monitor performance and take proactive action where necessary.

The Operations division also implemented the small business tax amnesty and redesigned the 2007 filing season assessment processes, both of which should stand SARS in good stead in the future.

Despite the successes, however, a number of challenges remain, including handling the increasing volume of tax returns without a concomitant increase in resources; improving staff skills; and meeting the demands of the SARS modernisation programme. SARS aims to meet these challenges by harnessing technology to drive down the cost of doing business and to make more optimal use of its resources.

The drive towards the standardisation of tasks will lay the foundation for improved performance management and production planning. This will reduce waste and decrease costs, freeing up money and staff for enhancing enforcement and service.

Growing the Taxpayer Register

The tax register has been growing steadily this decade and this trend continued in the year under review. The 8% growth in the tax register in 2006/07 can be attributed to a combination of the following factors:

- Economic growth and higher employment levels;

- Tax-base broadening initiatives and public education;
- Better enforcement; and
- An improvement in the culture of compliance.

The most significant gain in the year under review is the 12% growth in the company register, reflecting the bouyant economic conditions. This is further borne out by the growth in VAT register, which grew by 7%. The 9% growth in trusts can be attributed to greater personal wealth and an increased sense of income protection among taxpayers. Higher employment levels and better wages drove the 6% growth in the PAYE register and the 7% growth in the register for individual taxpayers. Growth in the individual register can also be attributed to the greater awareness of tax responsibilities resulting from the "Filing Season" media campaign. The figure below highlights the growth in the tax register for 2006/07.

Figure 6.1: Taxpayer register

TAX TYPE	Growth in register 2006/07 tax year			
	Register 03/06	Register 03/07	Growth	% Growth
Income Tax	6 667 310	7 221 932	554 622	8
Companies	*1 629 288*	*1 830 147*	*200 859*	*12*
Individuals	*4 683 821*	*5 005 807*	*321 986*	*7*
Trusts	*354 201*	*385 978*	*31 777*	*9*
Employees Tax	330 194	349 077	18 883	6
Value Added Tax	633 703	677 153	43 450	7
Total	**7 631 207**	**8 248 162**	**616 955**	**8**

Tax base broadening measures such as the Small Business Amnesty campaign, which began in August 2006, saw more than 22 000 applications submitted by the end of the financial year. Although the initial pace of applications was slow and many submissions lacked the required supporting documents it is expected that the amnesty campaign will have an impact on the future growth of the tax register.

SARS has taken note of the feedback during the amnesty campaign highlighting the need for simpler registration forms and processes for small businesses. It also recognises the need for a simpler, more streamlined VAT registration procedure and that a single registration for all tax types needs to be fast-tracked.

SARS has also made progress with the application of employer third party data to verify employees' details. During the 2007 filing season project data will be acquired from third parties such as medical schemes and pension funds to enhance the PAYE and IT3 data sets using verification and statistical risk models.

Processing of Returns

The increased volume of tax returns requires constant improvement in our processing capability and our ability to exceed the Service Charter standards, while staying within acceptable risk parameters. During Filing Season SARS has to process 80% (approximately 3 500 000) of income tax returns within 90 days. Hence, the focus for enhancing efficiency for 2006/07 financial years was to optimise the processing of income tax returns. This focus enabled SARS to deploy resources optimally, resulting in an improvement in the processing of tax returns by 2.4%. The figure below highlights the improvement in the numbers of total returns processed and gives a further breakdown according to tax type.

Figure 6.2: Assessments processed by tax type

Assessments throughput	2005/06	2006/07	Variance	%
Total assessments processed	14 830 139	15 186 894	356 755	2.4
Income Tax	4 870 238	4 958 523	88 285	1.8
Value Added Tax	3 501 943	3 704 194	202 251	5.5
Pay as You Earn	3 739 225	3 995 580	256 355	6.4
Provisional Tax	2 718 733	2 528 597	-190 136	-7

SARS also made gains in the turnaround times achieved due to the streamlining of the assessment process. This involved the capturing of taxpayer data directly from their IRP5s on to the SARS system. This reduced the potential for errors being made during the transfer of data. It also eliminated the need for additional quality checks. System validations were implemented to replace some of the quality functions. Only returns that could not be finalised by the system were sent for manual intervention. This meant that instead of checking 100% of the returns manually, only 46% of returns needed manual intervention.

Overall, the new system has seen the turnaround time for processing of returns improve significantly. Turnaround times improved by 10% for income tax returns, while times increased marginally for PAYE (3%) and VAT (1%). This means that in 2006/07 SARS processed 84% of income tax returns within the specified turnaround times, as compared to 65% in 2005/06.

The quality of the returns captured was down slightly and the revised assessments for income tax returns increased from 6.7% to 7.1%. This is still within the target of 8% set down in the SARS service charter.

Further improvements in the processing of returns can be attained by encouraging taxpayers to switch to electronic channels, by the further automation of core processes and by simplifying the tax returns. SARS has begun work on these changes for the 2007 year of assessment.

Processing of Payments

The ability to accurately process and allocate payments is critical for SARS to achieve its revenue target. It also has consequences for the taxpayer as the incorrect processing and allocation of payments have interest and penalty implications for the taxpayer. Currently payments are made to SARS via:

- Cheques that are processed at the assessment centres;
- Walk-in payments, either cash or cheque, that are processed in the cash halls;
- Electronic funds transfer (EFT) and eFiling payments for larger amounts.

Even though there was an increase in the number of payments received during 2006/07, SARS was able to improve on the payments processed within the turnaround times. This can be attributed to SARS's efficiencies in the assessment centres and the cash halls as well as the increased uptake in eFiling. The figure below illustrates the improvements in turnaround times for payments received.

Figure 6.3: Payments processed within 5 working days

Tax Type	Payments processed within turnaround time					
	2005/06			2006/07		
	Received	Processed	%	Received	Processed	%
Income Tax	1 582 869	1 507 425	95	1 702 417	1 636 168	96
Employees Tax	2 586 423	2 469 452	95	2 746 549	2 630 601	96
Value Added Tax	1 842 990	1 817 529	95	1 851 137	1 815 974	98

Managing Refunds

The processing of refunds is of importance from a cash management as well as a taxpayer satisfaction perspective. If preset timelines and criteria are not met, interest could be levied on refunds due and this has an impact on the fiscus. The effective management of refunds is therefore of utmost importance.

SARS aims to process income tax refunds within 30 working days and VAT refunds within 21 working days. In the review period 81% of income tax refunds and 83% of VAT refunds were processed within these targets. All refunds are paid via EFT directly into the taxpayer's bank account. The only exceptions are some income tax refunds that are still paid via cheque.

There will always be some refunds that cannot be processed within the specified time limits as inherent risks exist in the processing of certain refunds because information is not available, and it takes time for clients to submit this information. A process is under review to reduce risk and introduce new efficiencies.

SARS's performance in the processing of refunds is given in the figure below.

Figure 6.4: Processing of refunds

Tax Type	Refunds payments cycle 2006/07		
	Payments received	Refunds payments processed within turnaround time	% Within
Income Tax	295 548	240 203	81
Value Added Tax	706 567	587 510	83

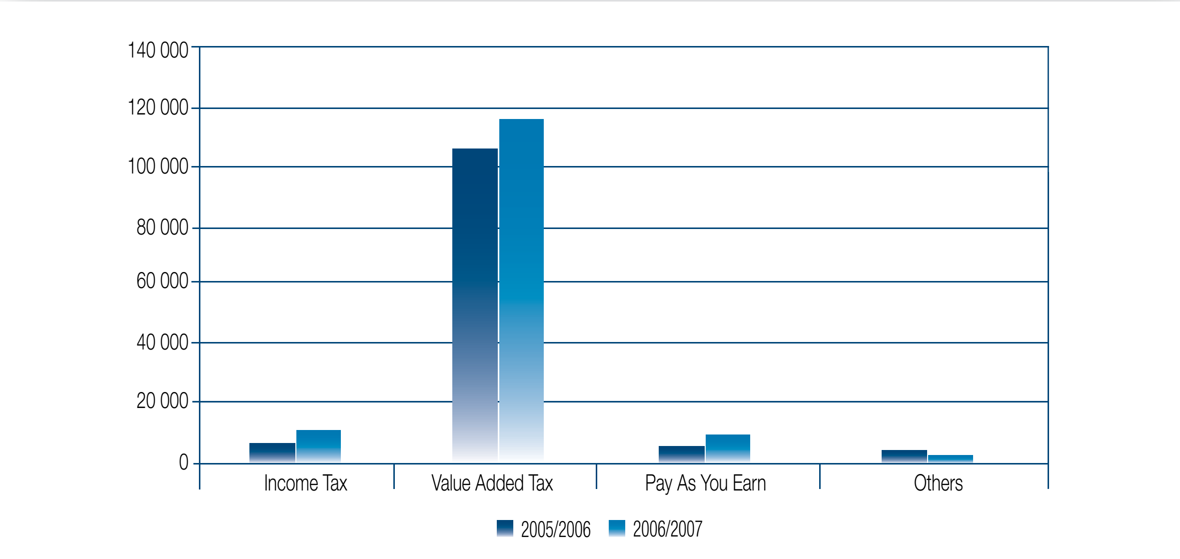
Query Management

The account and assessment management function within SARS administers queries, amendments (journals) and revised assessments (corrections). The purpose of assessment management area is to maintain the taxpayer's tax liability and finalise assessment-related requests received from the taxpayer in accordance with legislation administered by SARS. The account management area ensures that the taxpayer's account details are updated/maintained according to all related correspondence received directly from the taxpayer or from other SARS offices in respect of all taxes.

Debt Equalisation

As SARS's VAT, PAYE and Income Tax systems function independently from each other there is no automated process between the systems to screen refunds. This process requires a manual intervention and enables SARS to ensure that refunds are only made after debt on all the core systems has been set off. In total (covering all tax products) 12% more cases were debt equalised in 2006/07 in comparison with 2005/06. Of these, the number of income tax cases where debt was equalised rose most significantly, by 76% in the year under review. Approximately 9% more VAT cases were also subjected to debt equalisation than during the previous year. The 2006/07 debt equalisation performance clearly depicts the intent of the organisation in its pursuit of ensuring compliance. The figure below gives a breakdown of cases in which debt was equalised across the various tax types.

Figure 6.5: Debt equalisation



Revised Assessments

Minimising the need to revise assessments is important for efficiency and ensuring that SARS continues to provide high-quality service.

The consolidated revised assessments for 2006/07 increased by 0.73% compared to the previous year. This was mainly due to a system-related error recording extra income tax, thereby inflating the assessments of provisional taxpayers. Rectifying these cases contributed to the increase in revised assessments.

Analysis shows that 56% of all revised assessments result from taxpayer errors. SARS continues to educate and interact with taxpayers and other stakeholders to minimise errors. A detailed breakdown of revised assessments by tax type is provided below:

Figure 6.6: Revised assessments by tax type

	Assessment Cycle 2005/06		
Tax Type	**Returns Assessed**	**Returns Revised**	**% Revised Assessed**
Income Tax	4 870 238	3 379 886	6.94
Employees Tax	3 739 225	1 765 634	4.72
Value Added Tax	3 501 943	97 885	2.80
TOTAL	**12 111 406**	**6 124 365**	**5.06**

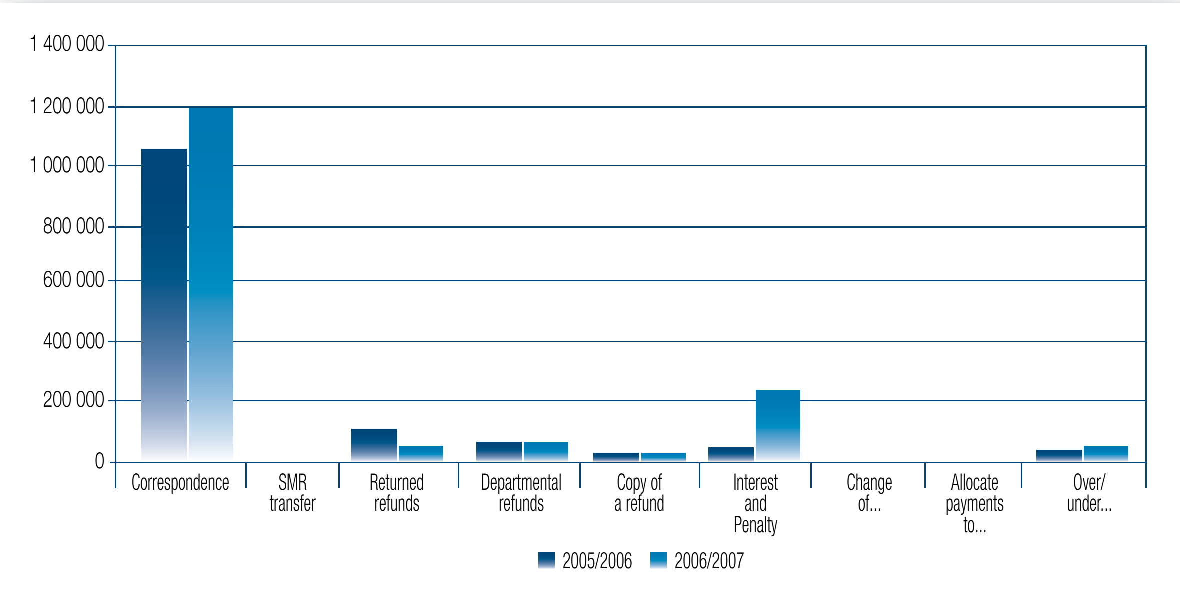
	Assessment Cycle 2006/07		
Tax Type	**Returns Assessed**	**Returns Revised**	**% Revised Assessed**
Income Tax	4 958 523	440 099	8.88
Employees Tax	3 995 580	186 464	4.67
Value Added Tax	3 704 194	106 021	2.86
TOTAL	**12 658 297**	**732 584**	**5.79**

Accounts Maintenance

During the period under review 14% more correspondence received from taxpayers or consultants was processed. Considering that every piece of correspondence generates several activities on the taxpayer accounts such as an adjustment due to penalties or interest, this is a very significant indicator. For example, the number of objections regarding penalties and related interest that had to be processed increased significantly (500%).

The volume of correspondence received was not only processed effectively, but also complied with the Service Charter requirement of moving through the system within 21 days turnaround time on average. The figure below outlines the correspondence and the categories they fell into.

Figure 6.7: Volume of correspondence received



Excise

Fuel Industry

In April 2006 SARS began collecting the Road Accident Fund levy, administered with the collection of the fuel levy and excise duties on petroleum products.

With effect from 1 December 2006, the fiscal marker – specified in terms of Rule 37 to the Customs and Excise Act (1964) and applied to illuminating kerosene to help deter and detect the illegal mixing of fuels – was changed to Authentix A1. The Road Fuel Testing unit conducts enforcement. SARS is training staff and upgrading the unit's 10 vehicles, and will closely monitor the effectiveness of the new marker.

Revised Policies and Procedures

New policy and procedures for the application of excise duty and fuel levy on bio-diesel and the revised Schedule 6 Excise Rebates to the Customs and Excise Act were successfully implemented. SARS has published new excise account forms (DA 260) that are specific to each excise duty and warehouse and are more user friendly.

Systems Enhancement

The new account capturing system will in future be the main source of most excise management information. The IBM mainframe has been enhanced to capture all other excise accounts.
Phase 2 of the project will cover, amongst others:

- Capturing of certain schedules to these accounts;
- Further validations of data;
- Creation of standard reports;
- RAS enhancement; and
- CAPE enhancement.

People and processes

Excise delivered the first phase of an excise proficiency programme to all major offices. The programme aims to standardise and improve core business processes and the technical knowledge and skills of staff. Most staff were trained on the new programme and the system is working well. A new guide to excise business processes is being developed and will be included in training at the SARS Academy.

An excise-specific portal has also been established on the SARS intranet. This has improved communications and sharing of knowledge. A similar portal will be developed on the SARS website for our external clients.

Operations Support

Process and Information Management

The Process and Information Management (PIM) unit assists core and support business divisions to achieve their strategic objectives. PIM has four elements: Enterprise Architecture and Quality, Process Solutions, Activity Based Management, and Measurement and Information Management.

During the reporting period the division:

- Rolled out the enterprise data warehouse and the data quality projects;
- Completed 37 process projects;
- Prepared the assessment process design for the 2007 Filing Season;
- Designed the business requirement specifications for registration, query and case management, and tracking components of the SARS Service Programme; and
- Completed the Operations Current State Assessment project, commissioned to evaluate countrywide operations.

Measuring Performance

The Performance unit was established in July 2006 to provide technical support to Operations, in the following disciplines:

- Production and Capacity planning;
- Performance measurement and analysis and report writing;
- Management information systems; and
- Management of Business critical incidence.

During the year under review the unit was tasked with setting up an Operations Performance framework that enables operations to track and analyse performance against set targets.

Operational Performance is reviewed at three levels:

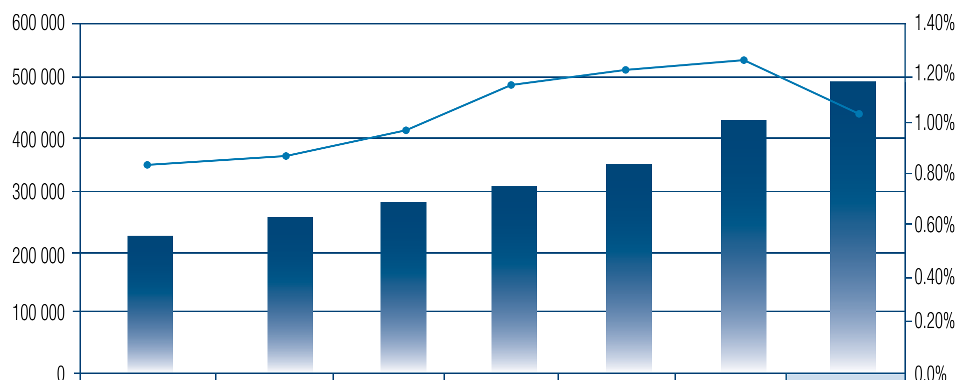
- At operational level, performance is reviewed daily against a production plan;
- At management level, operational performance is reviewed weekly against targets and qualitative feedback; and
- At executive level, operational performance is reviewed monthly against the strategic scorecard.

All three reporting levels are aligned to the strategic plan. Greater focus has been placed on the analysis of performance variances during the past year, with regions providing root cause analysis linked to capacity and volumes. Now that the analytical capabilities have been established, SARS is ready to predict certain outcomes based on trends and can address any variances from targets.

Cost of Revenue Collection

SARS has improved the cost-to-collection ratio in 2007. We collected Tax Revenue of R495,5 billion at a cost of 1,04 cents per rand generated, compared with a cost of 1,23 cents in 2005/06. The improvement is due to 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. The figure below gives the cost-to collection ratio for the last seven years.

Figure 6.8: Cost to collection ratio 2000/01 to 2006/07



	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Tax Revenue Collected	220 330	256 520	290 770	302 500	354 980	417 330	495 510
Cost as a % of Tax Revenue	0.87%	0.91%	0.99%	1.18%	1.21%	1.23%	1.04%

Conclusion

SARS continues to improve operational efficiency 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.

7

SERVICE:
Better Taxpayer and Trader Experience

7. SERVICE:
Better Taxpayer and Trader Experience

Highlights

- Achieving an average of 94% against the set Service Charter standards.
- Increased public education, with workshops conducted across all 10 SARS regions.
- Launched the Small Business Amnesty campaign.
- Established the Practitioners Unit.
- Developed partnerships with the Department of Education and the South African Qualifications Authority to promote tax education.
- Increased the uptake of eFiling by 58% and expanded the service offering.

Overview

Delivering excellent service to taxpayers and traders remains a key objective for SARS and is aligned to government's Batho Pele programme. To this end, SARS continues to strengthen relationships with its stakeholders to better understand their needs, tailoring its services accordingly.

By participating in a range of forums, SARS has been able to interact with a wide variety of interest groups, such as municipalities, banks, government departments, accountants, bookkeepers and lawyers. The aim of such interactions is to discuss issues of mutual benefit and to resolve problems, thus improving service. The establishment of the Practitioners Unit in the year under review is a good example of this collaborative approach.

SARS has underlined its commitment to service delivery by clearly spelling out in its Service Charter the service standards that traders and taxpayers can expect from SARS. Its performance against these standards is monitored on an ongoing basis to ensure that SARS meets the specified targets.

Part of SARS's service strategy is to conduct education and training to help taxpayers to meet their tax responsibilities. In 2006/07, SARS successfully carried out education and training programmes, including eFiling workshops and VAT/PAYE information sessions for municipalities. The Small Business Amnesty campaign included an extensive education and outreach component.

In line with its commitment to service excellence, SARS strives to resolve disputes with taxpayers and traders efficiently and timeously through the alternative dispute resolution process. As a last resort, the SARS Service Monitoring Office is available to clients as an independent channel to assist in resolving complaints of a procedural nature.

Service Charter

The Service Charter commits SARS to providing clear, precise and measurable standards of service to clients. Service levels are continuously measured and the necessary corrective action is taken. A query management tracking system was implemented, enabling SARS to act quickly when problems arise. The organisation has performed well above target, at 94%, against the Service Charter standards for the year under review.

Since its inception in 2005 the Service Charter has proved to be the touchstone of SARS's drive to promote an ethos of service among its staff. In 2006/07 SARS showed great commitment to meeting its charter obligations as can be seen from the figure below.

Figure 7.1: Performance in relation to Service Charter targets

Key Service Charter Strategic Deliverables	2007			
	Volumetric Inflow	Processed within set turn around time	Target %	Achieved %
Call Centre	4 270 900	3 017 842	80%	71%
Branch office walk-ins - First-time query resolution	8 078 472	7 998 050	Off Peak 95% (March-June) Peak 90% (July-February)	Off Peak 96.5% (March-June) Peak 93.9% (July-February)
Processing and Assessments	15 186 894	13 774 512	80%	90.7%
Refunds	1 002 115	827 713	100%	83%
Average Performance Scorecard			**85%**	**94%**

The SARS call centre is rapidly becoming one of the preferred service channels for taxpayers and the volume of calls it handles continues to rise. Call agents dealt with 71% of queries within the specified turnaround times, falling short of the set target by 8%.

The number of taxpayers visiting our branches increased in the year under review. Of the more than 8 million queries handled at branch offices over 90% were handled within the set targets.

SARS has begun placing a greater emphasis on migrating taxpayers to electronic channels such as eFiling for reasons of efficiency and cost effectiveness, but also to alleviate the pressure on SARS front offices.

The 90.7% achievement against target for the processing of returns and assessments is largely due to the efficiency gains of upfront capturing introduced by SARS for the 2006 assessment process. Even though the target for refunds is set at 100%, the inherent risk and mitigating audit process prohibits the achievement of this target.

Taxpayer Education

There has been a strong emphasis on educating South Africans about their rights as free citizens in the first decade of democracy in South Africa. In the light of the success of rights-based education and advocacy, the opportunity now exists to begin educating citizens about their fiscal responsibilities, like meeting their tax obligations.

In 2006/07 SARS was able to deepen its focus on tax education and on enhancing fiscal citizenship with the establishment of a Taxpayer Education unit (TPE) in the second half of the year.

The main objective of SARS's taxpayer education activities are to:

- Build a culture of fiscal citizenship among current and future generations of taxpayers. This will boost the culture of compliance in society;
- Grow the tax register, thereby building a sustainable base for revenue collection; and
- Empower citizens with knowledge about tax, thus reducing their dependency on SARS and tax practitioners.

The unit also aims to make the following contributions to the furthering of SARS's business objectives:

- Broadening the tax base – Promoting awareness about tax obligations, leading to an increase in registrations and an improvement in compliance;
- Promoting efficiency and service - Education initiatives aim to teach taxpayers to fill in their returns properly, improving turnaround times, reducing rework and resulting in a reduction in objections and appeals; and
- Enhancing enforcement – Complement enforcement actions where it is evident that taxpayers lack knowledge. Taxpayers are also made aware of the penalties associated with non-compliance.

By the end of the year under review, the unit had developed a national strategy and built capacity across eight of SARS's ten regions to ensure a consistent roll-out of the SARS's taxpayer education programme. In the 2007/08 year, TPE will continue to further grow capacity to roll-out taxpayer education programmes in all of SARS regions.

The comprehensive strategy outlines three strategic approaches to building tax knowledge:

- Using the mass media to inform and educate a broader public about tax obligations and compliance in general;
- Using community tax helpers to reach out to individual taxpayers in their communities and sectors; and
- A pull strategy that provides a consistent service in terms of workshops that taxpayers are invited to attend in their region.

Building Capacity

The unit's most important achievement this year has been the appointment of six regional coordinators of taxpayer education. Prior to this only two regions, KwaZulu-Natal and the Western Cape, had a unit dedicated to taxpayer education. These two units currently present a series of eight workshops on a regular basis throughout the two provinces. They also host workshops at SARS offices. With the appointment of regional coordinators in the other six provinces, the series of workshops will be delivered consistently across all regions of the country.

The unit has begun to expand the range of products it provides training on, in response to needs expressed by taxpayers. The training is tailored to suit the level of prior knowledge of the group, the context and the availability of taxpayers.

Outreach Programme

All of the TPE regional coordinators were critical players in the education and outreach programme of the Small Business Amnesty campaign. The national unit also initiated an education roadshow in support of Small Business Amnesty. TPE staff also play a leading role in SARS's outreach programme during Filing Season.

More information on the outreach programmes is given under Communications in the Support Services chapter.

Workshops

During the year under review, a total of 2 755 workshops were hosted nationally. Substantial engagement takes place with taxpayers through workshops conducted on site as well as at SARS offices. Basic workshop topics cover 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.

Workshop topics were geared towards:

- Provisional tax;
- Income Tax;
- Workshops for salaried individuals;
- Business persons;
- Trade and Customs;
- VAT;
- PAYE; and
- Small Business Amnesty.

During these workshops, a total of 115 777 taxpayers were trained in a range of tax products and issues. This was a substantial increase from 2005/06, when just over 30 000 people attended such workshops. The figure below give the number of education interventions that have taken place in the year under review.

Figure 7.2: Number of workshops held by product

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
IT	65	116	285	136	66	67	24	39	15	14	35	48	910
VAT	21	22	14	12	65	53	17	27	13	17	65	33	359
PAYE	17	21	12	11	18	11	40	22	14	8	63	29	266
Provisional tax	40	11	12	12	27	13	39	18	8	10	64	25	279
Amnesty	0	2	2	11	97	130	156	113	26	38	170	196	941
Total interventions	**143**	**172**	**325**	**182**	**273**	**274**	**276**	**219**	**76**	**87**	**397**	**327**	**2 755**

The figure below describes broad segments of SARS's target market. Workshops have attracted interest from small business owners who have just started their business or would like to know how to do their own taxes. Salaried individuals interested in learning how to complete their own tax returns also attend sessions frequently. The average rating given to the workshops by participants on an evaluation form was 98%.

Figure 7.3: Number of workshops held by taxpayer type

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Salaried individuals	1 011	2 479	16 801	19 518	1 009	2 352	303	979	72	2 192	760	530	48 006
Business persons	2 605	1 978	1 311	721	7 929	13 438	8 733	7 686	1 263	4 994	8 513	4 110	63 281
Customs trade	0	0	0	0	0	0	0	0	0	640	400	3 450	4 490
Total	**3 616**	**4 457**	**18 112**	**20 239**	**8 938**	**15 790**	**9 036**	**8 665**	**1 335**	**7 826**	**9 673**	**8 090**	**115 777**

Building for the Future

SARS has traditionally focused on existing taxpayers to assist them towards becoming tax compliant. It has now begun to look beyond the traditional target groups at potential taxpayers and future taxpayers. TPE has started a new initiative to reach out to the youth of South Africa in three specific target areas. The target groups are divided into:

- Learners in the last three years of high school (Grades 10 – 12);
- Students in full-time, tertiary education programmes; and
- Youth who are not in schools, nor in full-time employment.

An outreach programme is aimed at the latter group as we believe that taxpayer education could equip these young people with valuable skills that could help them energise their career prospects.

Community Engagements and Partnerships

Partnerships have been developed with various national education stakeholders like the Department of Education (DoE) and the South African Qualifications Authority (SAQA).

- DoE: TPE is working with the writers of the Life Orientation curriculum to include basic tax education as part of the learning material for grades 10 to 12. The unit has produced a support pack with lesson plans and exercises on the basics of tax for educators to use in the classroom. These are due to be distributed to schools.

- SAQA: the SAQA has begun the process of establishing standards, which will serve as a framework for teaching citizens about tax. The standard will be available to all institutions who want to incorporate training on tax into their curriculum. Standards are being for set the tax education needs of a wide range of taxpayers including salaried taxpayers, small businesses, self employed individuals, provisional taxpayers and business people.

- TPE has initiated a partnership with the ABET Institute at UNISA to allow SARS access to the well established infrastructure and community-based resources of this organisation. As an initial, exploratory process, 400 community ABET members were mobilised to attend small business tax amnesty workshops and to assist SARS officials with the amnesty roadshow activities that took place in their regions.

- Community Development Workers in each district were mobilised to assist with the distribution of materials about the amnesty education roadshow in their local areas.

- SABC Education continues to work with SARS on all its public broadcast service radio channels. A SARS representative (usually the regional TPE coordinator) features in tax education slots on each of the local African language stations in their respective region.

Channels: Increasing Access to SARS

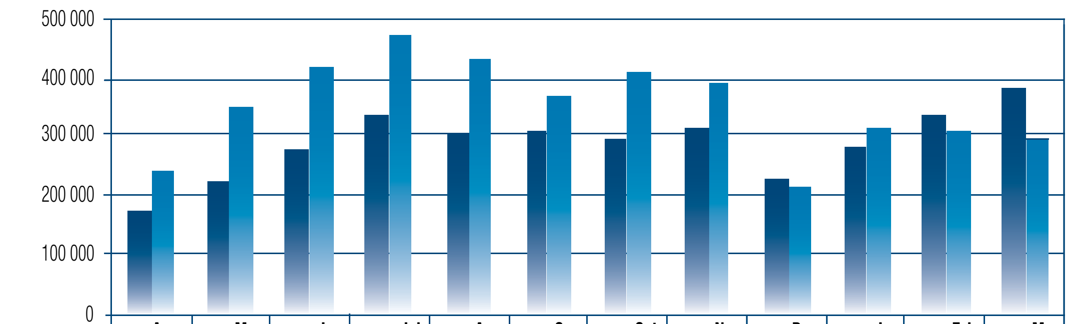
Most of our clients prefer a less cumbersome interaction with SARS, and they will choose appropriate channels to reduce the cost and effort associated with compliance. Call centres and eFiling have proven effective in this regard, and they have significantly reduced the administrative burden on branch offices.

Call Centres

The volume of calls handled by the SARS call centre continued to rise in 2006/07, indicating a growing awareness of this effective interface with SARS.

In the year under review the call centre handled 4 270 900 calls, an increase of 21% from the corresponding period last year. The call centre answered 95% of all incoming calls; the remainder were abandoned. Due to increased volumes, only 71% of these calls were answered within the target of 20 seconds. The call centres also attained 70% first contact resolution for the year. The figure below illustrates the growth in call centre volumes for 2006/07.

Figure 7.4: Call centre volumes 2006/07



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
2005/2006	179 596	223 959	282 113	343 601	308 241	312 664	301 153	317 437	229 435	286 156	339 529	386 965
2006/2007	246 358	353 891	420 601	476 020	433 405	373 881	419 396	392 986	215 918	322 790	315 526	300 128

To date, 67% of the offices have migrated to the call centre, making branch office personnel previously used for taxpayer interaction available for core functions.

To enhance call centre competencies, a concerted effort has been made to build internal skills and empower our agents with the necessary product knowledge.

In the year under review the call centre undertook the following initiatives:

- In line with SARS strategy to optimise revenue collections, the collections call centre contacted taxpayers who have outstanding returns or debt. This has resulted in revenue of R1,8 billion being banked and 356 565 returns being collected;
- A dedicated practitioners call centre was established in response to a request from the accounting profession. Since October 2006, 228 263 enquiries have been fielded. Regular meetings continue to inform improvement in service delivery;
- A dedicated call centre was established to handle queries relating to the Small Businesses Amnesty. Since October 2006, a total of 27 600 calls were answered; and
- Service ambassadors were introduced into the call centre operations to:
  - Interrogate on a real-time basis reasons for service failure and to implement corrective actions;
  - Ensure timely resolution of every escalation/query; and
  - Provide timely feedback to taxpayers.

Going forward, there is an urgent need to expand the capacity of the collections (enforcement) call centre in order to contribute to the management of the debt book. Another priority that has been identified is for staff to undergo soft skills training to further hone their skills in dealing with clients.

A number of planned new developments will further enhance the service offered by the call centre. The introduction of the interactive voice recording as part of SARS's Service Programme is scheduled for August 2007. This will reduce the time required to answer taxpayer's queries relating to the status of their assessments and other routine administrative questions.

The creation of specialised queues for VAT and PAYE will improve service and facilitate the management of these services nationally.

Branch Offices

SARS's 46 branch offices cater for walk-in taxpayers who prefer face-to-face engagement with SARS. Given current taxpayer behaviour this will continue to be an important service channel. These offices also offer a cash hall facility to facilitate payments of taxes and non-core taxes like transfer duty and stamp duty.

The number of taxpayers visiting branch offices has increased from 2 190 719 in 2005/06 to 3 735 242 in the year under review and the number of queries has risen from 4 275 187 to 8 078 472. This growth can be ascribed to general awareness of SARS in the market, and to special initiatives such as the Small Business Amnesty and the annual Filing Season drive.

VAT and PAYE/SDL/UIF have less dramatic peaks due to the fact that they have a monthly inflow. Breakdowns in these taxes indicate large inflows for VAT around the 25th of each month and PAYE/SDL/UIF around the 7th of each month. The higher amount of queries for VAT and PAYE/SDL/UIF can be attributed to the growth in the register for these taxes as well as the tax amnesty drive during this period.

The figure below gives the figures for the numbers of taxpayers and queries per tax type dealt with at branch offices.

Figure 7.5: Taxpayer interactions with branch offices

	2005/06	2006/07
Head Count	2 190 719	3 735 242
Total number of Queries	4 275 187	8 078 472
Query per Tax type		
Income Tax	2 172 525	4 112 934
VAT	144 261	269 720
PAYE/SDL/UIF	175 388	329 072

To alleviate the pressure on branch offices SARS plans to migrate taxpayers to other service channels i.e. eFiling by expanding the bouquet of services it offers electronically and by making this channel as user-friendly as possible. Measures are also planned to improve the capacity of frontline staff, to improve queuing times and to reassess infrastructure needs.

Electronic Channels

The use of electronic channels for transacting have become commonplace in the business world over the last decade and South African business and individuals too have embraced this mode of doing business. SARS has followed suit, both in the interest of enhancing its own efficiency and meeting the demand from taxpayers. In the year under review SARS has continued its efforts to improve and broaden its electronic offering to clients.

eFiling was introduced by SARS in October 2001, initially for the submission and payment of VAT and PAYE. The eFiling option was expanded in the 2006 Filing Season to individuals who earned a basic salary and allowances i.e. IT12S taxpayers. eFiling will be further expanded to all categories of all individual taxpayers in the 2007 Filing Season. There has been a 58% increase in the numbers of taxpayers registered for eFiling.

Taxpayers registered for eFiling can now engage with SARS for the submission of returns and payments in respect of: VAT, PAYE, Income Tax, Provisional Tax, Skills Development Levy, Unemployment Insurance Fund, Secondary Tax on Companies, Transfer Duty and Stamp Duty.

The figure below gives a breakdown of the registrations according to tax type.

Figure 7.6: Number of taxpayers registered for eFiling

eFiling Taxpayers	2005/06	2006/07	Variance	%
Consolidated number	378 979	599 490	220 511	58
Income Tax	225 287	363 594	138 307	61
Value Added Tax	89 634	137 449	47 815	53
Pay As You Earn	64 058	98 447	34 389	54

The key increases in the year can be attributed to the introduction of eFiling for a selected category of individual taxpayers and provisional taxpayers.

The figure below gives the breakdown for the returns submitted via eFiling.

Figure 7.7: Returns submitted via eFiling for 2006/07

IT12 (Personal Income Tax Returns)	40 794
IT12TR (Trust Returns)	21 384
IRP6 (Provisional Tax)	420 408
EMP201 (PAYE/SDL/UIF)	893 667
IT56 (STC)	2 059
VAT201	707 389
Total	**2 085 701**

With regard to the data set out above, the following should be noted:

- The income tax returns are limited to personal income tax returns for simple cases as well as trust returns;
- Provisional tax returns relate to two periods;
- For PAYE the returns relate to monthly returns for employers for PAYE, SDL and UIF;
- STC payments occur if and when a company declares a dividend; and
- VAT returns are generally submitted for most companies on a bi-monthly basis.

The figure below gives a breakdown of the value of payments received via eFiling and the categories they fell into.

Figure 7.8: Payments received via eFiling for 2006/07

Assessed Tax	956 718 080.33
Provisional Tax	16 839 904 720.06
PAYE	27 647 009 583.19
RFT	113 521 666.42
STC	1 233 773 588.10
VAT	53 685 825 141.19
SDL	1 308 514 989.65
UIF	1 844 805 493.16
Diesel - Collections	2 085 281.46
State Licences	-
Stamp Duties	58 436 898.92
Transfer Duties	540 101 073.10
Total	**104 230 696 515.58**

A further enhancement that was introduced was that taxpayers can now request tax clearance certificates electronically and in the year under review 25 742 certificates were requested using this channel.

However, the take up in this regard is still limited and the majority of requests for tax clearance certificates are being submitted directly at branch offices.

In order to enhance the use and experience of electronic channels for taxpayers, SARS plans to do the following:

- To make other return types available for both submission and payment via eFiling. It is planned that for the 2007/08 financial year this will be expanded to include all income tax returns; and
- To promote the channel as a safe and secure way to transact, helping to ease taxpayers' fears with regard to the security of the channel.

Practitioners Unit

Practitioners represent an estimated 4 million taxpayers and play a key role in the tax administration system. SARS has acknowledged the need for greater engagement with practitioners and to this end has established the Practitioners Unit in the year under review.

The unit aims to establish a more constructive and proactive way of engaging with practitioners. It is responsible for managing the registration of practitioners, exploring and implementing enhanced service offerings and for generally keeping practitioners informed about developments at SARS. It also provides a conduit for feedback from practitioners.

A study into the compliance of practitioners indicated that some 9.4% were non-compliant to some extent in their personal capacity as taxpayers, with either returns or payments being overdue to SARS. With the assistance of the practitioners' call centre, the unit collected approximately R916 000 in debt and 251 outstanding returns from practitioners.

In 2006/07 the practitioners register increased from 13 992 to 17 490. The unit had approximately 149 385 engagements with practitioners, with more than 62% on a weekly basis. The most prevalent query when visiting a branch relates to account queries, which are also amongst the most time-intensive interactions. An account query requires on average 21 minutes to resolve, resulting in some 23 776 hours being spent annually on simply attending to account queries by practitioners. The unit can play an important role in helping to resolve these queries, thus alleviating the pressure on the branch offices.

Going forward, the unit's role in the regions still needs to be developed in greater detail and is being done in conjunction with the various professional bodies. This will include rolling out dedicated Practitioners' Desks in the regions, and the scheduling of more structured engagements with practitioners and professional bodies in the regions. In the year under review only about 10% of practitioners were using eFiling and this will be a key area of focus for the unit during 2007/08.

Additional staffing is also required. The unit currently looks after the interests of some 17 500 practitioners and it is expected that the volumes per practitioner will grow.

Small Business Unit

SARS recognises the important role that small business plays in the economy, in job creation and the alleviation of poverty. The Small Business unit has been set up to assist the sector with its tax needs and address issues of non-compliance.

According to available data, it is estimated that there are more than 1,6 million small businesses in the country. Two thirds of these businesses are involved in the trade and services sector and over 60% are based in Gauteng, KZN and Western Cape. Personal and business services are the small business sectors that contribute the most to employment. Historically, this sector has also been characterised by a low level of tax awareness and knowledge and non-compliance with tax obligations.

Small Business Amnesty

In February 2006, the Minister of Finance announced that SARS would administer a tax amnesty for small business with a turnover of not more than R10 million for the 2006 year of assessment. The amnesty opened on 1 August 2006 and was due to close on 31 May 2007.

The objectives of the Small Business Tax Amnesty are to:

- Broaden the tax base;
- Facilitate the normalisation of the tax affairs of small business;
- Increase and improve the tax compliance culture; and
- Facilitate participation in the Taxi Recapitalisation Programme.

SARS set up a special Small Business Amnesty unit to handle the amnesty. Its approach to the amnesty was informed by its compliance model, with its three elements of education, service and enforcement.

An extensive media and marketing campaign, taxpayer education workshops and outreach initiatives were part of its education drive. Staff were specially trained and a dedicated call centre was set up to handle amnesty queries. Dedicated outreach teams were set up in all regions. These teams visited small businesses to facilitate the process of submitting tax amnesty applications. Most of the cities in the country were covered in this mass campaign during which SARS literally took service to the people.

Enforcement teams comprising of auditors, collectors, legal and criminal investigations were set up to focus on targeted enforcement activities, which included inspections aimed at strategically targeted groups.

A key focus point for SARS during the amnesty campaign was the taxi industry. To this end, SARS interacted with the two major taxi bodies i.e. SANTACO and the NTA to discuss joint programmes to present to their members. Regional workshops were also held with the taxi operators. A list of taxi operators was acquired from the Department of Transport and these operators were contacted via SMS.

As at the end of 31 March 2007 SARS had received over 22 000 applications for amnesty but this number is expected to grow as the deadline looms.

The Small Business unit also continued with other initiatives for small businesses. A small business pack has been developed. It contains appropriate modules on income tax, VAT, registration, record-keeping and tax clearance certificates. The intention is to distribute this pack to all amnesty applicants and businesses newly registered with CIPRO. An accounting and payroll package has been completed and is under review.

In 2005/06 SARS established 18 small business desks at its larger offices. The viability and functions of these desks are being reviewed before similar desks are located in all branch offices.

Service Monitoring Office (SSMO)

The SARS Service Monitoring Office provides an independent channel for customers to lodge complaints that cannot be resolved at branch office level. The mandate of the office is to resolve complaints and offer advice to clients about their rights. The information collected in this office is fed back into Operations to assist with the optimisation of services and other processes.

The total number of queries dealt with by the SSMO has increased steadily from 4 380 in 2004 to 6 882 in 2007. The increase in the number of complaints can be ascribed to the greater awareness of the existence of the SSMO among taxpayers and to the growth in the tax register. Despite the rise in numbers, there has been an improvement in the percentage of queries dealt with, within the turnaround time. It has improved from 82% in 2005 to 85% in the year under review.

General enquiries and taxpayers contacting the SSMO directly without adhering to the laid down process of lodging a formal complaint are recorded as "quick logs". Even though the number of quick logs have not decreased substantially it would indicate that taxpayers/traders are becoming more familiar with the SSMO process.

The figure below gives the number of cases handled by the SSMO over the past four years.

Figure 7.9: Cases handled by the SMMO – 2004-2007

	2004	2005	2006	2007
Complaints received	4 380	3 266	5 756	6 882
Quick logs received	9 818	104 45	11 531	8 940
% complaints resolved within SLA	**46%**	**72%**	**82%**	**85%**

Conclusion

SARS is continuing to look at innovative ways to make the interaction with taxpayers and traders a smoother, simpler experience. To this end, the intention is to move more taxpayers and traders to an electronic interface, which will provide swifter turnaround times and reduced error rates. This goes hand in hand with the Service Programme that forms part of SARS modernisation initiative.

Above all, SARS continues to invest in developing core staff skills to further develop a service culture.

8

LARGE BUSINESS CENTRE

8. LARGE BUSINESS CENTRE

Highlights

- Growth in the Large Business Centre (LBC) taxpayer base to over 20 000.
- Revenue collections of R150,3 billion.
- Improved taxpayer service through effective and dedicated taxpayer relationship management function.
- Increase in migration of taxpayer files to the LBC from other SARS offices.
- Enhanced risk engine for profiling of taxpayers across core tax types.
- Improved analysis of the compliance behaviour exhibited by large businesses.
- Identifying and addressing aggressive tax avoidance schemes (including structured finance transactions, transfer pricing arrangements and International tax structuring).
- The High Net-Worth Individual unit became fully operational.

Overview

Large businesses play a vital role in both the economy at large and the tax system through their own tax contributions and the part they play in the withholding and payment of taxes on behalf of their employees and others. Corporate income tax has grown considerably in recent years, often outstripping the growth in gross domestic product and gross operating surplus. Large business represented in excess of 75% of income tax collections from companies for the 2006/07 year.

Large business as a segment is classified as those companies/groups meeting one, or more, of the following qualifying criteria:

- Entities listed on the main board of the Johannesburg Securities Exchange;
- Unlisted entities with a turnover in excess of R250 million;
- State-owned enterprises;
- Entities engaged in the activity of extracting minerals and other materials from the earth;
- Entities engaged in financial services activity; and
- Entities forming part of a multinational enterprise.

Where any single entity within a group satisfies any of the above criteria, all its connected entities then also fall within the scope of the large business segment. This promotes a holistic view of the group.

Since its establishment in September 2004, the LBC has grown from approximately 9 100 to 20 900 taxpayers, as at 31 March 2007.

The LBC operates as a primary centre in Megawatt Park, Johannesburg, with regional offices located in Durban and Cape Town. A further regional office is also scheduled to be launched in Port Elizabeth before the end of 2007.

The LBC model comprises eight industry sectors (Manufacturing, Mining, Communications, Construction, Financial Services, Retail, Primary and General and Diversified holdings). It offers an end-to-end service, with staff functioning across the full spectrum of tax administration processes from registration through to audit and collections.

Each industry sector boasts multiple expertise, ranging from return processing, accounts maintenance and collections through to specialised risk profiling and audit. A key component of the sector is the taxpayer service facility, which is headed by a taxpayer relationship manager.

Performance

The LBC was again able to contribute significantly to SARS's success in exceeding its revenue collection target for 2006/07. For the year under review the LBC collected R150,3 billion, exceeding its revised revenue target. The LBC's key strategic focus areas for 2006/07 were in line with SARS's overall objectives of optimising revenue collection, better taxpayer experience and improved compliance and risk reduction.

Optimise Revenue Collection

During the year under review the LBC was able to exceed its revenue target by instituting a proactive revenue management programme. This included undertaking detailed analysis of LBC taxpayers in order to improve our revenue forecasting and cash flow management.

Better Taxpayer Experience

A pivotal aspect of the LBC's value proposition is to build productive relationships with its stakeholders, through which taxpayers are encouraged to adopt a position of voluntary compliance. To aid the development of these relationships the LBC implemented an almost full complement of taxpayer relationship managers (TRMs) during the year.

The main focus areas of the TRMs continued to be the following:

- Driving the migration of taxpayers to the LBC to ensure that all taxpayers whose tax affairs should be dealt with by the LBC, are transferred to the LBC;
- Assisting with the resolution of outstanding disputes, particularly in cases where taxpayers had several matters being dealt with by different SARS offices;
- Ensuring that the top 50 groups within each of the LBC's sectors were visited to sell the LBC value proposition; and
- Promoting SARS initiatives such as eFiling.

Improved Compliance and Risk Reduction

As part of the LBC's compliance strategy, a project entitled "Know Your Client" continued during the year under review. The overall objective of the project is to build a richer understanding of the LBC taxpayer base in order to facilitate effective risk identification for compliance purposes.

During the year under review the project focused on the following three areas:

- Enhancing our understanding of the distribution of revenue collected within the LBC so as to inform resource deployment for compliance purposes;
- Further enhancement of our risk identification tool for income tax, PAYE and VAT to assist in the risk profiling of taxpayers for audit planning purposes; and
- Analysis of whether large businesses fulfil their payment obligations within the required timeframes and whether they honour their income tax return filing obligations within an acceptable period of time.

A brief discussion of the work performed in each area is set out below.

LBC Revenue Distribution

An analysis of the distribution of revenue collected within the LBC revealed that with respect to Income Tax, VAT and PAYE over 80% of revenue collected comes from 200 taxpayers. As the revenue contribution of these taxpayers is significant, any instance of non-compliance or aggressive tax avoidance by these taxpayers has a material impact on overall SARS revenue collection. Similarly, given the amounts involved in respect of these taxpayers, there is considerable incentive for these taxpayers to adopt aggressive tax planning arrangements in an attempt to minimise their tax liabilities. On this basis it was decided that for compliance analysis purposes the LBC would pay particular attention to the compliance behaviour of the top 200 taxpayers for each of these three tax types. This analysis is used as one of the tools to inform the LBC's risk-based audit activity.

The LBC Risk Engine

In terms of the LBC compliance strategy, audit case selection is done on a risk basis. For risk-based audits a risk identification tool (hereafter referred to as the risk engine) has been developed to facilitate the risk profiling of LBC taxpayers.

The risk engine was initially designed to deal with risks relating to income tax, but risk in relation to VAT and PAYE have been subsequently added. For each tax type, specific indicators have been determined and are used in the risk engine.

Based on the analysis undertaken in respect of the risk indicators a risk rating score was allocated to each of the largest operating companies within the country's 200 largest groups (hereafter referred to as the top 200) and the companies were ranked accordingly. These risk scores were then tested against the historical results from audit activity undertaken on these taxpayers. The results showed that a 95% correlation between companies identified as proposed candidates for audit and audit results was achieved.

The risk engine has been expanded so that risk rating scores are now undertaken for income tax, VAT and PAYE and will be further refined during 2007/08 to incorporate risk ratings for other taxes.

The Income Tax Payment Behaviour of Large Business

The Income Tax Act 58 of 1962 sets out the manner in which provisional taxpayers (including companies) are required to settle their estimated income tax liabilities. Essentially, a corporate provisional taxpayer is required to estimate the income tax liability that it expects to arise in respect of a particular year of assessment, during that particular year. Having estimated the expected liability the taxpayer is required to settle this amount in two instalments, with a third instalment ("the third top-up payment") being made where necessary.

An analysis undertaken of the provisional tax payment behaviour exhibited by the top 200 companies revealed that during the period 1999 to 2005 a significant number of these companies displayed inappropriate payment behaviour. This trend is now being reversed as more large taxpayers begin adopting the correct tax payment behaviour.

During the period 2003 to 2005 several of the top 200 companies made use of third top-up payments. Historically, many of these third top-up payments were deferred for up to six months after the end of the relevant year of assessment in which the payment should have been made. However, a declining trend in the deferment of third top-up payments was observed with increased application of Paragraph 19(3) of the Fourth Schedule of the Act. During 2006/07 the application of Paragraph 19(3) yielded revenue of R16,3 billion.

Greater Operational Efficiency

During the period under review, further work was undertaken with regards to the streamlining of certain back office support functions. This resulted in further centralisation of functions to improve efficiency. This process did not result in the reduction of staff as employees were redeployed elsewhere. In excess of 26 000 returns were processed by the LBC during the year.

All queries emanating from LBC taxpayers are dealt within the taxpayer service facility located in each of the LBC's industry sectors. Strict adherence to the standards set out in the SARS service charter is enforced within the LBC. The LBC also manages the dispute resolution processes with regards to LBC taxpayers, up to the point where a matter is appealed by a taxpayer.

High Net-Worth Individuals Unit

The High Net-Worth Individuals unit continued to expand during 2006/07. The objective of the unit is to provide the same level of service and professionalism to wealthy individuals such as company chairpersons, CEOs and senior directors and the independently wealthy. A high net-worth individual is currently classified as someone with a gross income in excess of R7 million a year, or someone who has net assets (i.e. unencumbered) in excess of R75 million.

In addition to the individuals' own tax affairs, any associated entities, such as trusts, will also be migrated to the LBC, to ensure that the taxpayer receives the appropriate level of service in respect of all their tax affairs.

As at the end of March 2007, 295 files were on hand, of which 141 related to high net-worth individuals themselves and 154 related to their associated entities. It is anticipated that at least 500 files will be on hand within a three-year period.

By the end of March 2007, 168 returns were received, of which 121 related to high-net worth individuals and 47 to their associated entities.

In addition to the service being provided, a process is underway to identify and assist the taxpayer with compliance issues in a proactive, positive way. The following are some of the compliance issues identified to date:

- CGT implications of sale of shares via share schemes;
- Underreporting of earnings;
- Overvaluation of assets, thereby reducing CGT liabilities;
- Use of network of companies and trusts to spread assets and income;
- Assessed loss utilisation – farms/racehorses/aircraft/Protected Investment Schemes; and
- Differences in disclosure in tax returns of directors emoluments and share options exercised in comparison to the companies Annual Financial Statements.

Audit activity based on the compliance issues identified by the unit commenced in February 2007 and a number of audits are currently underway.

There have been numerous educational interactions with high net-worth individuals where they have been assisted with long outstanding tax problems and concerns. The response from these individuals so far has been extremely positive. The unit has also interacted with a number of corporate banks, private banks and auditing firms that have these taxpayers as clients.

Conclusion

The LBC's interactions with large business over the years have highlighted the fact that large businesses desire certainty with regard to their tax affairs. The LBC, like the rest of SARS, operates within the rule of law to try to provide the certainty that taxpayers require.

To assist taxpayers in reducing the level of tax uncertainty, the LBC will be striving to further improve its turnaround times with respect to both assessments and query resolution.

We acknowledge that many businesses view tax as nothing more than a cost of doing business. Accordingly, efforts are made to try to reduce the business's tax cost in line with other cost reduction initiatives in an attempt to increase shareholder value. However, the balance between legitimately minimising costs (and the associated tax planning) and pushing the interpretation of the law beyond its intended limit is often a fine one and creates a natural tension between SARS and taxpayers with regard to an acceptable application of the law to a given set of facts.

However, the underpayment of tax through aggressive tax planning or non-compliance provides a business with an unfair competitive advantage over other tax compliant businesses. In addition to its role as the government's tax collection agency, SARS also has a role to play in promoting trade. In accordance with this, SARS generally seeks to promote a playing field that fosters competition based on comparative advantage rather than unfair practices, through encouraging high levels of voluntary tax compliance. Specific attention is therefore being given to structured finance arrangements, transfer pricing and international tax structuring as these areas pose significant compliance risks to the fiscus.

It is acknowledged that taxpayers pose different risks depending on their approach to tax compliance. In managing this risk, the LBC will continue to refine and embed a risk management methodology that seeks to differentiate taxpayers regarded as low risk from those regarded as high risk. The categorisation of whether a particular client should be regarded as low or high risk will be driven by pre-determined high level risk indicators.

The LBC will also significantly increase its field audit presence during 2007/08 to ensure that an appropriate level of visibility and audit coverage is maintained, while building greater business understanding of its taxpayer base and further enhancing the service it offers.

9

CUSTOMS:
Improved Trade Administration and Border Security

9. CUSTOMS:
Improved Trade Administration and Border Security

Highlights

- Bills of entry processed for imports increased by 5%.
- Substantial increase in the submission of cargo declarations via electronic data interchange.
- A 9% increase in seizures of illicit goods.
- Introduction of a single administration document at all ports of entry.
- SARS appointed lead agency of the Border Control Operational Coordinating Committee.
- Customs Border Control unit established, and specialised border control vehicles deployed at various ports of entry.
- Rollout of a new passenger processing system and credit card payment facilities.
- Pilot project commenced at Lebombo for a one-stop border post with Ressano Garcia in Mozambique.
- Upgrade and provision of accommodation for staff at various land border posts.

Overview

South Africa and its economy have become increasingly integrated into the global economy, characterised by the expanded flow of goods, people, capital, information and technology. Embracing this interconnectedness provides the opportunity to fasttrack economic growth and development through increased international trade. But globalisation also brings new socio-economic and security challenges and threats that Customs must contend with. Customs provides the interface between the domestic and broader global economy, and has a key role to play in facilitating legal trade and in protecting the economy and society by clamping down on illegal and unfair trade practices.

During the year under review, SARS has defined a new strategic direction for Customs; informed by the key international, regional and national strategic drivers that impact on the environment in which it operates. Customs is being repositioned to play a more proactive role in the facilitation of legal trade. To this end, SARS subscribes to the World Customs Organisation's (WCO) Framework of Standards to Secure and Facilitate Global Trade. The framework aims to establish standards that provide supply chain security and trade facilitation at a global level and promote the seamless movement of goods through secure international trade supply chains. It also aims to strengthen the cooperation between Customs administrations and with business.

SARS is responding to the challenges facing Customs with regard to border control by the development of a strategy that emulates the best elements of a modernised Customs administration. Through the establishment of the Customs Border Control unit (CBCU), it is developing the capacity to promote compliance in a manner that facilitates legitimate trade.

SARS is also making significant progress in improving the infrastructure and living conditions of staff at ports of entry, through the Border Control Operational Coordinating Committee (BCOCC). In line with its objective of promoting international and regional cooperation, SARS has participated fully in the programmes of the WCO and in initiatives within the Southern African Development Community (SADC) and Southern African Customs Union (SACU).

Facilitating Trade and Travellers

Customs is concerned with the international and cross border movement of goods, people and craft. This function can generally be divided into the following streams:

- The collection, validation and processing of declarations with regard to goods to ensure that all duties, taxes and associated government regulations are complied with;
- The collection, validation and processing of declarations with regard to cargo to ensure that the movement and conveyance of bonded goods is effectively administered; and
- The monitoring and reconciliation of foreign exchange inflows and outflows with regard to imported and exported goods.

Goods are traded across borders via the international trade supply chain. The supply chain comprises three inter-dependent and interacting networks:

- A regulatory system that implements and enforces rules of behaviour within and among the sub-systems through standards, penal provisions, and revenue collection;
- A transaction-based system that procures and distributes goods, which is driven primarily by information flows; and
- A physical, logistics system for the transportation of goods.

In line with international trends, South Africa's trade increased by 315% between 1994 and 2006. This increase has been augmented by a number of preferential trade agreements based on Rules of Origin, including the memorandum of understanding on textiles with China.

In the year under review, Customs has intensified its programme to facilitate trade by expediting the movement, release and clearance of legitimately traded goods. Expanding trade with the rest of the world depends on the ability of Customs to achieve an effective balance between trade facilitation and regulatory intervention. SARS has begun strengthening relations with regional customs administrations in an effort to standardise and simplify customs procedures at land border posts. Meanwhile, Customs has been developing programmes to encourage trade and investment and has focused on practical measures to improve the management of bilateral trade.

Consistent growth in containerised shipping as well as the emergence of larger post-panamax container vessels has seen trans-shipment activities increase at South African ports. As the table below illustrates, the port of Durban handled the vast majority of containerised cargo, with just over 65% of the total passing through it. The figure below illustrates the growth in containerised cargo over the last three years and gives a breakdown of the volumes being handled at the different ports.

Figure 9.1: Containerised cargo at South African ports – 2004/05 to 2006/07

Year	Year 2004/05				Year 2005/06				Year 2006/07			
	Full	Empty	Total	% of Total	Full	Empty	Total	% of Total	Full	Empty	Total	% of Total
Total	**2 099 538**	**605 242**	**2 704 780**	**100.00**	**2 265 533**	**845 588**	**3 111 121**	**100.00**	**2 530 721**	**1 021 477**	**3 552 198**	**100.00**
Durban	1 340 753	350 132	1 690 885	62.51	1 479 692	476 111	1 955 803	62.86	1 715 352	619 647	2 334 999	65.73
Port Elizabeth	256 955	83 189	340 144	12.58	266 870	103 979	370 849	11.92	273 542	134 062	407 278	11.47
Cape Town	450 083	159 489	609 572	22.54	481 318	255 625	736 943	23.69	511 211	253 542	764 753	21.53
East London	46 729	11 908	58 637	2.17	33 525	9 020	42 545	1.37	28 076	13 760	41 836	1.18
Richards Bay	5 018	524	5 542	0.20	4 128	853	4 981	0.16	2 866	466	3 332	0.09

Imports and Exports

South Africa imported goods to the value of R497,4 billion and exported products to the value of R482,9 billion for the year under review. This is in line with the marked upward trend in imports evident since 2001. In the period 2001 to 2005 imports have been growing at an annual rate of 25%. Over the same period, exports have been growing at an annual rate of 17%.

South Africa's foreign trade still consists primarily of raw materials and minerals, although there are signs of increased trade in semi-manufactured and finished products. At the same time significant capital infrastructure projects are in progress, notably to increase port and airport capacity.

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

Figure 9.2: Leading import products in terms of value

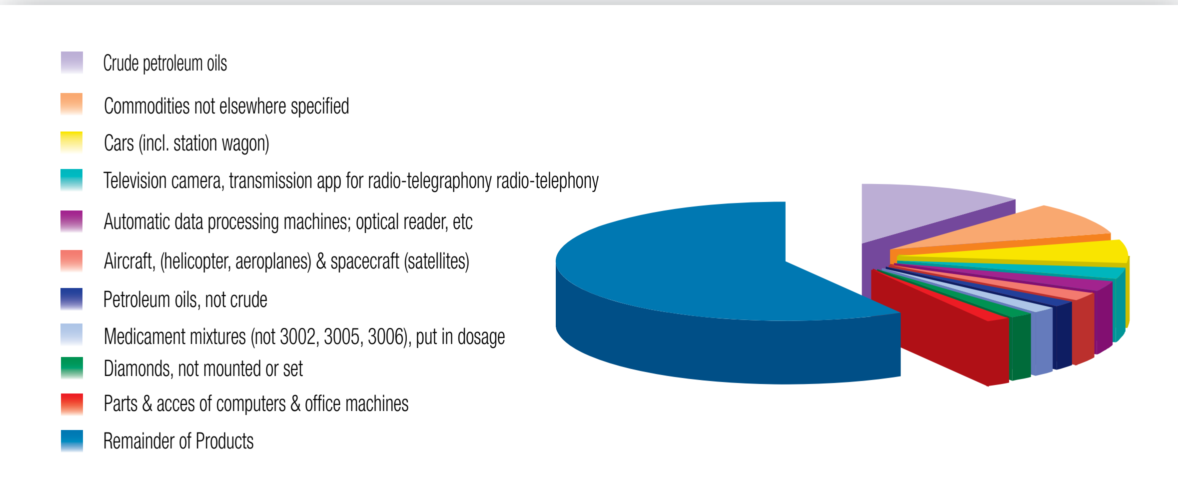
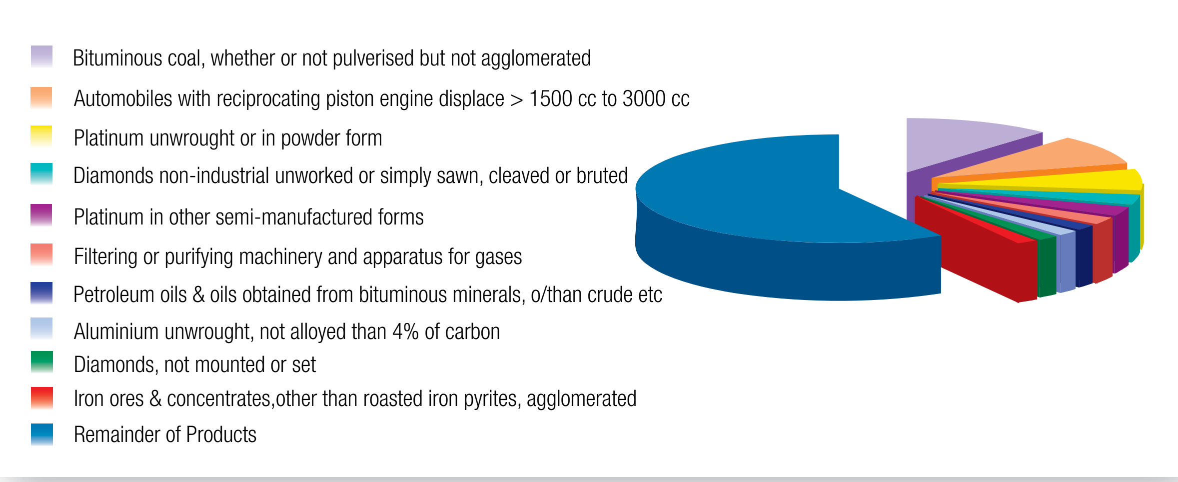


Figure 9.3: Leading export products in terms of value



The bills of entry processed for imports rose from 1 863 261 in 2005/06 to 1 969 833, a growth of just over 5%. Bills of entry processed for exports, however, fell by 4.9%, from 1 033 951 to 985 660. The number of import goods declarations stopped by Customs in 2006/07 was high but the number physically examined was low. This was due to the large percentage of valuation stops, which take longer to finalise through administrative intervention and do not always require a physical examination. The figure below gives the totals for the bills of entry processed in the year under review and the number of declarations stopped and examined.

Figure 9.4: Processing of bills of entry for direct imports and exports

Bills of Entry	2006/07	
	Imports	Exports
Total bills of entry processed	1 969 833	985 660
No. stopped	74 958	32 228
No. examined	49 752	20 602

SACU Imports and Exports

The bills of entry processed for imports from SACU countries increased by 9% and the number stopped increased by 7%. The bills of entry processed for exports to SACU countries also increased by about 9%. The figure below gives the totals for the bills of entry processed for the Common Customs Area in the year under review and the number of declarations stopped and examined.

Figure 9.5: Processing of bills of entry for Common Customs Area Imports and Exports

CCA 1	2006/07	
	Imports	Exports
Total bills of entry processed	223 020	1 822 274
No. stopped	22 756	115 364
No. examined	19 842	92 436

Electronic Data Interchange (EDI)

Customs seeks to provide traders with quicker and simpler ways to conduct business. Accredited importers and exporters are now 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.

During the period under review, Customs has focused on enhanced performance management relating to turnaround times and on initiatives aimed at promoting EDI.

The following performance improvements in declaration processing were realised:

- Processing times for EDI declarations have improved on 2005/06 processing times by 3% and by 8% for manual declarations, despite a 5% increase in import declarations;
- Of all import declarations, 77% were received via EDI – a 24% increase on 2005/06; and
- Of all export declarations, 22% were received via EDI – a 3% increase on 2005/06.

Industrial Development Zones

South Africa's Industrial Development Zone (IDZ) programme aims to promote foreign direct investment and boost local manufacturing for export. SARS provides enforcement and customs controls with an emphasis on trade facilitation through risk management. At present there are three designated IDZs at Coega, East London and Richards Bay.

The SARS IDZ project supports:

- Administration of duty and VAT relief for enterprises operating in designated Customs Controlled Areas;
- Risk-based customs interventions;
- Administration of economic incentives;
- Support for local and foreign investors; and
- Expedited customs clearance procedures.

In the period under review, SARS finalised the drafting of:

- Rules for the administration and control of IDZs;
- An Interpretation Note for the application of the VAT Act to transactions occurring to, from and within the CCA of an IDZ; and
- The preparation of an IDZ quick reference guide.

Publication of the Customs Rules on IDZs is planned for the third quarter of 2007. This will enable IDZ operators to register and apply for provisional designation of their Customs Controlled Areas in order to commence the development of these sites.

SACU and SADC

SARS established the SACU/SADC programme to promote the seamless movement of legitimate goods and the development of international standards that support economic development in the southern African region. The programme also seeks to assist in developing the region's customs administrations and economic competitiveness. Three projects were begun in the year under review:

- **SADC North/South Corridor Transit Pilot**

The project is designed to test and introduce common instruments such as the single administrative document, common customs procedures and a single bond. The project was established in March 2007 by South Africa, Zimbabwe, Mozambique and Malawi. Traders between these countries are no longer required to submit four separate sets of customs documents, lodge four separate bonds and comply with four different sets of customs procedures. Initial tests indicate that clearance procedures for shipments from South Africa to Malawi in transit through Zimbabwe and Mozambique have been substantially reduced from 18 - 20 days to five days.

- **SARS/Lesotho Revenue Authority and Swaziland Customs Systems Integration Projects**

These projects seek to optimise revenue collection, improve client service, enhance border operational effectiveness, establish one-stop facilities and improve SACU's reporting of statistics. Development is currently underway between the three countries to share SARS business systems, with the first regional systems going live by the end of 2007.

- **South Africa/Mozambique One-Stop Border Project**

Long delays in processing commercial vehicles at border posts significantly increased the cost of consumer goods. Transport costs account for up to 25% of the price of goods within the SADC, compared with an average of 4% in the developed world. High transport costs increase the price of imported goods for South Africa's neighbours, and put SADC exports at a competitive disadvantage in world markets. A one-stop border post can reduce delays for commercial vehicles, which means lower transport and administration costs. The project has been developed to enhance border crossing performance, improve turnaround times, provide a single stop for administrative processes, and lower infrastructure and operating costs by eliminating duplication of activities.

Promoting Compliance

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 ICRAS – CM&T (Case Management and Tracking) tool was developed. The tool is used by teams from SARS's Business Intelligence unit to build risk cases. These are then forwarded to the respective regions to audit. The cases are allocated to a team member and are tracked from beginning to end on the system. This allows SARS staff to monitor the progress of the case and its final outcome.

Currently, post clearance, anti-smuggling and some Excise teams in Durban, Cape Town, Johannesburg and OR Tambo International Airport are using the tool. It is intended that the tool will be rolled-out to all major land, air and sea ports in three phases in 2007/08.

Revenue collected from schedules issued (assessments) during the period under review is given in the figure below.

Figure 9.6: Revenue collected as a result of successful audits

	2006/07
No. of audits conducted	2 058
No. of successful audits	676
Total Collections	R325 877 515
Value Added Tax contribution	39.4% of the collections
Customs Duty contribution	32% of the collections
Penalties contribution	11.8% of the collections

The 676 successful audits conducted netted more than R325,8 million. These successes included the following types of audits: tariffs (34% successful); voucher of correction (47%); valuations (50%); schedule 3 (30%) and schedule 4 (29%); and bonded warehouse audits (22%).

Interventions excluded from the above include refunds, supervisions, rules of origin, accreditation, air passenger tax, EDI bills of entry checked, and interventions aimed at Motor Industry Development Programme (MIDP) related clients, which totalled over 6 000 audits conducted by the post-clearance teams.

Other initiatives undertaken in the review period included the following:

- Development of a strategic document in respect of the MIDP. Currently this document has been partially implemented and will become fully operational in the new financial year;
- Coordinated the implementation of the compliance assurance programme on one of the key trade agreements, namely the African Growth and Opportunity Act (A.G.O.A); and
- Developed an approach for Post Clearance, which is linked to the WCO Framework of Standards.

Anti-Smuggling Unit

Total anti-smuggling seizures for the year under review came to more than 4 700 – a 9% increase on 2005/06. There has been a substantial increase in the number of narcotic seizures for the year under review. Cannabis seizures have increased by 111 with the majority of seizures (69%) taking place at OR Tambo International Airport. There was also a significant rise in the seizure of narcotics comprising the "Other drugs" category i.e. CAT, LSD, etc. The number of these seizures rose from 12 to 221 – with 38% of these seizures taking place at the Beitbridge Border Post.

The figure below depicts narcotics seized.

Figure 9.7: Seizures of Narcotics

	2005/06	2006/07
Types of Narcotic	**No. Seizures**	**No. Seizures**
Heroin	5	3
Cannabis	25	136
Mandrax	2	4
Cocaine	86	15
Ecstasy	2	2
Other Drugs	12	221
Total	**127**	**381**

The seizure of counterfeit goods other than cigarettes rose by 83% when compared to last year's performance of 846 seizures. A notable factor in this success has been the increased cooperation between brand holders and Customs. The registration of trademarks by brand holders as per Section 15 of the Counterfeit Goods Act has made it easier to seize counterfeit goods. Anti-counterfeit campaigns, including walkabouts initiated by business throughout the year, have also contributed towards the improvement in performance. The figure below gives a breakdown of the types of goods seized.

Figure 9.8: Seizures of Counterfeit Goods

	2006/07	
Type of Seizure	**No. Seizures**	**Value**
CD and DVD	165	R18,4 million
Clothing	475	R65,3 million
Footwear	147	R38,2 million
Other	767	R231,6 million
Total	**1 554**	**R354 million**

The seizure of counterfeit and contraband cigarettes has increased by 85.9% compared to the figures for 2005/06 as is illustrated in the figure below. Of the 1 963 cigarette seizures, 6% were of counterfeit cigarettes to the value of R73,7million.

The remaining 1 848 seizures were of contraband cigarettes. Of these, 20.7% of the seizures took place at the Beitbridge border post. The value of these seizures amounted to R30 million.

Figure 9.9: Cigarette Seizures

	2005/06		2006/07	
Type of Seizure	**No. Seizures**	**Value**	**No. Seizures**	**Value**
Cigarettes (Counterfeit & Contraband)	1 056	R93,5 million	1 963	R250 million

In addition to the above, 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 the table below.

Figure 9.10: Other Seizures for this year

	2006/07	
Type of Seizure	**No. Seizures**	**Value '000**
Cash	84	5 645
CITES	198	4 293
Explosives	2	9
Motor Vehicles	152	5 183
Diamonds and Precious Metals	71	139
2nd Hand Clothing	234	139

Bills of Entry and Cargo Examination and Success Rates

In addition to the examinations conducted by anti-smuggling teams and, in Durban, Container Security Initiative teams, cargo teams across the country also conduct physical examinations of imported or exported goods to verify the accuracy and compliance of customs declarations.

Customs has adopted a 70/30 risk principle when assessing direct import and export declarations. All direct declarations presented to Customs are subjected to 100% systems validation according to data elements (client codes, type of commodity, statistical quantities and values). Thereafter, declarations are subjected to assessment by the risk engine according to predetermined rules and/or the assessment officer's knowledge. Those shipments flagged by the risk engine are subjected to intensive assessment, audit or physical examination depending on the nature of the risk. Nationally, 34% of clearances were subjected to intensive assessment.

SARS has set targets for cargo examination and success rates in line with international norms.

Customs offices are now categorised as:

- **Category A offices:** these are the larger offices (by volume of declarations) where it is of strategic importance that cargo is stopped for inspection. These offices are Cape Town Harbour, Durban Harbour, OR Tambo International Airport, Johannesburg, Beitbridge and Lebombo border posts, Cape Town International Airport and Durban International Airport.

- **Category B offices:** these ports predominantly accept cargo under the Motor Industry Development Programme (MIDP) scheme, which is a relatively low-risk programme from a customs standpoint. These offices are Port Elizabeth, East London, Richards Bay, Germiston and Pretoria.
- **Category C offices:** These are essentially all other offices not included in category A, B or SACU. These are the very small customs offices that process smaller quantities of declarations.
- **SACU Land Borders:** These cover Botswana, Lesotho, Namibia and Swaziland. Because there is no comprehensive systems-based risk engine and declarations are mostly submitted manually, risk selection is difficult. The lack of infrastructure at many border posts also does not support the successful examination of goods.

More than 50 000 direct import examinations were conducted during the year. Large seaports exceeded examination and success rate targets, mainly because of the large volumes of clearances and improved staff skills levels. International airports, hampered by lower resources, were marginally short of target. SACU land borders exceeded examination targets, but fell short on success rate targets. The figure below provides the set targets for examination and the success rates achieved, according to the category of office.

Figure 9.11: Bills of entry examination and success rates

	IMPORTS				EXPORTS			
	Exam Rate Target %	Exam Rate Achieved %	Success Rate Target %	Success Rate Achieved %	Exam Rate Target %	Exam Rate Achieved %	Success Rate Target %	Success Rate Achieved %
Category A Office	10	14	25	23.2	2	3.3	10	32.2
Category B Office	3	7.2	25	36.5	2	2.3	10	38.1
Category C	6	8	25	30.1	4	2.3	10	38.0
SACU Land Borders	1	1.5	45	35.1	1	5.6	20	10.5

State Warehouse Management

State warehouses are premises provided or appointed by the state to store seized goods or goods on which duties are outstanding or on which the compliance with the provisions of any law in respect of such goods is still pending.

SARS administers 33 State Warehouse facilities nationally (including at border posts). The major warehouses are situated in Durban, Cape Town, Johannesburg and Beit Bridge.

During the period under review SARS reviewed its State Warehouse Policy. Amongst the areas being addressed are the following:

- Review of Section 43 of the Act concerning rent to bring it in line with equitable business practice – to

address short-to long-term needs in line with industry standards including receipting, controlling and disposal of goods, safekeeping of goods and implementation of volumetric storage methodology;
- Review of the State Warehouse Policy and decentralisation of organisational structures;
- Enhancements to the automated State Warehouse Management system to improve cargo management and related activities; and
- Identify critical areas to provide advance planning of infrastructure requirements to alleviate space constraints.

SARS still faces a number of challenges such as poor and inadequate infrastructure, inappropriate logistical and technical skills, and inadequate space to contend with demand as a result of the increase in the volume of trade. SARS is likewise mindful of ensuring its compliance with environmental risk and occupational health and safety standards.

Processing of mail

SARS and the South African Postal Services work jointly at the mail centres. SARS aims to establish an open and cooperative strategy in order for all parties to work together more effectively and efficiently, while satisfying their respective objectives.

During the period under review, office audits were being conducted in regards to Customs Mail Centres to evaluate the procedures involved in the handling of international mail, as well as the associated risks and inefficiencies within these procedures. This ultimately has an impact on the protection of our country, and customs duties and VAT payable to SARS.

Tariff and Valuation

Tariff

All import and export commercial transactions require declarations according to an appropriate tariff heading. The tariff classification code is directly linked to the rate of duty payable on that commodity. Classification operates as part of the international Harmonised Commodity and Coding System, under the WCO Harmonised System Convention.

The Tariff Policy section is a resource for other SARS investigative divisions to identify risk areas and/or trade remedies. In the year under review there were more than 900 applications for tariff determinations as a result of tariff disputes or intended importations. In addition, more than 5 000 refunds were processed.

In addition, the harmonised tariff nomenclature is further broken down into various trade regimes which provide for specific and general duty, tax, refund and drawback facilities. This complex range of remedies determines the manner in which Customs will treat import and export transactions when it comes to clearance.

Valuation

Valuation is the technical process of determining the accuracy of the declared value on cleared goods. The General Agreement on Tariffs and Trade, governed by the World Trade Organisation, regulates this aspect of international commerce. Valuation is based upon the concept of the price paid or payable for particular goods in a particular transaction, and any conditions that might influence the transaction value.
The Valuation section plays a crucial role in the fight against valuation fraud. In modern trade, there is an increase in false valuation declarations and these are often more difficult to identify and resolve than wrongly declared tariffs.

The Valuation section operates on a risk-driven, audit approach. In the year under review there were 457 applications for valuation determinations. Of these, 416 were from SARS branches and 41 were from external clients. In addition, the section provided significant technical support to branch offices.

Trade Arrangements (Rules of Origin)

There are a number of trade-related arrangements in which South Africa is currently engaged in at a bilateral or multi-lateral level. All these arrangements impact on the work of Customs by setting out the legal/legislative framework within which trade should be regulated and the agreed criteria that should be complied with. This is an area in trade administration that has expanded tremendously over the last decade with the signing and implementation of new trade arrangements.

Below is a list of a few of the areas currently being worked on:

- The imminent implementation of the Free Trade Agreement between the Southern African Customs Union (SACU) and the European Free Trade Association (EFTA);
- The internal SACU arrangement for the establishment of a single SACU Origin in future trade arrangements;
- The continued discussion between SACU and MERCOSUR to finalise outstanding matters in the establishment of a preferential agreement;
- The review of the Trade, Development and Cooperation Agreement (TDCA) between South Africa and the European Commission (EC); and
- Negotiations underway for a SADC Economic Partnership Agreement with the EC to replace the existing unilateral arrangements (the Cotonou and GSPs).

Initial consultations have taken place with India and China with a view to establishing preferential trade arrangements. There have also been discussions between India, Brazil, and South Africa (IBSA) with regard to facilitating trade between these respective countries.

All of these arrangements impact significantly on the collection of revenue, as the underlying feature of such agreements is the phasing out/down of customs duties. In this regard the Department of Trade and Industry views customs duties primarily as a protective measure, not as a source of revenue.

China Memorandum of Understanding

In September 2006, a memorandum of understanding to strengthen cooperation was signed between SARS and the customs administration of the People's Republic of China.

The memorandum restricted the volumes of clothing and textile goods imported from China. The restrictions apply to 31 identified tariff headings or 190 tariff items applicable to goods imported between 1 January 2007 and 31 December 2008. The capability to enforce the restrictions at three major ports and one airport has been upgraded with the creation of SARS Customs industry teams. To mitigate the risk of possible "round tripping", staff at SACU land border posts have received training in enhanced border control techniques. Improved coordination between SARS and the International Trade Administration Commission of South Africa in this initiative has led to an agreement to participate in joint inspections.

The net effect of the restrictions during the first three months after inception was a substantial decrease in the imports of clothing and footwear from China, as shown in the figure below.

Figure 9.12: Imports of textiles and clothing from China

Year	January 2007	February 2007	March 2007
	Quantity	**Quantity**	**Quantity**
2007	**9 832 327**	**11 267 012**	**9 590 747**
2006	21 738 608	22 246 129	20 795 412
	Decrease of 45%	**Decrease of 51%**	**Decrease of 46%**

Figure 9.13: Number of investigations that have been opened on goods imports exceeding the quotas in terms of the China MOU

	Number of cases	Quantity
Durban	23	163 099,6
OR Tambo International Airport	22	4 833,4

Passenger Administration

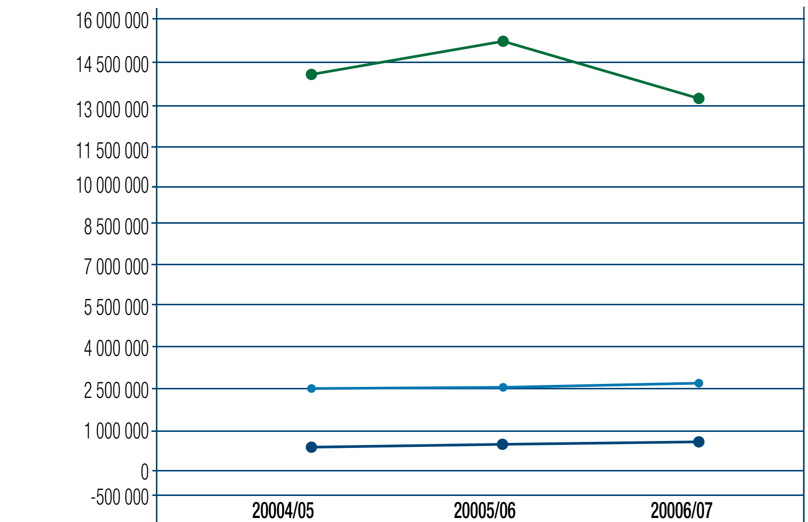
The passenger processing system (PPS) was developed to enhance processing times at all ports of entry, optimising risk-profiling and control functions. The PPS combines the functionality of the old system, but with the added advantage of scanning technology, which makes management and maintenance much simpler, and passenger information more accessible.

The PPS was successfully launched at OR Tambo, Cape Town, Durban and Lanseria airports, and at the Beit Bridge and Lebombo border posts. During this first phase of the initiative a credit card facility was also introduced to ensure a convenient payment method for passengers.

The processing of passengers has been simplified because the system ensures the effective control and acquittal of temporary import permits. Two types of scanners are used to scan passports and to take images of and store passenger declaration forms.

There has been a steady increase in the movement of vehicles, carrying both passengers and cargo, through our ports of entry. The figure below illustrates this upward trend for the last three years. The pattern for passenger volumes is more erratic. For the year under review the number of passengers passing through our ports of entry was lower than in 2005/06 but the examination rate achieved by the Passenger Assessment teams remained constant at 20%. The figure below gives a breakdown of the traffic through our ports of entry.

Figure 9.14: National Passenger Volumes



	20004/05	20005/06	20006/07
No. of Passengers	14 321 123	15 368 003	13 166 912
No. of Cars & Buses	2 543 129	2 589 807	2 657 085
No. of trucks	545 827	566 665	643 664

Please note that passenger statistics are dependant on other governmental systems at our ports of entry.

Assertive Border Management and Enforcement

Border Control Operational Coordinating Committee (BCOCC)

The BCOCC is mandated to ensure that the measures taken to address border security and congestion at our ports of entry also support legitimate trade and promote tourism. The national Departments of Home Affairs, Intelligence, Transport, Public Works, Agriculture, Health and Defence are involved in the BCOCC.

A Cabinet decision in January 2007 confirmed that SARS would assume the role of the lead agency at all South Africa's borders. As the lead agency, SARS chairs the BCOCC and is responsible for the coordination and successful functioning of the border environment as a whole.

Since assuming the lead agency role, SARS has made significant progress in addressing the task at hand. It has successfully hosted and chaired executive committee meetings of the BCOCC and work is underway in developing a framework document, which sets out the parameters for the functioning of the BCOCC, and drafting the terms of reference for the BCOCC executive committee. Work to finalise a structure for the lead agency and to recruit personnel to staff it has also begun.

Customs Border Control Unit (CBCU)

The Customs Border Control unit (CBCU) was established in response to the growth in the range and complexity of risks and threats that have to be managed at the border and the need to develop capacity to promote compliance in a manner that facilitates legitimate trade. The specialised unit, comprising detector dog units, mobile enforcement officers and non-intrusive inspection tools, will employ intelligence and enhanced risk management techniques to conduct targeted customs enforcement operations at the front line.

Candidates recruited for the CBCU undergo a rigorous competency assessment. Successful candidates will receive specialist training. The CBCU training curriculum lasts for seven months, and covers the following disciplines: basic military training, a basic Customs course, and a Customs border control course and a goods identification course.

Subsequent to the graduation of the first CBCU cadets, a pilot project will commence at OR Tambo International Airport. Thereafter, SARS plans to phase in the deployment of a CBCU capability at all ports of entry. To promote visibility and foster discipline, staff belonging to this unit will wear distinctive uniforms.

Cadet Programme

A strategic paper on the cadet programme has been incorporated into the Customs management agenda.

Customs Detector Dog Unit

The Customs Detector Dog unit was established in 2006 to enhance the capability of SARS to detect narcotics, explosives and protected species. Dog trainers, handlers and kennel officers were appointed in early 2007. The unit is currently deployed in Gauteng, and its operations will be expanded to ports of entry nationwide. A uniform for the unit was acquired during January 2007.

Customs Border Control Vehicles

To enhance the visible policing capacity of Customs at ports of entry, SARS acquired 60 4x4 bakkies, fitted for border patrol duty, for which 61 anti-smuggling officers completed a two-day advanced driving course. Currently, Durban Central, OR Tambo International Airport, Beit Bridge, Lebombo, Cape Town, Maseru Bridge, Oshoek and Kopfontein border posts operate these vehicles.

Seven vehicles have been converted for use by the Customs Detector Dog unit, and the remaining 23 vehicles will be used for the Customs Border Control unit.

Improvement in Infrastructure and Equipment

Non-Intrusive Inspection Equipment

The container and cargo scanner programme is one of several initiatives being implemented in support of Customs Border Control. After the cancellation of the initial tender for the supply of scanner equipment and services in July 2006, SARS issued a fresh request for tender for the supply of container and cargo scanners on a direct procurement basis. Presently SARS is finalising its tender evaluation of the respondents' bids.

Ports of Entry Infrastructure Improvements

During the period under review, Customs focused on arranging better accommodation for its employees at ports of entry. This is discussed in some detail in Chapter 13: Support Services.

International Cooperation

In June 2006, the WCO adopted new international standards on authorised economic operators (AEOs). These standards are intended to pave the way for mutual recognition between customs administrations of compliant countries and to facilitate trade. SARS has entered into discussions with other customs administrations to enhance cooperation on issues ranging from homogenisation of national standards to electronic transmission of customs data.

Closer cooperation also featured on the agenda at the India-Brazil-South Africa (IBSA) heads of revenue discussions hosted by SARS in November 2006 in recognition of the increased trade and investment flows between these developing countries. The three administrations agreed to electronic interconnectivity and cooperation in the fight against fraud and smuggling by exchanging information.

SARS also held a number of bilateral discussions with other customs administrations. In September 2006, the SARS Commissioner hosted Minister Mu Xinsheng of the Chinese General Administration of Customs. The visit resulted in a commitment to increased cooperation and the signing of the Customs Mutual Administrative Assistance Agreement between South Africa and China.

SARS and the customs administration of India completed negotiations on a customs agreement that is expected to be signed early in the next review period. Customs agreements were also signed with the Democratic Republic of the Congo and Iran.

SARS and the Hungarian Customs and Finance Guard signed a memorandum of understanding in December 2006. Discussions were also held with the customs administrations of Botswana, Lesotho, Mozambique and Zambia, aimed at developing new approaches towards facilitating trade and ensuring compliance.

General Annex to the Revised Kyoto Convention

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. Although 90% of the general annex has been incorporated into the relevant legislative instruments (i.e., the Customs Act, rules and policy), there are a few principles that have not yet been adopted because they conflict with national legislation.

The remaining issues will be resolved by means of rule amendments during 2007 and within the period applicable to South Africa in terms of the Articles to the Convention. The redrafting of Customs legislation establishes the revised Kyoto Convention as the legislative foundation.

Container Security Initiative

The Container Security Initiative (CSI) is in its fourth year of operation at the port of Durban. The focus of the CSI is to ensure the safe conveyance of containers destined for ports in the United States. The US-initiated bilateral programme paved the way for many of the recent measures currently being adopted by Customs administrations worldwide. The objectives of the CSI and the WCO's Framework of Standards are complementary, and provide the building blocks upon which systems and organisational structures will be developed.

SARS will be installing a new generation container scanner at the Port of Durban in the latter half of 2007 to meet both its CSI obligations and domestic enforcement requirements. During the period under review SARS, together with its US Customs and Border Patrol counterparts, achieved the following:

Figure 9.15: CSI Volumetrics

CSI Volumetrics	2006/07	
	Number	% of total referrals
Total containers targeted for CSI referral to SARS	385	-
Total containers inspected for CSI	212	55.06
Total CSI referrals mutually declined for inspection	173	44.94
Number of short shipped containers	6	1.56

Participation in 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.

At the regional level, SARS participates in the activities of the WCO East and Southern Africa region, the SADC and SACU. In the WCO East and Southern Africa region, SARS supports the implementation of WCO instruments by customs administrations initiatives to increase capacity. SARS and the WCO concluded a memorandum of understanding to establish a regional training centre in South Africa and a number of training interventions have already been hosted. SARS has also seconded Customs officers to participate in WCO diagnostic missions for customs administrations in the region.

In October 2006 the SADC decided to establish an SADC customs union by 2010. SARS forms part of the task team working towards this union. SARS also participates in the activities of the SADC Customs Subcommittee and its eight advisory working groups. The objective of the SADC activities is to support the smooth implementation of the SADC Protocol on Trade aimed at creating a free-trade area in the region. The SADC activities are currently focused on the administration of rules of origin, the development of an SADC transit system, the establishment of harmonised SADC tariff nomenclature and systems connectivity. On 1 March 2007, a pilot project was launched between South Africa, Malawi, Mozambique and Zimbabwe to test the SADC transit system.

The current SACU Agreement provides for the imposition of a common external tariff by the five SACU countries on goods imported from other countries, and the duty-free movement of goods between the territories of the SACU countries. SARS and its partner customs administrations in SACU have developed customs annexes that were approved for incorporation into the SACU Agreement.

SARS continues to provide assistance to other African administrations in building capacity. This takes the form of:

- Providing policy, legal and operational assistance;
- Hosting study visits to share best practices with other administrations;
- Providing training interventions either at the SARS Academy or in other countries; and
- Seconding SARS officials to other administrations and hosting officials seconded by other administrations.

Conclusion

SARS is committed to strengthening control at ports of entry, ensuring that only lawful goods enter or leave South Africa, while illegal, unsafe and harmful goods are detected and confiscated. We plan to improve stop and inspection rates and to increase success ratios to international standards to curb illicit trade. We also aim to achieve increased cooperation with SACU agencies.

SARS will also promote compliance in a manner that facilitates legitimate trade and strive to eliminate duplication and delays in international supply chains.

Cabinet has asked SARS to be the lead agency at our ports of entry and to coordinate their effective use. SARS plans to improve Customs capacity so that we can achieve this goal.

10

ENFORCEMENT:
Improved Compliance and Risk Reduction

10. ENFORCEMENT: Improved Compliance and Risk Reduction

Highlights

- Conducted 69 270 audits.
- Total revenue assessed R6,6 billion.
- Attained 447 guilty verdicts in criminal prosecutions.
- Reduced the debt book by 3.75%.
- Collected debt of R17,7 billion.
- Reduced the outstanding return book by 6%.
- Confiscated methamphetamine (tik) with a street value of R270 million.
- Confiscated 20,5 tons of abalone.
- Confiscated machinery used in counterfeiting.

Overview

SARS's approach to compliance is based on understanding taxpayer behaviour and responding appropriately. SARS seeks to reduce the cost of compliance for taxpayers, and to make it as easy as possible to meet tax obligations. We aim to make non-compliance less attractive by increasing the likelihood of detection and the severity of penalties. SARS also works to reduce the opportunities for non-compliance by ensuring that its administration is efficient and honest, and by using information corroborated against third-party databases.

SARS has developed systems and tools to improve our identification and assessment of compliance risks. Risks and resources are prioritised accordingly.

Enforcement aims to foster compliance with South Africa's tax and customs laws by deterring and detecting non-compliant behaviour among taxpayers and traders. Non-compliance manifests in four ways: non-registration, non-filing, incorrect declaration and non-payment. Five subdivisions address all forms of non-compliance.

Enforcement aims to reach all segments of taxpayers and traders, initially in a non-invasive way. The frequency of the engagement is determined by the compliance level of the segment. This approach means that all taxpayers and traders stand an equal chance of being scrutinised by SARS, which helps to maintain a basic level of compliance.

Investigations, based on a fair but rigorous case identification, deal more stringently with people and firms likely to be non-compliant. Investigations seek to expose deeper non-compliance and, through punitive actions, set an example to others in society. During the review period about 70 000 audits were conducted and about 450 guilty verdicts were obtained in criminal proceedings against taxpayers.

Strategies implemented resulted in a reduction in the SARS debt book for the second consecutive year. Debt of approximately R17,7 billion was collected, reducing the debt book by 3.75%. For the first time, the outstanding return book was reduced.

Enforcement also conducted nine campaigns in sectors of the economy that constitute potential risks. This resulted in the largest confiscation of abalone ever at Cape Town harbour in a combined law enforcement operation, and the confiscation of tik (methamphetamine) worth R270 million.

Satisfactory progress has been made in implementing a systems approach to enforcement. A key element of this approach is a project to adapt the compliance model developed by the Organisation for Economic Cooperation and Development (OECD) to the South African environment. SARS intends to put this model into operation in 2007/08.

Business Intelligence Unit

The Business Intelligence unit (BIU) is constructing an integrated compliance risk system based on the OECD model, which will detect and prioritise risk and enhance SARS's understanding of taxpayer compliance.

The BIU obtains information from three main sources: SARS systems, the fraud hotline, and external information from scientific surveys and expert analyses. The unit uses this information to provide strategic, tactical and operational intelligence products.

In 2006/07 the BIU provided the following services to internal customers:

- Over 25 000 cases were selected on the basis of risk assessments for enforcement actions. Of these cases, 68% yielded a positive result (i.e., some form of non-compliance was detected);
- Information about potential non-compliant taxpayers in specific business areas as part of the Small Business Tax Amnesty; and
- Industry-based risk analysis to enhance service and education strategy.

A number of risk tools have also been developed, including:

- The trader risk profiler;
- The CIT SARAP risk tool, focused on high-risk companies;
- The ICRAS, which analyses all customs transactions in real time; and
- The vendor risk profiling tool, focusing on VAT non-compliance, is in the testing phase.

Cooperation with Other Agencies

The BIU works with external agencies, including the Asset Forfeiture Unit, the Financial Intelligence Centre, the South African Police Service, the National Intelligence Agency and the Eastern and Southern African Anti-Money Laundering Group.

Audit

Taxpayer behaviour determines the nature and extent of SARS's response in matters of compliance. For low-risk, compliant taxpayers and traders, the focus is on improving education and service, and reducing the administrative burden. For non-compliant taxpayers and traders the response is proportionate to the extent of the non-compliance. Audit is responsible for verifying compliance and deterring non-compliance through effective audits. Within Enforcement, two types of audits are conducted:

- **Investigative audits** are selected on the basis of specific risk and are used to prove or disprove an allegation of non-compliance; and
- **Control audits** aim to verify and improve compliance in the known taxpayer base through random selection and generic risk selection.

In 2006/07 there was an increase in the number of control audits through the introduction of inspection audits. The inspections conducted on small businesses were used to create awareness of the Small Business Tax Amnesty, in which non-compliant businesses were encouraged to get their tax affairs in order. SARS sought to be more visible and gain more insight into the compliance behaviour of this segment. The increased number of inspections and the availability of the amnesty, however, had a negative effect on revenue assessed.

Audit Coverage

The audit strategy aims to ensure consistent quality coverage of the taxpayer base, which will encourage voluntary compliance. The coverage is informed by historical analysis and identified risks. The figure below highlights coverage obtained in the different tax types.

Figure 10.1: Comparative audit coverage

Tax type	Actual Coverage 2005/06	% Coverage Actual 2005/06	Actual Coverage 2006/07	% Coverage Actual 2006/07	% Coverage Actual 2006/07 vs. Coverage Actual 2005/06
PIT	24 692	0.63	26 267	0.57	-0.06
CIT	11 947	1.51	13 453	1.49	-0.02
VAT	23 619	4.46	24 603	3.94	-0.52
PAYE	3 642	1.35	4 947	1.51	0.16
Total	**63 900**	**1.16**	**69 270**	**1.07**	**-0.09**

The decrease in the audit coverage from 1.16% to 1.07% is due to a growth of 17% in the active tax register.

The figure below highlights coverage obtained in the different tax types.

Figure 10.2: Audit coverage per tax type

Tax type	Target 2006/07	%Coverage Target 2006/07	Actual 2006/07	%Coverage Actual 2006/07	% Variance Actual vs. Target 2006/07
PIT	21 721	0.47	26 267	0.57	0.10
CIT	10 359	1.15	13 453	1.49	0.34
VAT	27 738	4.44	24 603	3.94	-0.50
PAYE	6 182	1.89	4 947	1.51	-0.38
Total	**66 000**	**1.02**	**69 270**	**1.07**	**0.05**

Because personal income tax (PIT) is the largest component of the taxpayer base, a large number of PIT audits were conducted. There was negligible difference in the PIT coverage between 2005/06 and 2006/07.

More Pay As You Earn (PAYE) audits were conducted year-on-year, demonstrating that PAYE capacity is being addressed. The percentage of Corporate Income Tax (CIT) cases compared to the previous year was unchanged.

Audit Systems

SARS made a concerted effort to standardise the audit process by finalising audit programmes and templates and drafting policies and procedures. The new process will be implemented nationally in 2007/08.

A review of completed inspections was implemented in all offices. This is a quality assurance tool designed to report areas that need further attention. It helps SARS to analyse industry/sector behaviour and informs improvements.

In the new financial year Audit intends to reintroduce teams to improve the expertise of auditors in specific tax types, while those with skills in all tax types will conduct integrated audits. Specialised teams are being trained to focus on PAYE in the coming year. Audits of trusts will be conducted by suitably trained staff. Improved communication with the Master's Office will assist with this initiative. There will be an increased focus on stocktaking to reduce inventory manipulation in financial statements.

Audit capacity relative to the total SARS staff is not in line with international benchmarks and there will be a concerted effort to increase capacity over the next three years.

Criminal Investigations

The Criminal Investigations unit is responsible for investigating allegations of non-compliance in registration and filing, false declaration of tax information, fraud and theft, as well as statutory offences in terms of any of the acts that are administrated by the SARS Commissioner. Any of these transgressions can lead to a criminal conviction. Cases emanate from both internal and external sources.

The figure below depicts performance for the year compared to the previous year.

Figure 10.3: Criminal Investigations

Description	2005/06	2006/07	% change
Criminal cases completed	1 181	1 909	62
Criminal cases prosecuted	382	447	17

Cases Investigated and Prosecuted

A total of 1 909 cases were investigated and handed over to the criminal justice system for prosecution. Of these, 105 were complex cases and 524 were cases of medium complexity. The implementation of a case management structure and inventory control during 2005/06, as well as the 2006/07 strategy of streamlining cases for input into the system, contributed to the increase.

A coordinating committee including representatives of SARS Criminal Investigations and the Specialised Tax Unit of the National Prosecuting Authority (NPA) facilitated swift and efficient prosecution. Transgressors were ordered to pay SARS a total of R38,1 million, and were sentenced to fines amounting to R2,1 million.

The figure below depicts sentences handed down.

Figure 10.4: Court sanctions

Description	National Totals 2006/07
Total convictions	486
Fines	R2 100 000
Imprisonment (years)	46 person years
Suspended Sentences	473 person years
Correctional Supervision	1 024 person months
Community Service	3 026 person hours

Convictions related mainly to contraventions of the Value-Added Tax Act (1991), Income Tax Act (1962) and Customs and Excise Act (1964). The crimes were mostly committed in the following sectors:

- Agencies and other services;
- Business services;
- Construction;
- Food, alcohol and tobacco; and
- Retail and wholesale trade.

Relationship with External Stakeholders

The relationship between SARS and the NPA has improved considerably, and compatible strategies are benefiting both institutions.

After a review of investigators' case loads, Criminal Investigations reallocated resources and assignments in accordance with skills and experience, while ensuring coverage of the entire spectrum of cases. An evaluation of workloads led to the NPA making 37 additional prosecutors available for tax and customs prosecution.

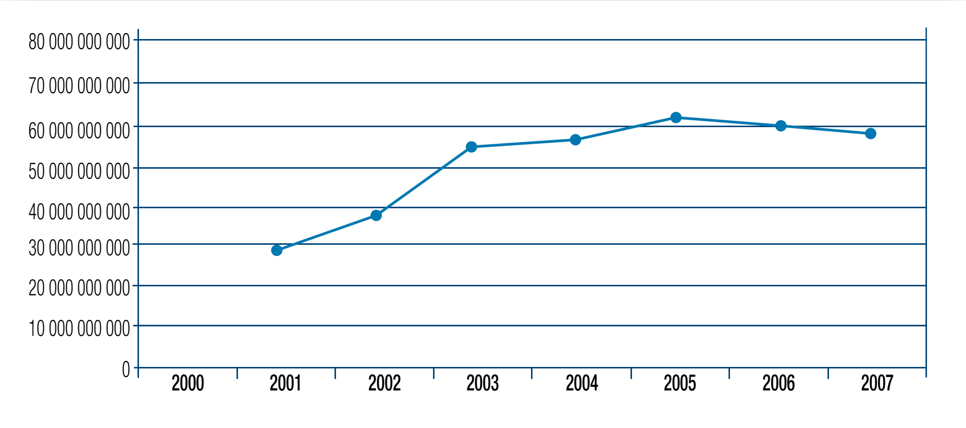
In the new financial year, there will be earlier and greater involvement with prosecutors. There will also be an increased focus on quality assurance.

Debt Management

Management of the debt book consists of collecting debt and managing adjustments and write-offs. The plan to reduce the debt book through segmentation and dedication of resources to each segment of the division continues to yield results.

For the second year running, a reduction in the debt book has been achieved. A further tool to assist in the reduction of debt is the introduction of Section 91A of the Income Tax Act, which enables on the one hand permanent write-offs, on the other hand a suspension of debt when it is uneconomical to collect.

Figure 10.5: Debt book from 2001-2007



Debt-to-revenue Ratio

The following figure tracks the debt to revenue ratio from 2001 to 2007. The ratio increased steadily between 2001 and 2003, but started decreasing in 2004, reflecting the same trend as the debt book. This trend is expected to continue for the next few years. The international benchmark is a 3% to 7% debt to revenue.

Figure 10.6: Debt-to-revenue ratio (2001-2007)

Year	2001	2002	2003	2004	2005	2006	2007
Due Debt (R-billion)	30	39	56	56	62	60	64*
Revenue Collected (R-billion)	224	256	290	314	367	417	495
Debt: Revenue Ratio (%)	13.39	15.23	19.31	17.83	16.89	14.39	12.88

*The amount for 2006/07 includes non-core taxes, customs debt, STC, SDL, UIF and Diesel debt, while previous reports were for core taxes only. The SARS debt book includes debt under dispute, which other revenue agencies exclude.

Debt Collection

The total of R17,7 billion collected was R700 million above the target of R17 billion. Revenue collectors were assisted in reaching the target by specialised teams dealing with high-value cases, along with the efficient management of deferred payment arrangements, debt orders, return to drawer cheques and agent appointments.

While the target was achieved, there is a downward trend in the debt collection performance. While more taxpayers are paying on time, it is becoming more difficult to collect old debt, and collections from retirement funds are now excluded from debt.

The figure below depicts debt collection over the past three years.

Figure 10.7: Debt collection

	2004/05	2005/06	2006/07
Amount Collected	R21 931 792 116	R20 523 634 804	R17 747 679 110
Annual Target	R22 707 518 235	R23 291 029 363	R17 039 804 677
% Variance	-3	-12	4

Debt Adjustments and Write-offs

The following activities assisted in reducing the debt:

- Specialised teams finalised cases older than 49 months. Irrecoverable debts were suspended;
- Teams were established to deal with cases that were untraceable, suspended or awaiting deregistration;
- A number of teams dealt with cases that were between 24 months and 48 months old; and
- A high-value collections team focused on cases above R1 million.

Debt will continue to be reduced in coming years as successful strategies are continued, supported by improved systems. Debt classification and reporting will also be adapted to ensure a focus on collectable debt.

Outstanding Returns

The Outstanding Returns unit is responsible for managing the outstanding return book for income tax, VAT and PAYE.

While some returns become outstanding because taxpayers are unaware of their obligations, or because they have not received returns due to change of address, for example, others are the result of intentional non-compliance.

Collection of Outstanding Returns

SARS collected more than 4,5 million returns during 2006/07, exceeding the target by 25%. The Outstanding Returns section implemented a rudimentary standalone case management system, enabling segmentation of the outstanding return book into tax types. This helped the unit to prioritise cases and enhanced collectors' efficiency, leading to a 15% increase in returns collected.

Reduction in Outstanding Return Book

During 2006/07 the aim was to reduce the growth in the number of outstanding returns to zero. The unit managed to reverse the trend of increased numbers of outstanding returns for the first time since 2001, as shown in the figure below.

Figure 10.8: Outstanding returns

Total outstanding returns	Opening Balance	Closing Balance	% Change
2001/02	3 740 516	4 459 081	19
2002/03	4 509 843	4 943 685	10
2003/04	4 916 154	5 445 472	11
2004/05	5 372 840	6 199 297	15
2005/06	6 094 890	6 346 742	4
2006/07	**6 346 742**	**5 980 400**	**-6**

The goal for the next three years is to continue reducing the backlog and to limit the growth of outstanding returns. The new case management system makes it possible to analyse non-compliance relating to non-filing of returns by economic sector, geographical area and taxpayer classification, and to plan accordingly. In this regard, SARS is planning an initiative to collect outstanding returns in defined residential areas.

Other plans include:

- A prosecutions campaign focusing on taxpayers with outstanding returns on all tax types (multiple offenders);
- A clean-up of companies on the register with no turnover/economic activity (shelf companies);
- A survey to establish reasons for non-filing of returns to inform educational messages; and
- A clean-up of taxpayers' contact details to reduce the quantity of undelivered returns.

Estates

Estates is a specialised section consisting of accounts maintenance, registry, assessing, audit and collections. Each of these subsections contributes to the finalisation and taxation of estates of deceased individuals and insolvent estates of individuals and legal entities.

In terms of the Administration of Estates Act (1965) and Insolvency Act (1936), the Estates subsection is required to inspect an estate and, if necessary, assess it for taxes due. This inspection relates to both pre- and post-death/insolvency income. Tax liability can arise from any one of the taxes administered by SARS. However, the taxation and finalisation of deceased and insolvent estates differ. The majority of estate cases on the national estates register are deceased estates, while the majority of debt is found in insolvencies.

Estate Cases

The opening balance of the estates register for 2006/07 was 124 170 cases. A significant number of estate cases were completed, with a net reduction in the number of cases by 18 000, leading to a closing balance of about 106 000 cases. This achievement was due to segmenting the estate cases by category and focusing resources on the segments.

Estates Debt

The estates debt book increased consistently from 2001 (R4,5 million) to 2005 (R7,8 million). One focus for the review period was to address the growth of the debt book. Again, a net reduction in the debt book of R1,65 million was achieved, resulting in a closing balance of R6,1 million on 31 March 2007.

The unit achieved this by focusing on cases with a value of more than R1 million, and on insolvent estates older than 49 months and deceased estates older than 24 months.

The unit achieved all its targets for the year. The identification of gaps in the estates operating system and the implementation of policies and procedures to address these gaps will assist in improved performance, and the training of staff in identified areas will further improve the quality of our work.

Enforcement Campaigns

Industry sector campaigns draw together the efforts of different SARS divisions. During 2006/07 SARS continued to focus on the nine sectors selected in the previous financial year:

Abalone

SARS developed a national strategy for combating the illicit trade in abalone based on a national multi-agency approach to counter organised poaching and smuggling networks.

One combined operation resulted in the largest confiscation of abalone ever made at the Cape Town harbour. The arrested individuals were charged with contravening the Customs and Excise Act, racketeering and the illegal possession of abalone. About seven tons of frozen and dried abalone with an estimated street value of R11 million were confiscated.

Another critical aspect of the strategy is increased interaction with regional customs administrations. This year a workshop was conducted for representatives of the Swaziland Revenue Authority.

The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) Secretariat officially announced the inclusion of South African abalone (Haliotis midae) in its Appendix III list as from 3 May 2007. This makes a CITES permit a requirement for international trade in South African abalone. This is expected to increase control of the trade in this protected resource.

Fourteen income tax audits were conducted in this sector, resulting in six taxpayer registrations and collection of 59 outstanding tax returns. Another 42 audits and investigations are in progress. Assessments and schedules amounting to R83 million were raised.

Alcohol

SARS raided the premises of several alcohol manufacturers in Gauteng, KwaZulu-Natal and the Western Cape suspected of selling products with a high alcohol strength, but on which incorrect or no excise duties were paid. Records of higher production levels than those on which excise duty had been paid were found at a number of premises.

Altogether, 24 audits of individuals and entities suspected of smuggling alcohol into the country are in progress. The criminal trial of an individual charged with more than 8 000 counts of diversion of alcohol and VAT-related offences totalling R42 million continued into the new financial year.

Clothing, Footwear and Textiles

In 2006/07 South Africa and China signed a memorandum of understanding restricting the importation of certain textiles and apparel tariff items through fixed quotas. To identify and address customs undervaluation in this sector, an audit team in KwaZulu-Natal has developed a blueprint for integrated customs and enforcement audits. The model provides a risk identification matrix to detect the gross undervaluation of imports, while VAT and income tax audits are performed on selected taxpayers.

A task group with representatives of SARS, the International Trade Administration Commission (ITAC) and the Department of Trade and Industry has begun to examine the discrepancies between the total value of the duty credit certificates issued and the total value of certificates originating in Botswana, Lesotho, Namibia and Swaziland (BLNS countries). The task group met with representatives of the BLNS countries in Lesotho in January 2007 to discuss issues of mutual interest. These included verifying the authenticity of the issued certificates, the development of common guidelines, and improving the current administration of duty credit certificates.

High Net-worth individuals

While individuals in this category make up a small percentage of the population, they collectively make a significant contribution to the economy and to a culture of compliance. During 2006/07 SARS announced the establishment of a dedicated capability in the Large Business Centre to serve these individuals and address non-compliance.

An earlier project to tackle non-compliance among high-value property owners highlighted a number of evasive practices designed to avoid tax obligations. Information on taxpayer behaviour in this sector is being gathered for stronger enforcement.

Motor Industry Development Programme (MIDP)

Audit findings in the Motor Industry Development Programme (MIDP) have revealed deliberate manipulation of the declaration and calculation of foreign currency usage and the incorrect application of rebates.

SARS and ITAC are finalising a memorandum of understanding that defines the processes to be followed by SARS and MIDP members when an audit is being conducted. This memorandum closes loopholes that MIDP taxpayers have employed to avoid resolving non-compliance revealed during enforcement audits.

A team of MIDP and audit experts has also developed standard procedures and techniques for this sector. Altogether, 21 auditors have received MIDP audit training. Assessments of R116 million were raised in 2006/07 and 13 audits are in progress.

Property

Risks in this sector include the non-payment of taxes upon the disposal of property and the omission or under-declaration of property sales, resulting in losses of transfer duty, VAT, income tax and capital gains tax. The campaign focusses on educating taxpayers about their responsibilities. In addition, SARS leveraged the transfer process to address non-compliance with other taxes.

Tax Practitioners and Customs Agents

Practitioners and clearing agents have great influence over the way in which their clients respond to SARS requirements and are critical to increased compliance. SARS established a dedicated Practitioners' unit, which is covered in Chapter 7.

In an initiative linked to the Small Business Amnesty, the SARS call centre contacted all tax practitioners and clearing agents with outstanding debt or income tax returns of their own to get them to meet those obligations.

Sweets and Confectionery

Audit action initiated in the previous financial year against confectionery importers suspected of contravening the Customs and Excise Act continued into 2006/07. Twelve audits are still in progress. These taxpayers were offered an opportunity to present any mitigating circumstances before the audits closed.

Meetings between SARS and local manufacturers were held to determine a reasonable base import price and to establish whether current import values have recently increased. (An analysis of import data indicated that the import unit price of Brazilian confectionery had increased).

Tobacco

In keeping with the national strategy for combating the illicit trade in tobacco, SARS has consulted widely throughout this sector and coordinated efforts with the South African Police Service to clamp down on smuggling networks. Along with the regular detection and seizure of illegal cigarettes by Customs, this resulted in the arrests of 22 individuals. Legal proceedings against them continue. Enforcement efforts resulted in schedules and assessments of more than R295,5 million being raised. Of this amount R183,2 million has been collected.

Figure 10.9: Breakdown of campaign activities for 2006/07

Activity	Results
Number of raids conducted	579
Number of inspections conducted	9
Number of audits conducted	150
Number of detentions	380
Number of seizures	1 483
Number of criminal cases	33

Conclusion

SARS's objective is to encourage compliance, discourage non-compliance by using appropriate and proportionate sanctions, and reduce the opportunities for tax evasion. The goal is to ensure that each taxpayer and trader fully meets his/her legal obligations.

11

LEGAL AND POLICY

11. LEGAL AND POLICY

Highlights

- A new and improved General Anti-Avoidance Rule was introduced.
- An advance tax ruling system was implemented.
- Draft regulations were issued prescribing the circumstances under which the Commissioner may write off or compromise any amount of tax, duty, levy, charge, interest, penalty or other amount.
- A tax amnesty for small businesses was introduced.
- Legislation was introduced to give effect to the guarantees given by South Africa for hosting the 2010 FIFA World Cup.
- Regulations and an explanatory note were published on the transitional arrangements for municipalities following the zero-rating of municipal rates.
- Legislation on withholding tax for non-resident entertainers and sportspersons came into effect.

Overview

The revenue collection and customs control activities of SARS are based on and governed by tax and customs laws. The Legal and Policy division plays an important role throughout this legislative framework. The division's three main work streams are:

- Legislative policy;
- Interpretation and rulings; and
- Dispute resolution and corporate legal support.

Legislative policy deals with the development and drafting of tax laws, regulations, notices and negotiating tax treaties. Interpretation and rulings facilitate the uniform and correct application of legislation by means of interpretation notes, rulings and guides. Dispute resolution provides taxpayers with a fair dispute resolution process by speedily and cost-effectively resolving tax and customs disputes, either through alternative dispute resolution (ADR) or through litigation. It also provides corporate legal support to SARS.

Policy Advisory Role in Terms of the SARS Act

In terms of the SARS Act (1997), SARS must advise:

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

The Legal and Policy division works closely with National Treasury on legal issues and policy affecting taxation and related matters. It assists with the formulation of legislation, drafts new legislation and amendments to existing legislation where appropriate. During the period under review, several pieces of legislation were drafted to give effect to the proposals announced in the 2006 Budget Review. These were the Small Business Tax Amnesty and Amendment of Taxation Laws Act; the Second Small Business Tax Amnesty and Amendment of Taxation Laws Act, the Revenue Laws Amendment Act, and the Revenue Laws Second Amendment Act.

Some of the matters dealt with in the above legislation are:

Small Business Tax Amnesty and Amendment of Taxation Laws Act (2006) (Tax Amnesty Act)

- Provides for a tax amnesty for small businesses in respect of voluntary disclosure of any failure to comply with certain Acts;
- Rate changes for income tax for 2006/07 and transfer duty;
- Increase of estate duty, donations tax and interest exemptions;
- Amendment of specific excise duties;
- Repeal of the regional services council levies;
- Increase of the turnover limit for small business corporations;
- The zero-rating of municipal rates for VAT; and
- Increase of the stamp duty exemption on leases.

Second Small Business Tax Amnesty and Amendment of Taxation Laws Act (2006) (25 July 2006)

This Act introduced the administrative provisions of the tax amnesty. It provides for the stopping, detention and examination of all goods under the control of the Commissioner, including ships, motor vehicles and containers.

Revenue Laws Amendment Act, 2006 (7 February 2007)

- Introduces new incentives for scientific and technological research and development;
- Extends incentives for employee scholarships and bursaries;
- Relaxes regime for small personal services entities;
- Provides relief for small business cooperatives;
- Introduces incentives for oil and gas exploration and production, previously contained in the prospecting lease (granted in 1965 and known as OP 26) arrangement for offshore oil and gas operations;
- Simplifies rules relating to mining environmental rehabilitation funds;
- Reduces tax on certain retirement fund withdrawals;
- Refines taxation of public benefit organisations (PBO);
- Introduces new rules for the partial taxation of recreational clubs;
- Regulates the tax treatment of foreign governments and municipal entities (previously referred to as local authorities);
- Introduces measures to provide certainty on the tax treatment of domestic and foreign government grants and assistance;
- Introduces legislation to give effect to the guarantees given by South Africa for hosting the 2010 FIFA World Cup;

- Provides relief in taxing residents on amounts derived by controlled foreign companies; and
- Introduces a new General Anti-Avoidance Rule (GAAR).

Revenue Laws Second Amendment Act (2006) (7 February 2007)

- Amends the Estate Duty Act (1955) to allow SARS to appoint any person as an agent of the person liable for estate duty;
- Provides for the delegation of powers of the Minister of Finance; and
- Introduces new reportable arrangement rules to give SARS early warning of arrangements that are potentially tax driven.

Customs And Excise Act Notices and Tariffs

In the year under review 95 government notices were published with regard to customs and excise matters, including 83 tariff notices. Of the latter, 54 were requests from the International Trade Administration Commission (ITAC) and 29 were internal requests. The ITAC requests related mainly to:

- The introduction or termination of anti-dumping duties (for example, multiple paper and paperboard, PVC and rubber tyres); and
- Changes in the rates of duty on a number of products.

The internal requests related to levies on fuel, the Road Accident Fund levy, implementation of the 2007 version of the Harmonised System, a Free Trade Agreement with the European Free Trade Association, budget proposals reducing ad valorem duties and the phase-down of duties relating to the European Union/ Southern African Development Community (SADC) agreements, among others.

The 12 rule notices in terms of the Customs and Excise Act (1964) relate among other things to internal requests for new rules for customs forms and the amendment of rules for implementation of the SAD500 form (single administrative document).

Tax Treaties

The Legal and Policy division works to maintain and expand the tax and customs treaty network in bilateral negotiations with a view to promoting trade and investment, protecting the tax base and facilitating information exchange.

In the year under review, the division negotiated and finalised double taxation agreements with Australia, Lesotho, Seychelles and the United Kingdom. A double taxation agreement was signed with Saudi Arabia on 13 March 2007.

The division also finalised mutual assistance agreements on customs with India and Sudan, and signed an agreement with the People's Republic of China on 22 September 2006 and with Hungary on 6 December 2006.

A general memorandum of cooperation between the Lesotho Revenue Authority and SARS was finalised, as was a memorandum of cooperation on the Lesotho Customs automation project between the Lesotho Revenue Authority and SARS.

An annex to the Southern African Customs Union (SACU) Agreement on Mutual Administrative Assistance in Customs Matters drawn up by a member of the division was discussed and finalised on 14 March 2007. SARS has regularly attended meetings of the committee on fiscal affairs of the Organisation for Economic Cooperation and Development (OECD), in which South Africa has observer status. SARS is represented in the working parties on tax conventions, taxation of multinational enterprises, taxation avoidance and evasion, and consumption taxes.

Meetings of the SADC tax subcommittee have also been attended and a representative of the Legal and Policy division chairs the subcommittee's working group on tax treaties. Regular inputs are also made to a working group on permanent establishments.

The division has an elected member of the United Nations committee of experts on international cooperation in tax matters who attended the second meeting of this committee in 2006.

Interpretation and Rulings

The division facilitates the uniform and correct application of legislation and case law by stakeholders. It also builds expertise in the interpretation of the various tax laws. In the period under review a number of interpretation notes were updated, new notes were issued and drafts were released for public comment.

The following interpretation notes were provided:

Updates of Existing Notes

- No 9: Small business corporations;
- No 13: Limitation of deductions for employees and office holders;
- No 20: Learnership allowance; and
- No 28: Home office expenses incurred by persons in employment or persons holding an office.

Drafts issued for Public Comment

- PBOs: trading rules – partial taxation of trading receipts;
- PBOs: the capital gains tax consequences;
- No 31: VAT: documentary proof required to substantiate a vendor's entitlement to apply the zero-rate to the supply of goods or services; and
- No 39: VAT treatment of public authorities, grants and transfer payments.

New Notes Issued

- No 36: Scope and impact of non-binding private opinions and other written statements by the Commissioner prior to 1 October 2006;

- Note 37: Procedures for requesting binding effect in respect of written statements issued by the Commissioner prior to 1 October 2006;
- Note 38: Application and cost-recovery fees for binding private rulings;
- Note 41: VAT: Application of VAT to the gambling industry; and
- Note 42: VAT: The supply of goods and/or services by the travel and tourism industry.

A number of general and retirement funds notes were reviewed and revised.

Rulings

Business Tax Policy: 38 rulings issued

- Rulings mainly concerned tax issues on International Tax, corporate restructuring in terms of the corporate rules, PBOs, revenue versus capital, the 2010 FIFA World Cup and mining.

Personal Income Tax Policy: 373 rulings issued

- Rulings mainly concerned issues such as 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 and queries related to retirement funds.

Indirect Tax Policy: 153 rulings issued

- Rulings mainly concerned foreign donor funding, registration of foreign enterprises, financial services and warranty payment transactions; and
- Binding general rulings No. 1 and 2 regarding the new VAT rulings dispensation.

Advance Tax Rulings (ATR)

The ATR system, which is intended to promote clarity, consistency and certainty in respect of the interpretation and application of the tax laws, was implemented on 1 October 2006 after extensive research regarding similar systems internationally.

Currently, ATR provides for the issuing of binding general rulings and binding private rulings, while binding class rulings are scheduled for implementation during the latter part of 2007/08. Binding class rulings will set out 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 private 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.

The binding private ruling applications dealt with for the period 1 October 2006 to 31 March 2007 are given in the table below. The average turnaround time was 18 days.

Figure 11.1: Applications for Binding Private Rulings

New Applications	Number
Received	37
Finalised	22
Withdrawn	7
Rejected	6
Confirmation Requests	
Received	10
Issued	7

Tax Shelters and Anti-Avoidance

Reportable Arrangements

The reportable arrangement legislation was amended to address weaknesses in the original legislation and to align it to the new GAAR. The legislation is intended to alert SARS to new aggressive avoidance schemes as they enter the market, enabling it to take action to counter them before they become widespread.

Under the previous legislation, 80 reportable arrangements were reported. The vast majority related to preference share deals, while promoters of more aggressive schemes used perceived loopholes to avoid disclosure.

General Anti-Avoidance Rule (GAAR)

The previous GAAR was replaced by new legislation that closed perceived loopholes under law and reinforced and expanded those provisions to create a more consistent and effective deterrent against impermissible avoidance schemes.

The new provisions have already been successful in shutting down a number of aggressive schemes in the market and pre-empting several planned ones. As one prominent practitioner wrote in a recent article, "the more one analyses [the new GAAR] in light of practical situations, the more one realises its power and breadth".

The Legal and Policy division will continue to provide assistance in investigating impermissible tax avoidance schemes.

Knowledge Sharing

The Legal and Policy division aims to promote sound public knowledge of tax and customs by issuing tax guides and brochures. In the year under review, the division disseminated 21 guides on tax matters. Of particular importance are guides such as the SARS Guide to Binding Private Rulings (new issue), Tax

Guide on the Deduction of Medical Expenses (new issue), Comprehensive Guide to Secondary Tax on Companies (draft and final version published), Tax Guide for Small Businesses – 2006/07, Guide to the Urban Development Zone Tax Incentive and VAT 404 – Guide for Vendors.

Dispute Resolution and Legal Support

SARS, in the interest of the fiscus and ultimately of the country and its economy, 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 – and for the long-term benefit of the nation – it must ensure that the best legal resources available are utilised for this purpose and that the workforce of the section is appropriately knowledgeable and skilled. A further breakdown of the cases in respect of revenue and customs litigation is given below.

Figure 11.2: Revenue Litigation

COURTS	CASES					
	Conceded	Lost	Won	Withdrawn	Settled against SARS	Settled in favour of SARS
Tax Court	74	5	9	32	9	47
High Court	1	2	0	2	0	0
Supreme Court of Appeal	0	1	2	0	0	0
TOTAL	**75**	**8**	**11**	**34**	**9**	**47**

Figure 11.3: Customs Litigation

COURTS	CASES				
	Abide by Courts' *decision	Lost	Won	Settled against SARS	Settled in favour of SARS
Magistrate's Court	1	0	0	0	0
High Court	123	3	22	6	8
Supreme Court of Appeal	0	1	3	0	0
Constitutional Court	0	0	4	0	0
TOTAL	**124**	**4**	**29**	**6**	**8**

*Abiding by the courts' decision entails filing a notice to abide by the decision of the court as SARS has no grounds to oppose the relief sought by an applicant.

Alternative Dispute Resolution (ADR)

In dealing with disputes with taxpayers and traders, SARS adheres to effective and efficient litigation. SARS has achieved this by:

- Developing and implementing an ADR process that contributes immensely to the resolution of tax disputes outside of the courts;
- Developing and implementing a system to identify "test cases" to simultaneously resolve several disputes on the same issue that are pending; and
- Using the periods of notice for instituting legal proceedings against the state to finalise matters, where possible, outside of the court process.

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

- The independence of the ADR and litigation processes from SARS's operational interaction with taxpayers and traders;
- The management of turnaround times of case processing;
- Updating taxpayers on their rights using 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.

Figure 11.4: Appeals dealt with by ADR

Withdrawn	19
Conceded	90
Settled in favour of SARS	47
Settled against SARS	123
Referred to Tax Board	1
Referred to Tax Court	72
Total of cases dealt with	**352**
Annual Target:	323
Total cases received	**697**
Total cases pending as at 31 March 2007	**345**

Corporate Legal

The Corporate Legal unit is a legal support unit dealing with issues other than tax and customs. Its objectives, in brief, are to:

- Provide SARS with corporate legal support and services for any matters not related to tax and customs and excise;
- Manage litigation instituted by and against SARS, including liaising with internal and external representatives;
- Advise SARS on how to comply with policy, legal and regulatory requirements; and
- Advise SARS on implications of legal and regulatory requirements relative to tender processes.

Training Assistance

The Legal and Policy division offers training assistance to domestic and international stakeholders. Domestically, the division held a number of training workshops for SARS staff, focusing on tax treaties and transfer pricing. Our international training assistance is mainly provided to other African countries. In the period under review we held workshops on tax treaties for the Rwanda Revenue Authority and the Southern African Tax Institute grouping of African countries. A workshop for the SADC countries on exchange of information was held with the OECD.

Training was provided for municipalities at three public information sessions regarding the Regulations on Transitional Arrangements for Municipalities following the VAT zero-rating of municipal rates and other consequential amendments.

Conclusion

The Legal and Policy division will continue to work closely with the National Treasury and the Department of Trade and Industry to monitor, update and amend legislation relating to tax and customs, and to draft new legislation where needed. The division will also protect 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 resolve tax disputes in an equitable and fair manner, and interpret tax laws fairly and consistently.

12

PEOPLE: Enhancing Human Capital

12. PEOPLE: Enhancing Human Capital

Highlights

- A number of employee assistance programmes, including a call centre and a wellness website, were established.
- A new integrated performance and development management system was implemented for grades 6 and higher.
- Recognition agreements were concluded with the Public Service Association and the National Education Health and Allied Workers Union.
- A talent intake programme, including a comprehensive development plan, was introduced.
- Competency-based assessments were introduced as part of the recruitment plan for supervisory and senior management positions.
- A new employee engagement programme was designed to bring about culture change within SARS.
- Orientation and induction programmes were reintroduced.
- Electronic services such as eRecruitment, ePayslips and eTotal package were implemented.

Overview

SARS is a knowledge-based organisation requiring an appropriate mix of professional skills and attitudes to function effectively. The 2007 calendar year has been declared "Year of the People", and SARS has completed the planning for an employee survey which will take place in April 2007. The aim is to ensure that SARS is staffed by people who are truly engaged, inspired by the opportunity and challenge to contribute to nation-building. The purpose of this exercise is to improve professionalism, ensure continuous performance improvement and retain critical personnel.

The Human Resources division continues to fulfil SARS's mandate through the recruitment, placement, retention and development of staff. Attention is on achieving employment equity targets, staff wellbeing and the development of a cadre of professional managers. Human Resources aims to ensure that SARS has the right number of people with the right quality, values, competencies, skills and attitudes, in the right positions.

Workforce Profile

At the end of March 2007, SARS had a staff of 14 709, of which 14 013 were permanent and 696 temporary employees. Below is the workforce and grade profile.

Figure 12.1: Workforce profile

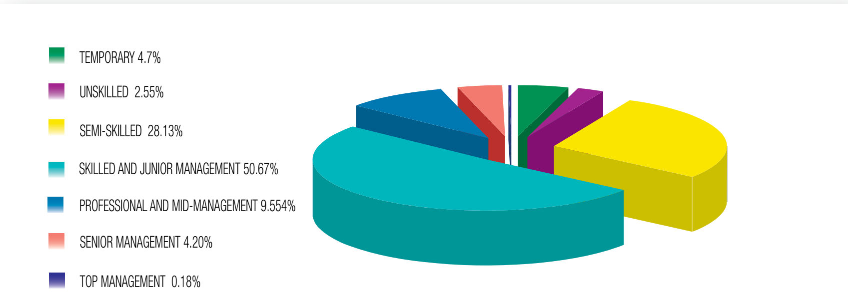


Figure 12.2: Grade Profile

Grade	00	01	02	03A	03B	04A	04B	05A	05B	06	07	08	09	10	Total
No:	85	375	184	1 889	2 064	3 794	1 484	1 223	867	1 404	468	150	25	1	**14 013**

Human Capital Profile

During 2006/07:

- 92% of employees were in core business operations;
- 8% were in support business operations (i.e., the Commissioner's Office, Finance, Internal Audit, Human Resources, Legal and Policy, Property and Facilities Management, and Communications and Corporate Relations);
- 63% of employees were black;
- 65% of employees were female;
- 1.7% of employees had a disability;
- Net staff turnover was 0.05%, with a net growth of 125 employees; and
- The sick absenteeism rate was 3%, 1.4% up on the previous year.

People Development

SARS has implemented an integrated people development strategy to ensure alignment between organisational needs and staff skills and competencies. The strategy aims to attract appropriately skilled people to the organisation through programmes such as the Graduate Recruitment and Development Programme and Training Outside Public Practice (TOPP). A career and talent management framework has been introduced in line with the career development programme to ensure that we create growth opportunities for staff.

Human Capital Planning

A comprehensive human capital planning and information solution has been developed. This entails mapping out SARS's current staff, the positions they occupy and their capabilities. This information will be analysed against SARS's current and future business needs and steps taken to address gaps. This approach will allow managers to take informed decisions regarding current and future investment in human capital.

Talent and Career Management

The reward, recognition and compensation strategy was reviewed and enhanced to support talent retention. In line with the human capital plan, a number of new talent intake initiatives were also successfully completed, such as the intake of candidates into both TOPP and the Graduate Recruitment and Development Programme. TOPP focuses on training in financial management, management accounting, financial accounting, auditing and taxation. The internal Career Development Programme has been essential in ensuring recognition for competencies required, acquired and applied by staff in different job categories as informed by operational requirements.

Leadership Development

The SARS Academy has established partnerships with institutions such as UNISA, the University of Stellenbosch, the Gordon Institute of Business Science and Franklin Covey SA, to ensure customised training for SARS managers in line with business needs. In 2006/07, 111 staffers in managerial/leadership and specialist positions graduated successfully from management development programmes.

SARS Academy

The objective of the SARS Academy is to provide and facilitate training across all SARS business areas. In the review period the Academy concluded a workplace skills plan, which met the requirements of the sector education and training authority, and delivered a total of 26 626 training interventions, exceeding its target for training.

The figure below gives the breakdown per training area:

Figure 12.3: Training delivery

Training Area	Total
Accounting & Auditing	150
Assessment	1 470
Computer	947
Customs	466
Enforcement	405
Income Tax	5 817
Systems	3 570
Value Added Tax	1 884
Taxpayer Service	503
PAYE	279
Leadership	2 932
Other Functional	775
Other Taxes	339
Soft Skills	2 120
Other	4 969
Total	**26 626**

The figures below illustrate the training delivery per occupational category by race and gender for 2006/07:

Figure 12.4: Training delivery: Gender

Occupational categories	Female	Male	Total
Legislator, senior officials and managers	65	166	**231**
Professionals	424	582	**1 006**
Technicians and associate professionals	1 805	1 002	**2 807**
Clerks	4 277	1 491	**5 768**
Labourers & elementary	41	28	**69**
Other (temps & contracts)	312	195	**507**
Total	**6 924**	**3 464**	**10 388**

Figure 12.5: Training delivery: Race

Occupational categories	African	Coloured	Indian	White	Total
Legislator, senior officials and managers	96	15	29	91	**231**
Professionals	381	118	162	345	**1 006**
Technicians and associate professionals	1 125	300	241	1 141	**2 807**
Clerks	2 968	760	362	1 678	**5 768**
Labourers & elementary	50	10	0	9	**69**
Other (temps & contracts)	357	78	11	61	**507**
Total	**4 977**	**1 281**	**805**	**3 325**	**10 388**

Training Partnerships

Regional cooperation on training continues. SARS has signed a memorandum of understanding with the Lesotho Revenue Authority and a training programme is being implemented. Following agreement with the World Customs Organisation, work is currently underway to establish a regional training centre for capacity building in Eastern and Southern Africa.

Performance Management and Development

The integrated Performance Management and Development System (PMDS) was implemented and rolled out to manager, team leader and specialist levels (grades 6 to 7). The system includes individual scorecards, quarterly performance reviews and personal development plans. This process involved a capacity building phase during which 10 trainers from the SARS Academy, 65 HR managers and managers who had grade 6 and 7 staff reporting to them, were trained on the respective methodology for effective implementation. The plan is to roll out this methodology to the rest of the staff (grades 1 to 5) during the 2007/08 performance management cycle.

A user-friendly PMDS toolkit has been developed and is available on the SARS intranet to assist all managers and staff.

All grade 8s will remain on the Senior Management Reward Scheme and their individual scorecards were finalised by September 2006. The year-end performance appraisal of grade 8 staff is scheduled to be finalised by the end of April 2007.

A new senior management incentive scheme has been implemented for top management (levels 9 to 10) and will be cascaded down to the lower levels in 2007.

Appointments

A total of 1 407 vacancies were advertised. The vacancies arose as a result of attrition and the creation of new positions in growth areas. A total of 942 employees were appointed by the end of the reporting period. The figure below provides details of the appointments for the year under review.

Figure 12.6: Appointments (2006/07)

Appointments	
Permanent	637
Contract	198
Trainees	68
Re-appointments	
Permanent	16
Contract	23
Total	**942**

In addition to the above appointments, the Graduate Recruitment and Development Programme has also successfully placed 151 graduates within the organisation.

Employment Equity

SARS continues to place a high priority on employment equity as part of its transformation agenda, and continuously strives to meet equity objectives in terms of race, gender and disability. To improve compliance with the letter and spirit of employment equity legislation, the SARS Commissioner has appointed a chairperson for the National Employment Equity Committee and a senior manager for employment equity.

Over the past decade SARS has made significant strides in aligning the profile of its workforce to national demographics, but challenges remain. Currently, women make up 65% of SARS staff and men 35%. Black women make up 27% of the total staff.

Gender equity, however, continues to remain a challenge at the senior and top management levels (level 8 and higher), where there are fewer women than men. A Women@SARS task team has been established to investigate ways to attract both internal and external candidates, and to retain women at top and senior management levels.

Overall Employment Equity Workforce Profile

The table below indicates the total number of designated employees in each of the occupational levels: (Note: A=Africans, C=Coloureds, I=Indians and W=Whites. "Designated" refers to those groups defined previously disadvantaged in national legislation.)

Figure 12.7: 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	8	3	4	2	0	1	1	7	0	0	**26**
Senior management	138	20	51	56	12	33	120	183	5	0	**618**
Professional	276	73	95	207	42	73	309	328	1	0	**1 404**
Skilled and junior	1 368	282	195	1 907	484	285	2 278	654	0	0	**7 453**
Semi-skilled	715	136	48	1 412	375	114	1 204	133	0	0	**4 137**
Unskilled	108	26	0	204	24	0	0	11	0	0	**375**
TOTAL	**2 613**	**540**	**393**	**3 788**	**937**	**506**	**3 914**	**1 316**	**6**	**0**	**14 013**

The figure below provides further details of the black (African, Indian and Coloured) workforce profile since 2003:

Figure 12.8: Black Workforce Profile 2003 - 2007

Organisational/ Staff Occupational level	March 03 %	March 04 %	March 05 %	March 06 %	March 07 %
Management Staff	44	47	51	53	**54**
Supervisory Staff	36	44	48	57	**60**
General Staff	51	55	58	62	**65**
All Staff	50	53	56	61	**63**

The table above illustrates a steady increase in the representation of black staff since 2003: a 10 percentage point increase at management level, 24 percentage points at supervisory level, and 13 percentage points among general staff.

Workforce Profile: Gender Representation

At the executive and senior management levels of the organisation specific efforts and strategies are being put in place to achieve gender equity. Of the 942 appointments made in 2006/07, 56% were female. The table below provides further details of the female workforce profiles since 2003.

Figure 12.9: Female Workforce Profile 2003 - 2007

Organisational/ Staff Occupational level	March 03 %	March 04 %	March 05 %	March 06 %	March 07 %
Management Staff	35	37	35	40	**42**
Supervisory Staff	45	47	45	46	**47**
General Staff	70	70	70	71	**71**
All Staff	65	65	64	65	**65**

The table above illustrates an increase in female representation since 2003: 7 percentage points at management level, 2 percentage points at supervisory level and 1 percentage point in general staff. Of the new appointments at management and supervisory level, 33% were female.

In addition, a Special Projects department has been established to raise awareness on gender and other social issues 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.

Workforce Profile: Disability Representation

For the year under review, people with disabilities accounted for 1.7% (233) of the total workforce, which is just short of the set target of 2%. The table below shows the representation of people with disabilities for the past five years.

Figure 12.10: Representation of people with disabilities 2003-2007

Group	March 03	March 04	March 05	March 06	March 07
People with disabilities	98	174	199	222	**233**

Employee Wellness

The scope of the Kulani no Hlayisa (grow while caring) employee wellbeing programme was expanded in the review period. New initiatives included incapacity and disability management, specialised absenteeism management, border post wellness, executive medical examinations and a comprehensive HIV/AIDS management programme. This, together with the 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.

About 14% of SARS staff make use of counselling and support services. This compares favourably with the industry average of 13%. Telephone counselling is the most used service.

The wellness website has been established and provides the following services:

- eCare and HIV/AIDS e-mail communications;
- Money Sense, a personal budget assessment service; and
- Medical support.

Employee Relations

SARS continues to develop good long-term relationships with organised labour through existing collective agreements and, where required, new ones. The focus has been on improving negotiating skills of management and labour representatives in dealing with employee relations.

The following are highlights of the employee relations programme:

- Implementation of a comprehensive employee relations strategy
- Agreements with organised labour on:
  - Disciplinary and grievance codes and procedures;
  - Negotiating an incapacity agreement;
  - Constitution of the National Bargaining Forum; and
  - An agency shop agreement.

SARS recognises the importance of labour unions and the benefits of regular interaction and dialogue with them. To this end, SARS signed recognition agreements with the Public Service Association and NEHAWU during the year under review.

These agreements allow all interactions to be conducted with integrity and provide for the smooth resolution of conflicts. Engagement with labour takes place in the National Bargaining Forum and the National Consultative Forum.

The table below illustrates union representation at SARS.

Figure 12.11: Union representation

Union	Overall %
PSA	39.45
NEHAWU	37.89
Both unions	1.81
Agency Shop	15.76
No union deduction	5.10

Administrative Enhancements

A functionality allowing staff to access information on their payslips and remuneration packages online was successfully rolled out to the whole of SARS in the review period. The introduction of ePayslips and eTotal package will enable SARS to decommission the printing of payslips at the end of April 2007, resulting in the saving of time and costs for the organisation. Another online initiative, the eManagers desktop, was also successfully rolled out to all managers. Plans to introduce online claims for mileage and overtime (eKm claims and eOvertime) were put on hold due to the potential migration of the current HR system to an integrated ERP Solution.

Conclusion

SARS recognises that its people are the drivers of its success. Their ideas, aspirations and knowledge are the catalysts through which we can build an effective organisation and offer better service. While significant gains have been made over the past decade – particularly in attracting and retaining staff, market-related remuneration and benefits, potential for growth and HR systems – challenges remain.

Human Resources will continue to focus on attracting and retaining core staff, raising their skills levels and addressing their personal development needs. We will set performance targets and measures for staff, provide them with regular, clear and constructive feedback, and encourage innovation and growth. We recognise that a motivated, skilled workforce that is remunerated fairly enhances organisational efficiency and effectiveness – and this is vital to achieve the goals of SARS.

13

SUPPORT SERVICES

13. SUPPORT SERVICES

13.1 STRATEGY, MODERNISATION AND TECHNOLOGY

Highlights

- A fundamental review of the SARS strategy.
- Starting delivery on two modernisation agenda items.
- Commencing work on the SARS Service Programme.
- Introducing a revised assessment programme.
- Undertaking three significant tenders.
- Ensuring a stable and reliable technical environment.
- Improving existing technology solution and service offerings.

Overview

The magnitude of change facing SARS over the next two to five years and the need to accelerate the modernisation agenda in support of building a solid foundation for sustainable future performance necessitated the establishment of the Strategy, Modernisation and Technology division (SMT).

SMT is responsible for managing the ongoing development of the SARS modernisation agenda underpinned by SARS's strategic intent, the translation of this into project plans and budgets and the overall strategic project and initiative management. SMT is also responsible for the technology architecture of SARS, application systems development, IT operations and "24 by 7" transaction processing, all of which are in support of SARS and its business delivery.

SMT assists SARS in balancing the need for modernisation while maintaining and improving its current levels of delivery through the technology foundation.

SMT was successful in its role in assisting SARS in an extensive review of strategy and in finalising a disciplined planning rhythm and framework. After an extensive 12 months of critical review, the SARS 2007 to 2010 Strategic Plan was published on May 2007.

Modernisation Agenda

The programme to deliver on these challenges requires SARS to accelerate its modernisation agenda and has three strategic pillars:

- Developing a new, differentiated operating model, with enhanced core operational capability in order to sustain performance, continuously improve taxpayer and trader service, and manage increasing transaction and taxpayer/trader volumes;
- Delivering on additional government priorities whilst maximising synergies with our core tax business; and
- Strengthening the organisational foundation to ensure sustainable delivery of programmes.

The modernisation agenda will be implemented through the following 10 programmes, which will evolve over time:

- Create a differentiated operating model;
- Develop an integrated risk management and enforcement system;
- Improve customer service, outreach and education;
- Enhance core operations and build core capabilities;
- Implement social security tax and wage subsidy;
- Strengthen border control (lead agency and security at ports of entry);
- Further professionalise management processes and governance;
- Transform SARS's culture and further enhance people capabilities;
- Improve infrastructure (Information and Communication Technology [ICT] and facilities); and
- Effective communication and change management.

Throughout the year the continuing initiatives already in place were adequately monitored and tracked and notably included the establishment of the Services Programme. This programme aims to improve customer service through replacement of current systems at call centres, back office and branches, introduction of case management and tracking and a single registration process across all tax and customs products. In time, a total portfolio view of taxpayers and traders will be made available at point of need.

The annual tax assessment process was identified as the most compelling short term opportunity for modernisation and plans were developed to implement major improvements for the 2007/08 tax Filing Season. New shortened and simplified tax returns were designed and introduction of these is the first step in the differentiated operating model designed to enhance core operations, minimise manual and paper-based transactions as well as minimise internal errors. Introduction of automation, use of imaging technology and greater use of electronic channels (eFiling) significantly modernises the assessment process.

Three major tenders were undertaken during the year:

- The evaluation and award of the Modernisation Tender to Accenture;
- The SARS Customs Container and Cargo Scanner Public Private Partnership tender was cancelled earlier in the year under review as it did not meet the value for money test. The Customs Scanners tender was subsequently redesigned and re-issued and has been evaluated and now awarded. Enhanced risk management and intelligence through use of scanners forms part of the Customs Modernisation initiative;
- The SARS Network Tender was also cancelled earlier in the year and re-issued as seven separate Information Communication Technology (ICT) tenders with evaluations substantially concluded during the reporting period. On 14 May 2007 four tenders were awarded and three have progressed to BAFO. The implementation of improved network management services, an upgrade of data, voice and internet services, improved server and workstation support and introduction of workgroup printing facilities are seen as essential prerequisites to enhancing core operations.

Technology Infrastructure

Operationally, SMT made significant strides in providing a stable environment and technology infrastructure. The core systems remained stable and performed adequately, despite numerous changes being introduced to the existing environment. Improved stability, availability, flexibility and monitoring as well as improved service management compliance was evident.

Technology changes included the implementation of:

- An automated security vulnerability assessment tool;
- An upgraded intrusion detection system;
- A web content filtering solution to more effectively manage access to the Internet;
- Logging facilities to provide assistance in resolving disputes and detection of potential unauthorised activity on business applications;
- An e-mail reporting solution to track non-compliant activity and usage statistics;
- Improvements to the CIPRO Interface;
- Implementation of ITIL & ISO20000 standards (in support of change, problem, incident and release management);
- A number of new and improved functions and systems such as:
    - The Advance Tax Ruling solution deployed through the SARS eFiling platform;
    - The Small Business Amnesty solution;
    - Electronic submission of IT12S/SS through eFiling; and
    - Enhanced HR system features to allow increased electronic access for staff, such as ePayslips, eTotal Package and eRecruitment.
- The SAP solution was upgraded to the latest versions and enabled leverage from new features and functionality. The SAP solution continued to be expanded to process payments emanating from all existing SARS payment channels. The SARSBANK payment channel was deployed to the Pretoria branch office during the past year, which will result in the reduction of manual activity in both branches and Head Office.

Although SARS has made good progress in achieving a stable technology environment, certain shortcomings within the underlying infrastructure and applications still exist, and careful consideration will be required to improve and upgrade this in conjunction with deployment of new features and functionality to give effect to SARS's Modernisation initiatives.

Contracts with major technology suppliers to SARS were reviewed and renegotiated over the past year. As we need to constantly ensure there is a clear value for money proposition for SARS this process is ongoing.

Human resource attraction and retention remains a major challenge. During the year proposals were developed to combat ever increasing competition in the market for quality skilled IT resources.

Conclusion

The ability of SARS to deliver future commitments from a sustainable foundation is critically dependant upon SMT's performance. Although progress to date is good the challenges facing SMT will require intense focus and immense effort.

Improved ICT will be an essential prerequisite to building capability for sustained performance and the current foundation for legacy systems needs upgrading. This foundation includes the operating systems supporting the application systems and the network infrastructure. The foundation layers supporting the legacy applications running on the mainframe need to be refreshed and operating and database systems on which the legacy systems are built need upgrading. Root causes of issues impacting on performance and stability need addressing and we need to improve our disaster recovery capability.

Expected benefits likely to accrue from the architecture improvement programme include:

- Improved operational efficiency due to upgrade in operating systems and hardware;
- Lower overall operational costs of legacy systems;
- Faster response times;
- Increased systems availability; and
- A platform capable of supporting future technological vision.

The year ahead will see implementation of the first phase of the stabilisation programme, the new network, the hardware and mainframe optimisation programme and release capacity.

We are confident we are building a solid technical foundation for sustainable performance and a modernised tax and customs administration.

13.2 PROPERTIES AND FACILITIES

Highlights

- Upgrading of infrastructure at revenue offices and border posts, including the occupation of the new Alberton South Campus and the provision of housing at Maseru Bridge, Groblersbridge and Quachas Nek.
- Renegotiation of various leases to ensure operational continuity.
- Revised structure and operations model to enhance the delivery and effectiveness of building maintenance.

Overview

The Properties and Facilities division provides SARS with the infrastructure it needs to operate effectively. The division facilitates effective operations through approved siting of business units, maintenance programmes for all buildings and border posts, and safeguarding the physical integrity and security of all buildings/assets and employees. It is also responsible for ensuring that SARS complies with health and safety legislation.

Property Management

This entails buying new properties, as determined by operational needs, from both government agencies and the private sector. It also requires that the existing portfolio is reviewed and revised to ensure alignment with business needs.

Property Portfolio 2006/07

The SARS property portfolio consists of commercial, residential and border facilities made up of 294 buildings, 139 commercial buildings,155 residential houses, 52 state-owned buildings, 19 commercial border posts and three non-commercial border posts (Alexander Bay, Pafuri and Kosi Bay).

The key activities in this area are described below.

Ports of Entry

Infrastructure projects at various ports of entry have been undertaken jointly with the national Department of Public Works where these projects coincide with the activities of the Border Control Operational Coordinating Committee (BCOCC), of which SARS is a member.

Extensive planning for infrastructure projects over the next three years has been undertaken with the Department of Public Works. This will entail the upgrading of residential and office accommodation at various ports of entry. Joint exercises are also being conducted to ensure synergy with other SARS infrastructure projects at ports of entry, such as the cargo Container Security Initiative (CSI) project.

Over the past financial year a major focus of the unit's work has been the provision of suitable, comfortable, temporary or permanent accommodation for SARS staff at ports of entry. This work will continue in the period ahead. The unit has also supplied furniture in terms of the SARS accommodation policy. The goal is to improve the living conditions of employees at ports of entry to help them work well.

The residential housing policy has been under review, with the aim of creating a policy that offers synergy with employee needs and available infrastructure.

During the year under review the unit carried out a range of projects to promote customs and border infrastructure development. These ranged from leasing housing and warehouses to repairing staff houses and upgrading facilities at various posts.

In addition, the BCOCC is funding several projects, including:

- New operational facilities and residential accommodation at Golela, Skilpadshek and Vioolsdrift;
- Constructing a new scanner room at Ficksburg and Van Rooyenshek;
- Constructing an access road to the new residential area at Quachas Nek; and
- Erecting canopies for passengers queuing at Lebombo.

Relocations

Thohoyandou Branch Office

The Sibasa branch office will be moved to a new building in Thohoyandou by the second quarter of the new financial year.

Rustenburg Branch Office

The old building has been replaced by a new building, which is being fitted out for occupation.

Albany House, Durban

The enforcement unit was moved to this building to consolidate the property holdings in the KwaZulu-Natal region. This move has enhanced working conditions and operational efficiency.

Gauteng South Campus, Alberton

The Assessment and Enforcement divisions have taken occupation. This move has improved working conditions.

Lease renewals

The leases for Richards Bay, Mt Edgecombe, Port Elizabeth, Uitenhage and Mthatha have been renewed to ensure continuity of operational requirements. These renewals have resulted in additional warehouse space being available in Richards Bay, as well the upgrade of the Mt Edgecombe and Mthatha facilities.

Refurbishments

The following facilities and buildings were upgraded for the year under review:

Albany House Phase 2

SARS previously occupied six floors of the building. The remaining floors were leased and upgraded for occupation by the regional enforcement team. The project was completed during the second quarter of the year.

Kimberley Hyesco Building

The building was upgraded to accommodate the regional enforcement team. The project was completed in the first quarter of the year.

Witbank ROR

The client interface section was upgraded to provide taxpayers with better service. The project was completed in September 2006.

Facilities Management

Facilities Management ensures that all buildings are operational, effectively maintained at optimal cost, comply with health and safety regulations, and have the required security to protect taxpayers, employees and assets.

Facilities Operations

Activities for the year included the maintenance of technical equipment such as air conditioners, lifts, plumbing, fire detection and protection equipment, access control systems and CCTV and security systems at all operations. Non-technical activities included gardening services, hygiene and sanitary services, pest control, carpet and window cleaning and related ancillary services.

Specific preventative maintenance programmes were also carried out as specified in the facilities operational delivery plan.

Health and Safety

Facilities Management works to ensure that all requirements of Occupational Health and Safety Act are complied with. Regular inspections, maintenance and repairs are conducted.

During the year under review modifications were made at various offices to improve health and safety conditions. At the Alberton branch, for example, the main entrance gate has been widened to ensure access to the property for fire emergency services, and a ramp and railing have been built to provide better access for the disabled.

Security

Activities undertaken in 2006/07 included the day-to-day provision of security, managing security for special events, configuring the security needs for new facilities, enhancing existing systems and ensuring that they operated effectively and efficiently at all times.

Conclusion

The Property Management division's activities during the year under review have contributed to improving the overall standard of SARS facilities, and have resulted in a more structured delivery of repairs and maintenance.

Looking ahead, the intent is to further improve delivery capability, to revise governance related to health and safety, to enhance the structuring of the property portfolio, to improve security and to acquire an appropriate electronic facilities management system.

13.3 FINANCE

Highlights

- Implementation of a 24-hour collections reporting system at branch office level.
- A 60% improvement in payment administration.

Overview

Finance is a support division that provides financial and management accounting (own accounts and administered revenue) and procurement services to SARS.

The division is made up of centres of excellence (expenditure accounting, revenue accounting, management accounting, procurement and financial transformation) and partnerships with other business units (Operations, Enforcement and Support Services). It ensures sound financial management based on legislative requirements, best practice and the principles of good governance.

The overall strategy of the division is the progressive development of the capability to deliver world-class financial management by 2010.

Through the work of the finance division, unqualified audit opinions have been sustained over the past few years.

Improving Tax Collection Administration

Payment administration has improved by 60% since SARS introduced improved payment validation and the beneficiary account ID process via First National Bank (FNB), ABSA, Nedbank, and Standard Bank.

The successful conversion from the system of nominated FNB accounts to the beneficiary account ID process over the past year enables SARS to close its nominated FNB accounts, which have been the main contributors to payment administration deficiencies.

Approval to close the nominated FNB accounts was received in March 2007. A closure date of July 2007 has been set and SARS is holding detailed discussions with financial institutions about the communication process.

This initiative will also lead to a number of additional and improved payment services:

- The introduction of SARS eFiling ad hoc payment facilities for customs and air passenger tax in June 2007;
- The extension of SARS eFiling payment facilities to Mercantile, Investec and Citibank during the 2007/08 financial year. This service has previously been restricted to the four commercial banks; and
- The ability to pay smaller taxes and levies at any one of the four commercial banks. This kicked off with the Small Business Tax Amnesty Levy in December 2006. SARS plans to extend this to other smaller taxes.

The division also improved branch office collections accounting by introducing SAP accounting functionality at office level. A pilot project was conducted at the Pretoria local office and is scheduled to be rolled out to the remaining tax offices from May 2007.

Improving Financial Analysis and Reporting

SARS implemented a 24-hour collections reporting system at branch offices in September 2006. This has improved reporting considerably, allowing these offices to monitor their collections continuously and to take corrective action where necessary.

The Customs financial reporting system has also been refined to enable month-end collections accounting to be achieved in a matter of hours rather than weeks. This has strengthened the future accounting platform for Customs.

The Customs financial analytics system, implemented at office level, continues to generate sufficient benefits. This, together with the financial reporting system, has led to improved revenue analysis, enforcement and decision making.

Accounting Transformation: Using GRAP

SARS is currently reporting in terms of generally recognised accounting practice (GRAP) cash accounting. GRAP standard development for accrual accounting is still in its infancy and has yet to be accepted as a local standard.

The International Federation of Accountants is the global body setting standards in the accrual principles of recognition, measurement and presentation of revenue from non-exchange transactions (including taxes and transfers). SARS has worked closely with the Accounting Standards Board (ASB) and National Treasury to provide inputs to the formulation of international accrual standards for the public sector. This process included a detailed analysis of SARS's own legislative framework, policies, processes and systems.

The international accrual standard was approved in November 2006. Known as IPSAS 23, it becomes effective for annual financial statements covering periods beginning on or after 30 June 2008. The standard does, however, provide for a five-year transitional period for the implementation for revenue from taxes.

The ASB intends to adopt this standard during 2007/08.

In April 2007 the Minister of Finance decided that SARS would remain on the cash basis of accounting for financial statements and audits over the next five years, while converting to the accrual basis of accounting.

The GRAP migration project strives to ensure the application of appropriate policies and procedures to ensure safeguarding of revenue and assets, most notably the taxpayer/trader account that translates into future cash flows to government.

The intention is to implement progressive accrual accounting through the inclusion of supplementary schedules not forming part of the audited financial statements, which remain on the cash basis and on which an audit opinion is expressed.

Once the project is completed, SARS will convert to full accrual in terms of GRAP.

Procurement

SARS has adopted the supply chain management principles of National Treasury, which focus on the strategic sourcing and procuring of goods and services, and which emphasise value for money. SARS also continues to support programmes that aim to contribute positively to the development of black empowerment enterprises as well as small, medium and micro enterprises (SMMEs). Our approach is to leverage high-value contracts to use black enterprises and SMMEs as subcontractors, reflecting a long-term commitment on the part of SARS to support black empowerment through procurement.

For the year under review, SARS's total BEE spend amounted to 66.1% of the total procurement spend, amounting to more than R1,7 billion. This was divided into the following categories:

- 27.8% for Black enterprises;
- 5.3% for Black women-owned enterprises; and
- 33% for Black empowered enterprises.

For the reporting period, the number of empowered suppliers conducting business with SARS increased from 699 to 840 and consists of 441 black enterprises, 235 black women-owned enterprises and 164 black empowered enterprises.

13.4 COMMUNICATIONS AND CORPORATE RELATIONS

Highlights

- High levels of awareness of SARS and the benefits of compliance through key national campaigns including the annual Filing Season, Small Business Tax Amnesty and Budget 2006 initiatives.
- Widespread public approval of SARS as revealed by market research; a high rating in "best government department" newspaper surveys.
- Continued focus on internal communications to inform and motivate employees to deliver SARS objectives, including a highly successful financial year-end campaign.
- A successful national industrial theatre tour to educate SITE taxpayers.
- Production of more than 1 million booklets and brochures on the Small Business Tax Amnesty in all 11 official languages.

Overview

The role of the Communications and Corporate Relations division is to enhance SARS's reputation and image, particularly among taxpayers. It aims 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 national growth and development. It also works to ensure that all stakeholders have the information and motivation necessary to meet their obligations.

The division's key objective is to strengthen the culture of compliance in our society. Guided by SARS's compliance model, the division engages in a broad range of communication, education, marketing and direct engagement activities with key stakeholder groups, including SARS staff (through internal communications), the media (through the media relations unit), the general public and taxpayers (through the marketing unit) and specific industry groups (through the corporate relations unit).

Communication: Vital in Fostering Compliance

Communications is a key tool in advancing the SARS compliance model to enhance tax morality and good fiscal citizenship by:

- Informing and educating taxpayers and traders about their obligations and how to meet them, and raising awareness of the services and channels available to them;
- Enhancing the reputation of SARS as a firm but fair enforcer of tax and customs laws by raising awareness of enforcement actions and successes; and
- Promoting compliance by sending out the message that paying tax is the right thing to do.

Informing Taxpayers and Traders

During the year under review, SARS continued to advance its communication of key information to taxpayers and traders through the publication and distribution of various publications with key tax and customs information. In 2006/07 these included:

- More than 1 million booklets and brochures on the Small Business Tax Amnesty in all 11 official languages;
- Tax guides and educational publications, including a tax registration comic book;
- More than 2 million copies of newsletters, flyers, leaflets and letters and posters on a wide range of topics; and
- 16 500 desk pads celebrating SARS's 10th anniversary year.

Specific Communication Campaigns

Budget 2006/07

Each year, SARS partners with National Treasury to inform the public about the national budget. The 2006/07 Budget campaign included:

- Printing and distributing three budget-related publications (Budget Tax Guide 2007/08, Budget Tax Proposals 2007/08 and 2007/08 Tax Pocket Guide). The first publication was distributed to more than 1 million taxpayers through insertion into all major daily newspapers the day after presentation of the budget;
- Extensive media engagement, including radio, television and press interviews;
- A dedicated web page on the SARS website; and
- A special initiative to educate staff about the budget, including a series of articles on previous budgets in the run-up to the Budget Speech, a newsletter and a competition for staff, with 10 SARS employees given the opportunity to visit Parliament on Budget Day.

Small Business Tax Amnesty Campaign

Through a diverse range of media and marketing activities, the Communications division has played a major role in promoting awareness of the Small Business Tax Amnesty. It has also provided support for the nationwide outreach campaign taking the amnesty directly to small businesses.

Amnesty advertisements have been aired on all public and commercial TV channels. A series of print ads was designed and placed in regional and national newspapers. Radio was also used to increase the reach of the campaign. All told, the ads, produced in the 11 official languages, reached nearly 31 million readers and listeners.

Amnesty-specific branding was developed, printed and distributed to all SARS offices for outreach and other marketing activities. This included pull-up and drop-down banners, posters and flyers. Brochures were designed and distributed to all offices, and support for imbizos and walkabouts was provided by procuring slots on radio and in community newspapers.

Filing Season 2006

The annual Filing Season campaign remains the main compliance campaign on the SARS communications calendar. Communications and Corporate Relations, as a support service, manages the media, communications, public and stakeholder relations and marketing aspects of the Filing Season campaign. The 2006 campaign built on the message of previous years – that by paying tax, ordinary people are able to contribute towards extraordinary national achievements. The theme was “You make South Africa great!”

The 2006 campaign focused heavily on broadcast media (television and radio) in line with market research showing these to be the most effective channels to reach a large, dispersed audience in multiple languages. The radio ads were translated into all official languages.

Media relations, print advertisements and marketing materials such as pamphlets and brochures complemented this high-level awareness campaign by providing additional information on how to file a tax return, where to go for help, who should file a return and so on. As part of the campaign, an industrial theatre group toured around the country, visiting employers, to educate SITE-only taxpayers and to stress the importance of tax compliance.

Market research conducted during and immediately after the Filing Season campaign showed it to be highly successful, with a reach of 71% and a rating of 7 out of 10 (10 being “loved the campaign in every way”). Research shows that the campaign contributed to an increase in a positive attitude by taxpayers both to SARS and to paying tax.

Expanded Outreach

SARS has long been recognised for its outreach activities, during which officials visit taxpayers at work or in their places of leisure to discuss tax and customs with them. During the Filing Season campaign, for example, officials visit shopping centres, community centres, libraries, school halls and offices to help people complete their income tax returns.

During the period under review this outreach was expanded to include new campaigns:

Small Business Amnesty Campaign

SARS staff have visited small business owners in town centres, taxi ranks and informal business areas, distributing flyers and application forms, and encouraging business owners to apply for the amnesty. SARS has deployed thousands of staff throughout the country in this initiative, which will continue until the end of the amnesty period. The division supported the outreach events with a targeted advertising campaign.

Odometer Campaign

Each February SARS conducts a campaign to remind taxpayers who receive travel allowances to record their odometer readings on the last day of February for use when they complete their income tax returns. In 2007, for the first time SARS published a travel logbook for motorists, outlining all the requirements for compliance relating to travel allowances. SARS printed 300 000 of these logbooks and handed them out at traffic intersections nationally on 28 February and 1 March 2007.

Anti-Piracy Campaign

On International Customs Day (26 January 2007) SARS officials handed out 10 000 confiscated fake DVD covers to motorists at intersections in major cities. Inside the DVD cover was a message about the harm piracy does to the economy.

Media Liaison

During the year under review, Media Liaison recorded and analysed nearly 7 000 items about SARS in the print and broadcast media. Major issues highlighted in the media included the improvement in tax collection and the widening of the tax base, the Small Business Tax Amnesty, the promulgation of legislation to bring tax evaders to book and the continued battle against smuggling and trade in illegal goods. There was also broadly positive coverage for exceeding the revenue collection target. Less favourable coverage focused on complaints about the quality of service, and some criticism that SARS's approach to eradicate tax evasion is excessively and unfairly aggressive.

Internal Communications

The division produced a wide range of internal communications to inform and educate staff about issues affecting the organisation. This included the regular SARS Newsletter and e-newsletters focusing on specific events such as the Budget Speech, SARS National Managers Forums and the Filing Season.

Information was also disseminated via electronic newsflashes, screensavers, posters and the SARS intranet. In conjunction with the Ethics Office, Communications ran a successful ethics campaign, encouraging staff to act with integrity in all situations and to drive home the message of zero-tolerance for corruption. The campaign consisted of posters, screensavers and newsletter articles.

Our 2006/07 revenue year-end campaign was also successful. It used the Cricket World Cup as its theme and helped motivate staff and track daily progress towards the revenue target.

The unit also helped other business units to develop the flyers, brochures, pamphlets and other materials that they required.

Corporate Relations

The Corporate Relations office liaises with key stakeholder groups and works to enhance the SARS corporate image.

An important aspect of this work is holding regular meetings with umbrella bodies such as the South African Institute of Chartered Accountants, the Association for the Advancement of Black Accountants of Southern Africa, Chartered Financial Analysts, the South African Chamber of Business, the Chambers of Commerce and Industry South Africa, and Business Unity South Africa.

These meetings help to establish clarity on tax administration and policy, and provide a correct interpretation of tax legislation. They also help to ensure that by working together, SARS and these organisations deliver a better service to taxpayers and traders.

Corporate Relations has also developed relations with various organisations, such as law firms and industry groups, to address issues related to tax administration and service channels. In 2006/07, the division educated various professional groups about their tax obligations, including the South African Medical Association and the South African Footballers Union.

Following the Organisation for Economic Cooperation and Development's Forum on Tax Administration in Seoul, Korea in September 2006, Corporate Relations has initiated meetings with the CEOs of large South African corporations to discuss proper fiscal citizenship, tax compliance and good governance in the interest of promoting economic growth. The first of these meetings took place between the SARS Commissioner and the CEOs of the big four accounting firms. Meetings with the CEOs of banks, insurance, oil and legal companies have also been scheduled.

In the year under review, a main focus of Corporate Relations has been to inform stakeholders about the Small Business Tax Amnesty. It has worked with business and professional organisations to disseminate information about the amnesty, and has promoted the campaign at various conferences and exhibitions.

Corporate Relations is also responsible for overseeing SARS's corporate social responsibility initiatives, which contribute to the social and economic upliftment of communities throughout the country.

As part of corporate social investment, SARS staff have raised funds for a wide range of public benefit organisations that deal with social issues such as HIV/AIDS, people with disabilities, children and women rights. The Staff Community Involvement campaign has raised more than R157 000 in cash contributions. Corporate Relations and the Ethics Office also organised an auction of SARS corporate gifts, raising R45 000 that was donated to two NGOs in Galeshewe, Kimberley.

Conclusion

The Communications and Corporate Relations division plays a key part in raising awareness about the role SARS plays in collecting revenue, facilitating trade and promoting compliance and a culture of fiscal citizenship. The division builds strategic relations with a number of key stakeholders, including the media, to promote the interests of SARS and inform citizens about new developments and changes in tax and customs.

14

GOVERNANCE

14. GOVERNANCE

Highlights

- The Internal Audit division conducted 64 planned audits and 30 ad hoc audits and consulting assignments for the financial year ending 31 March 2007.
- Six new governance committees were established.
- A dedicated information technology governance function was put in place.
- SARS ensured 100% compliance with the Acceptable Usage Policy as required by the Electronic Communications and Transaction Act (2002).

Overview

SARS is a public-sector entity falling under the ambit of the Public Finance Management Act (1999) (PFMA) and the South African Revenue Service Act (1997). SARS recognises that good governance is crucial for effective public services and improved social outcomes. We are committed to observing, within the parameters of public-sector legislation, the principles of the King Report on Corporate Governance for South Africa (2002).

Management

SARS is headed by the Commissioner, Pravin Gordhan, who is its Chief Executive Officer and accounting authority in terms of Sections 49(2) of the PFMA and 9(1)(d) of the SARS Act. Mr Gordhan was appointed to serve a second five-year term by President Thabo Mbeki in 2004. The Commissioner is accountable to the Minister of Finance, Trevor Manuel, who is the executive authority and also performs a non-executive oversight role over the operations of SARS. The Commissioner is assisted by an Executive Committee (Exco), which consists of executive general managers and is supported by subcommittees.

The Commissioner chairs the Exco and is accountable for the performance and management of SARS. The Exco's duties include governance, providing strategic advice to the Commissioner and maintaining open communications with SARS management. The Minister of Finance meets regularly with senior members of the management team.

The members serving on the Exco for the period under review were:

- **Pravin Gordhan -** Chief Executive Officer and accounting authority
- **Jeannee Padiachy -** General Manager: Office of the Commissioner
- **Ivan Pillay -** General Manager: Enforcement and Risk
- **Mandisa Mokwena -** General Manager: Compliance and Risk
- **Jonas Makwakwa -** General Manager: Enforcement
- **Kosie Louw -** General Manager: Legal and Policy
- **Oupa Magashula -** General Manager: Corporate Services
- **Barry Hore -** General Manager: Strategy, Modernisation and Technology
- **Edward Kieswetter -** Chief Operating Officer
- **Vuso Shabalala -** Deputy Chief Operating Officer

- **Leonard Radebe -** Deputy Chief Operating Officer (Customs)
- **Logan Wort -** General Manager: Communications and Corporate Relations
- **Prakash Mangrey -** General Manager: Finance
- **Matsobane Matlwa -** General Manager: Large Business Centre

Governance Committees

In the year under review SARS set up six governance committees:

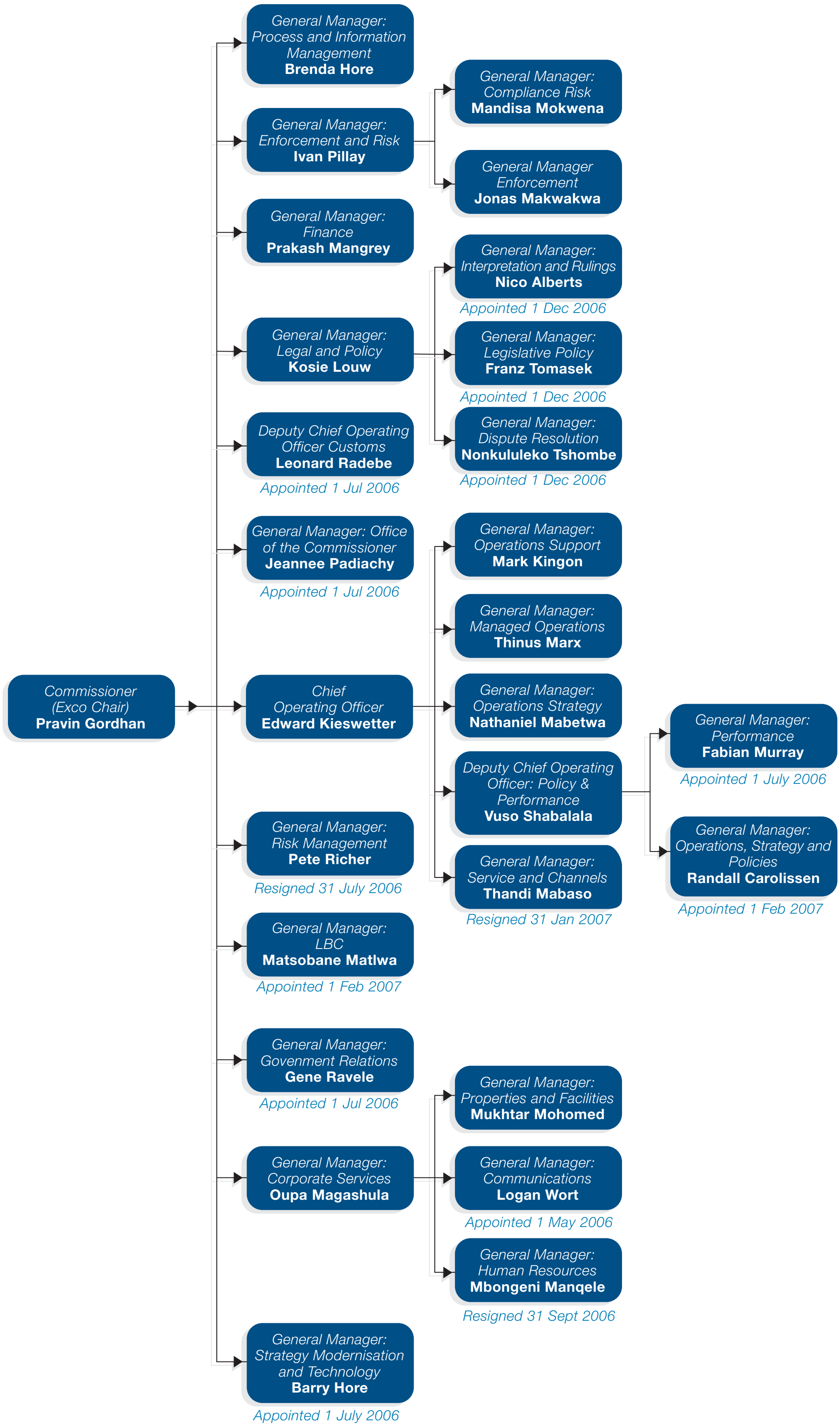
- Strategy;
- People;
- Programme and Budget;
- Risk and Governance;
- Business Review; and
- General Managers' Forum.

Terms of reference detail the scope of each committee's work, its delegated authority, and expected outputs and deliverables. Inaugural committee meetings took place during November 2006.

Membership of the committees is at the discretion of the Commissioner. Committees consist of at least 10 members, including Exco members, key senior managers and subject matter experts. All committees are chaired by the Commissioner or someone he has appointed.

The figure 14.1 outlines the SARS management structure.

Figure 14.1: SARS's management organisational chart



Executive Committee

Pravin Gordhan
SARS Commissioner

Jeannee Padiachy
GM: Office of the Commissioner

Oupa Magashula
GM: Corporate Services

Jonas Makwakwa
GM: Enforcement

Mandisa Mokwena
GM: Compliance and Risk

Kosie Louw
GM: Legal & Policy

Ivan Pillay
GM: Enforcement and Risk

Barry Hore
GM: Strategy, Modernisation & Technology

Edward Kieswetter
Chief Operating Officer

Matsobane Matlwa
GM: LBC

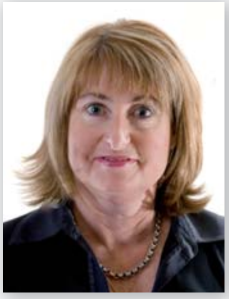
Vuso Shabalala
Deputy Chief Operating Officer

Leonard Radebe
Deputy Chief Operating Officer (Customs)

Logan Wort
GM: Communications and Corporate Relations

Prakash Mangrey
GM: Finance

General Managers



Brenda Hore
GM: Process & Information Management

Gene Ravele
GM: Government Relations

Mark Kingon
GM: Operations Support

Nathaniel Mabetwa
GM: Operations Strategy

Mukhtar Mohomed
GM: Properties and Facilities

Fabian Murray
GM: Performance

Franz Tomasek
GM: Legislative Policy

Thinus Marx
Managed Operations

Randall Carolissen
GM: Operations, Standards and Policies

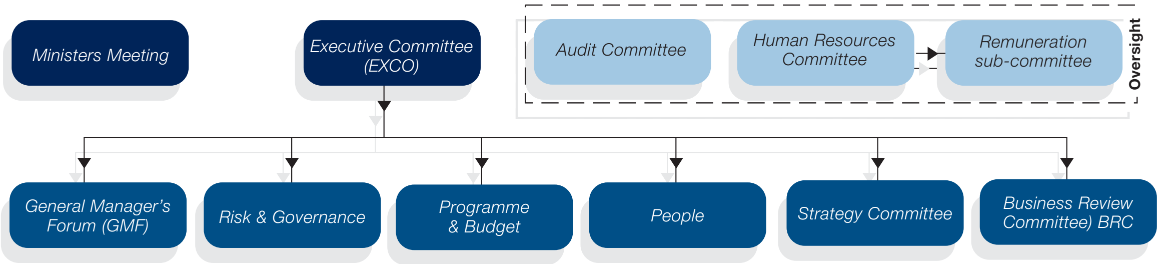
Nico Alberts
GM: Interpretation and Rulings

Nonkumbulo Tshombe
GM: Dispute Resolution

vacant
GM: Service and Channels

vacant
GM: Human Resources

Figure 14.2: Governance committee structure



Delegation Of Authority

SARS has a policy for the orderly delegation of authority. Given the evolving nature of our work, this document has been revised and should be ratified in due course.

External 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 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 as a subcommittee of the accounting authority.

The audit committee operates under written terms of reference that are reviewed at least once a year to ensure their continued relevance (paragraph 27.1.6 of the Treasury Regulations).

Membership and Record of Attendance at Audit Committee meetings

In accordance with paragraph 27.1.3 and 27.1.4 of the Treasury Regulations, the audit committee has been constituted to ensure its independence, with an external chairperson and three additional external (non-executive) members. The committee has been constituted in line with Treasury Regulations stipulating financial literacy and independence. At each meeting, in accordance with the SARS Act, committee members must declare any personal or financial interests that may conflict with their duties.

The figure below gives details of the meetings of the audit committee for 2006/07.

Figure 14.3: Members and record of their attendance of audit committee meetings

Member	DATE OF MEETING			
	07 April '06	28 July '06	27 October '06	25 January '07
Bongani Mqwababa (New Chairperson from March /April 2006) B.Acc (Zim); CA (Zim); MBA (Manchester and Wales UK) Finance Director at Eskom Holdings Limited	✓	✓	✓	Site visit cancelled
Dillip Garach MCom; CA(SA); CFP Accounting Professor at Natal University; Consulting Partner at Garach & Garach	✓	✓	✓	Site visit cancelled
Mustaq Brey B.Compt (Hons); CA (SA) CEO: Brimstone Investment Corporation Limited	✓	✓	✓	Site visit cancelled
Berenice Lue-Marais Bachelor of Arts, BA Economics Washington, D.C.; MBA International Finance Group Manager: Strategic Contract Research and Development, CSIR, Pretoria	✓	✓	✓	Site visit cancelled

In terms of paragraph 27.2.7 of the Treasury Regulations, the audit committee consults with the Internal Audit division on their preparation of:

- A rolling three-year strategic internal audit plan based on an assessment of key risk areas;
- An internal audit plan for the first year of the rolling plan;
- Plans indicating the scope of each annual internal audit; and
- Reports to the audit committee detailing the internal function's performance, to allow effective monitoring and intervention when necessary.

During the year under review the audit committee fulfilled all of its responsibilities and functions in terms of the PFMA and Treasury Regulations.

Human Resource Specialist Committee

The human resource specialist committee consists of five non-executive members. It was established in terms of Section 11(1) of the SARS Act to advise:

- The Minister of Finance on matters concerning the terms and conditions of all employment in the management structure of SARS; and
- The SARS Commissioner on any matters concerning the terms and conditions of employment of all other employees of SARS.

The committee has also established a remuneration subcommittee, consisting of two of its members and a member of the audit committee. The subcommittee advises the Minister or Commissioner on matters relating to remuneration and employee benefits. The subcommittee's recommendations must be ratified by the full committee before they are communicated to the Minister or Commissioner.

During the year under review the committee made recommendations on:

- The annual human resources business plan and strategy;
- The performance management system;
- Remuneration issues;
- The Code of Ethics policies, which include policies on gifts and conflict of interests;
- The committee's report to the Minister of Finance on human resources issues;
- The organisational structure and the retention of key personnel; and
- Management information, including staff establishment, absenteeism and employment equity, and a management report on the status of the transformation programme.

The figure below gives details of the meetings of the committee for 2006/07.

Figure 14.4: Members and record of their attendance of human resources specialist committee meetings

Member	DATE OF MEETING				
	12 May '06 (Joint HRC & RemComm)	26 May '06	25 August '06	24 November '06 (Joint HRC & RemComm)	23 March '07
Judy Parfitt (Chairperson) BJourn, HDE (Rhodes); BA (Hons); MA (PE); MA (Warwick) Managing Director of Resolve Workplace Solutions, and Director of the Resolve Group	✓	✓	✓	X	X
Mike Olivier M.Sc. Nuclear Physics (Wits); MBA (California) Remuneration and Human Resources Consulting	✓	✓	✓	✓	✓
Liz Thebe Group Executive – Human Resources: SA Post Office	✓	✓	✓	✓	✓
Adolf Maphutha B.Com (Hons) SA; Dip. Workstudy; Dip.Labour Law; Dip.Energy Law Portfolio Manager: Energy: Government Relations: Sasol Oil (Pty) Ltd	X	✓	✓	X	✓
Lionel Human BA Industrial Psychology (Hons) UWC; Personnel Management Dip (Dam); Management Certificate Unisa MD: Prima Personnel	X	X	X	✓	✓

Internal Audit

The SARS Internal Audit unit was established in terms of Section 51(1)(a)(ii) of the PFMA, which requires the Commissioner to ensure that SARS has an internal audit system overseen by an audit committee. Internal Audit is responsible for evaluating and improving the effectiveness of risk management, control and governance processes.

The head of Internal Audit is required to be independent and objective. He or she reports directly to the Commissioner and has unrestricted access to the chairperson of the audit committee. The head of Internal Audit resigned with effect from 1 September 2006. The advisor to the head of Internal Audit has been appointed acting head of the unit.

GOVERNANCE

Operations

The unit's audit plan for 2006/07 (as required by paragraph 27.2.7 of the Treasury Regulations) was built on previous progress. Working with various levels of SARS management, the unit identified focus areas, risks and the scope of proposed audits. The audit plan was presented to the audit committee at the beginning of the financial year.

Internal Audit attends all audit committee meetings, during which it provides a report on all significant audit findings. Significant findings are reported to the Commissioner and to the risk and governance committee on a monthly basis.

Internal Audit conducted a total of 64 planned audits, and 30 ad hoc audits and consulting assignments for the financial year ending 31 March 2007. Five in-progress audits will be finalised in the 2007/08 financial year. Two of the audits were rolled over to 2007/08, ten were suspended and four are expected to be finished during subsequent financial years. Internal Audit also provided consulting services, attending meetings of different tender evaluation committees, the SARS enterprise-wide risk management committee and the monthly Auditor-General steering committee.

Internal Audit works closely with the Auditor-General. Although the majority of audits indicated a satisfactory control environment, management is addressing those areas in need of attention. The revised control environment is evaluated through follow-up audits.

Internal Audit enjoys a healthy working relationship with all SARS divisions and continues to build its operational efficiencies through staff training and involvement in operations.

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

Risk Management

The ability of SARS to deliver effectively on its mandate depends on identifying, assessing and managing specific and potential risks.

For risk management to be effective it must be a fundamental part of day-to-day operations. The Risk Management unit was established in 2003/04 to promote a culture of risk management and to oversee all related activities. The unit developed an enterprise-wide risk management framework that ensures accountability. Risk management is now regularly discussed at senior management level.

Information technology governance has become a significant area of focus. SARS has established a dedicated IT governance function. The aim of IT risk management is to identify and assess risks that could affect the availability, confidentiality and/or integrity of information within core tax systems and the supporting infrastructure.

During the year under review, the information security threat changed from large, multi-purpose attacks on the network perimeter to smaller, more focused attacks on client-side targets. These attacks were dominated by malicious code (for example, spam, anti-virus and malicious content) and bot networks, which primarily target financial institutions, web applications, browsers and databases. Of nearly 55 million emails to or from SARS, about 16 million were spam emails.

To guard against threats to information security SARS has:

- Moved to a new detection solution to prevent attacks via network traffic. During 2006/07, 180 high-level attacks were prevented;
- Ensured that required patches were deployed to servers/workstations within four days of testing – a remarkable improvement on the previous time of two months;
- Ensured that anti-virus, spam and content filtering solutions were kept up to date. Between April 2006 and March 2007, SARS blocked more than 11 million external spam mails, 480 000 viruses and 1,2 million mails with inappropriate content;
- Increased end-user awareness about information security;
- Ensured 100% compliance to the Acceptable Usage Policy as required by the Electronic Communications and Transaction Act;
- Acquired a more advanced internet website filtering solution to ensure that the internet was used as a business tool, to help prevent phishing attacks, and to limit exposure to inappropriate content;
- Initiated a process to ensure that each individual had an appropriate level of access;
- Reported 651 cases of non-compliance in terms of the Acceptable Usage Policy; and
- Assisted the Business Intelligence unit with 248 investigations.

These efforts paid off with a substantial increase in information security. In 2003 SARS was ranked 27th out of 98 participating organisations by the Information Security Forum; in 2005 SARS ranked 14th out of 80 countries.

SARS Compliance with Legislation

The South African Revenue Service Act (1997) (SARS Act) came into operation on 1 October 1997.

SARS exists in terms of this Act, which was enacted:

To make provision for the efficient and effective administration of the revenue-collecting system of the Republic and the control over the import, export, manufacture, movement, storage or use of certain goods; and, for this purpose, to reorganise the South African Revenue Service and to make provision for the establishment of advisory committees; and to provide for incidental matters.

The Act established SARS as an organ of state within the public administration, but outside of the public service. SARS is therefore an autonomous revenue service with a certain level of control and flexibility over its own resources. SARS operates under the executive authority of the Minister of Finance and must perform its functions in the most cost-efficient and effective manner, and in accordance with the values and principles mentioned in Section 195 of the Constitution.

The mandate of SARS in terms of the Act is the:

- Efficient and effective collection of revenue; and
- Control over the import, export, manufacture, movement, storage or use of certain goods.

Other legislation that SARS administers according to the SARS Act (Schedule 1 to the Act) is:

- Union and Southern Rhodesia Death Duties Act (1933)
- Marketable Securities Tax Act (1948)
- 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 60 of the Income Tax Act (1993)
- Section 39 of the Taxation Laws Amendment Act (1994)
- Company Tax Amendment Decree (1994) of the former Republic of Ciskei
- Section 41 of the Income Tax Act (1994)
- Tax Amnesty Act (1995)
- Sections 56 and 57 of the Income Tax Act (1995)
- Tax on Retirement Funds Act (1996)
- Final Relief on Tax, Interest, Penalty and Additional Tax Act (1996)
- The Sales Tax Act (1978), to the extent that it remains in force in terms of Section 85 of the Value-Added Tax Act (1991)
- 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 into 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).

Ethics

SARS aims to entrench and enforce ethical and moral behaviour throughout the organisation, and to build a corporate culture on a foundation of integrity. The SARS Ethics Office is responsible for implementing the organisation's Anti-Fraud and Corruption Strategy. The office comprises:

- An Integrity unit, responsible for pre-employment screening and conducting staff security vetting;
- An Ethics Awareness unit, providing ethics training and advice to staff and management; and
- An Internal Corruption Investigations unit, responsible for eradicating fraud and corruption.

During 2006/07 the Ethics Office:

- Hosted ethics awareness workshops for nearly 3 000 employees;
- Compiled a booklet – Ethics, Integrity & Corruption – for internal and external use;
- Published a number of articles on ethics, the integrity programme and the anti-corruption strategy in the SARS Newsletter;
- Issued several internal communiqués concerning fraud and corruption;
- Flighted screensavers on the SARS network regarding the SARS gifts policy and the declaration of private interest policy;
- Sent annual letter to vendors and suppliers to remind them of SARS's gifts policy;
- Delivered papers on the SARS ethics programme at various conferences and presented the programme to international visitors; and
- Made inputs at induction courses.

Following the roll-out of the declaration of interest policy during the year under review, there was a 300% year-on-year increase in declarations.

The Internal Corruption Investigations unit was successful in dealing with fraud and corruption through numerous internal investigations. Offenders were prosecuted and the relevant employees were dismissed, criminally charged, or both.

The Ethics Office continued to build strong relationships with external stakeholders and to set an example for dealing with fraud and corruption. In the period ahead, the Ethics Office will intensify the ethics awareness campaign, encourage teamwork and centralise reporting of theft, fraud and corruption.

Conclusion

SARS remains committed to the highest standards of management and governance throughout the organisation and to meeting the requirements of the PMFA and other relevant legistation. The Ethics Unit will continue to implement the organisation's ethics programme and to grow and develop during the year to come. It will strive to further contribute to the development of an ethical corporate culture in "the year of the people" and to provide employees with the tools to have moral courage "to do the right thing". At the same time the Ethics Office will work to highlight and root out corruption and unethical practices and apply the strongest sanctions against employees who are involved in acts of fraud and corruption.

15

SARS FINANCIAL STATEMENTS

AUDIT COMMITTEE REPORT

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2007 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 consisted of four external members listed hereunder and held three meetings for the financial year under review.

Name Of Member	Attended	Apologies	Total
Bongani Nqwababa (chairperson) B.Acc(Zim); CA(Zim); MBA(Manchester and Wales,UK) Finance Director, Eskom Holdings Limited	3	0	3
Mr Mustaq Brey B.Compt (Hons); CA (SA) CEO: Brimstone Investment Corporation Limited	3	0	3
Ms Berenice Lue-Marais MBA International Finance; Bachelor of Arts, BA Economics Washington, D.C. Group Manager: Strategic Contract Research & Development, CSIR.	3	0	3
Prof Dillip Garach MCom; CA(SA); CFP Accounting Professor, Natal University; Consulting Partner, Garach & Garach	3	0	3

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. The Head of Internal Audit resigned from SARS with effect 1 September 2006. 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. 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:

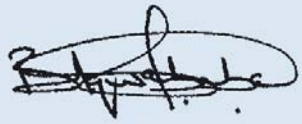
a) Reviewed and discussed the audited Annual Financial Statements to be included in the annual report with the Office of the Auditor-General and the Accounting Officer;

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

27 July 2007

Administered Revenue
31 March 2007

CONTENTS **Page**

The attached annual financial statements were approved and signed by:

Pravin Gordhan

P Gordhan

Commissioner

2 August 2007

AUDIT REPORT ON ADMINISTERED REVENUE
for the year ended 31 March 2007

AUDITOR-GENERAL

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 2007

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 2007, 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 150 to 159.

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, as set out in accounting policy note 1 to the financial statements 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) 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 647 of 2007,* issued in *Government Gazette No. 29919 of 25 May 2007.* Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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's policy is to prepare financial statements on the basis of accounting, as set out in accounting policy note 1 to the financial statements.

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 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting as described in note 1 to the financial statements and in the manner required by the PFMA.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

10. I have audited the performance information as set out on pages 207 to 213.

Responsibility of the accounting authority

11. 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

12. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007,* issued in *Government Gazette No. 29919 of 25 May 2007.*

13. 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 judgement.

14. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

Audit findings

15. No audit findings.

APPRECIATION

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

D E L Zondo *for* Auditor-General

Pretoria

3 August 2007

AUDITOR-GENERAL

STATEMENT OF FINANCIAL POSITION
as at 31 March 2007

	Notes	2007 R'000	2006 R'000
ADMINISTERED ASSETS			
Amount due by the National Revenue Fund		863 958	1 112 249
Current assets			
Accounts receivable	2	5 312	5 013
Cash and cash equivalents	3	4 562	10 483
Other assets	4	548	938
Total administered assets		**874 380**	**1 128 683**
ADMINISTERED LIABILITIES			
Current liabilities			
Bank	5	874 370	1 128 625
Other liabilities	6	10	58
Total administered liabilities		**874 380**	**1 128 683**

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 March 2007

	Notes	2007 R'000	2006 R'000
Taxation		**508 664 175**	**423 848 643**
Income tax	7	279 989 859	230,803 550
Value-added tax		134 462 599	114 351 638
Customs duties		23 697 003	18 303 465
Fuel levy		21 578 281	20 695 652
Excise duties		17 652 061	15 703 806
Other taxes	8	10 947 960	11 930 318
Unemployment insurance fund		7 854 291	6 715 583
Road accident fund	9	6 998 978	583 585
Skills development levy		5 597 401	4 872 040
Air passenger tax		484 823	458 158
Universal service fund		152 120	142 034
Plastic bag levy		75 128	61 385
Small business tax amnesty		657	-
Diesel refunds		(826 986)	(772 571)
Non-taxation		**643 733**	**230 391**
Non-tax revenue	10	342 682	167 220
Customs miscellaneous revenue	11	305 194	(102 116)
Provincial administration receipts	12	29 363	26 475
Departmental receipts		-	(4)
Mining leases and ownership		(33 506)	138 816
TOTAL REVENUE		**509 307 908**	**424 079 034**
Less: South African Customs Union Agreement			
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	13	25 194 939	14 144 921
NET REVENUE FOR THE YEAR		**484 112 969**	**409 934 113**

STATEMENT OF CHANGES IN NET ASSETS
for the year ended 31 March 2007

	R'000
AMOUNT DUE BY NATIONAL REVENUE FUND	
Balance at 31 March 2005	318 968
Net gains and losses not recognised in the statement of financial performance	793 281
Net revenue for the year	(409 934 113)
Transfer to the National Revenue Fund	410 727 394
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

CASH FLOW STATEMENT
for the year ended 31 March 2007

	Notes	2007 R'000	2006 R'000 Adjusted
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from operating activities	**14**	**509 311 537**	**424 369 739**
Taxation		508 667 804	424 139 348
Non-taxation		643 733	230 391
Cash transferred		**(509 059 617)**	**(424 872 315)**
Payments in respect of Customs Union Agreement		(25 194 939)	(14 144 921)
Cash to National Revenue Fund		(483 864 678)	(410 727 394)
Net cash (transferred)/retained from operations		**251 920**	**(502 576)**
Cash and cash equivalents at beginning of year		**(311 737)**	**190 839**
Cash and cash equivalents at end of year	**15**	**(59 817)**	**(311 737)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2007

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 International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) approved the Revenue from Non-Exchange Transaction Standard (IPSAS 23) in November 2006. This standard provides for the accrual principle to be adopted when recognising and measuring taxation revenue arising from non-exchange transactions. This standard becomes effective for annual financial statements covering periods beginning on or after 30 June 2008. The standard does, however, provide for a five year transitional period for the implementation of the standard.

The Accounting Standards Board has yet to adopt IPSAS 23 as a Standard of Generally Recognised Accounting Practice.

Further 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.+

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

		2007 R'000	2006 R'000
2.	**Accounts receivable**	**5 312**	**5 013**
	South African Post Office Limited (VAT)	4 136	4 311
	South African Post Office Limited (Stamp duty)	1 176	702
3.	**Cash and cash equivalents**	**4 562**	**10 483**
	Cash on hand	4 562	10 483
4.	**Other assets**	**548**	**938**
	Provincial administration	538	540
	Receivables	10	398

The provincial debtor of R537 584 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.

5. Bank

Bank primarily comprises cheques issued but not yet presented for payment amounting to R809 991 133 (R806 404 864: 2005-06), monies not transferred to the National Revenue Fund at 31 March amounting to R43 220 423 (R57 291: 2005-06) and the remaining amount of R21 159 352 (R322 162 448: 2005-06) which relates to net reconciling items.

		2007 R'000	2006 R'000
6.	**Other liabilities**	**10**	**58**
	Accounts payable	10	58
7.	**Income tax**	**279 989 859**	**230 803 550**
	Pay as you earn	133 760 368	121 025 144
	Persons, individuals and companies	127 747 611	92 717 674
	Secondary tax on companies	15 291 351	12 277 625
	Tax on retirement fund industry	3 190 529	4 783 107
8.	**Other taxes**	**10 947 960**	**11 930 318**
	Transfer duties	6 773 960	8 510 038
	Marketable securities tax	2 763 861	1 973 373
	Estate duty	747 447	624 654
	Stamp duty	586 162	765 889
	Donations tax	47 022	29 459
	Master fees	29 508	26 953
	Levy on financial services	-	(48)

	2007 R'000	2006 R'000
9. Road accident fund	**6 998 978**	**583 585**
Road accident fund levy	5 905 632	-
Road accident fund levy (Recoupment)	1 093 346	583 585

Road Accident Fund levy is payable on the production of fuel. Although this levy has been in existence for a number of years, SARS was mandated from 1 April 2006 to administer the recovery of this levy.

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.

10. Non-tax revenue	**342 682**	**167 220**
State miscellaneous revenue	339 171	164 234
State fines and forfeitures	3 477	2 917
State licences	34	69

Stale cheques to the value of R259 699 745 (R162 720 648: 2005-06) were transferred to state miscellaneous revenue.

11. Customs miscellaneous revenue	**305 194**	**(102 116)**
Customs miscellaneous revenue	297 180	(102 404)
Revenue in respect of other departments	8 014	288

12. Provincial administration receipts	**29 363**	**26 475**
Provincial administration consolidated account	29 363	26 475

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

	2007 R'000	2006 R'000
13. Payments in terms of Customs Union Agreement		
Contributions to the Common Customs Pool	**41 349 062**	**34 007 271**
Namibia	363 930	195 892
Botswana	173 647	192 063
Swaziland	161 713	30 596
Lesotho	86 556	87 437
Sub-total	785 846	505 988
South Africa	40 563 216	33 501 283
Received from the Common Customs Pool	**41 349 062**	**34 007 271**
Namibia	8 161 170	3 891 882
Botswana	7 756 317	4 772 563
Swaziland	5 321 147	3 136 236
Lesotho	3 944 970	2 306 022
Secretariat	11 335	38 218
Sub-total	25 194 939	14 144 921
South Africa	16 154 123	19 862 350
14. Reconciliation of net revenue for the year to total cash received		
Net revenue for the year		
Adjusted for:	484 112 969	409 934 113
Payments in terms of Customs Union Agreement	25 194 939	14 144 921
Increase / (Decrease) cheques not yet presented for payment	3 586	289 908
(Increase) / Decrease in other assets	390	1 289
Increase / (Decrease) in other liabilities	(48)	(174)
(Increase) / Decrease in accounts receivable	(299)	(318)
Total cash received	**509 311 537**	**424 369 739**
15. Cash and cash equivalents in respect of cash flow statement	**(59 817)**	**(311 737)**
Cheques not yet presented for payment	809 991	806 405
Cash and cash equivalents	4 562	10 483
Bank	(874 370)	(1 128 625)

16. Sureties

(i) Lien - Sanlam shares

1 756 821 (2 244 675: 2005-06) Sanlam shares with a market value of R35 136 420 (R37 037 138: 2005-06) are held in respect of amounts owing by 2 860 (4 159: 2005-06) taxpayers at 31 March 2007.

(ii) Lien - Old Mutual shares

2 079 500 (2 677 000: 2005-06) Old Mutual shares with a market value of R48 556 325 (R57 475 190: 2005-06) are held in respect of amounts owing by 2 796 (3 953: 2005-06) taxpayers at 31 March 2007.

(iii) Guarantees

Guarantees issued in favour of SARS amounting to R206 611 067 (R134 951 097: 2005-06) are held as security for various taxes payable.

Guarantees issued by financial institutions in favour of SARS amounting to R4 267 587 794 (R3 834 676 271: 2005-06) 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 R6 682 847 696 (R9 450 999 543: 2005-06) has been written off on or prior to 31 March 2007. 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 R215 571 919 (R261 456 861: 2005-06) has been written off on or prior to 31 March 2007. Amounts still awaiting approval for write-off do not form part of actual write-offs.

Unaudited Annexures
31 March 2007

CONTENTS **Page**

The annexures do not form part of the audited financial statements and are presented as additional information.

UNAUDITED ANNEXURE 1

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**

UNAUDITED OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2006

2005/2006	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	1 694 711 143	1 606 762 315	751 231 529	17 136 842 944	9 576 679 329	30 766 227 260	5 585 614 564	36 351 841 824
Individuals	872 688 518	450 146 038	286 501 053	7 944 029 308	4 030 619 002	13 583 983 919	1 781 911 582	15 365 895 501
Trusts	55 041 154	9 124 713	12 236 173	213 629 983	138 194 075	428 226 098	215 387 463	643 613 561
Companies	766 981 471	1 147 491 564	452 494 303	8 979 183 653	5 407 866 252	16 754 017 243	3 588 315 519	20 342 332 762
PAYE	444 454 577	452 551 125	276 847 714	8 773 675 559	-	9 947 528 975	429 611 868	10 377 140 843
VAT	461 143 390	516 213 370	317 801 046	17 802 780 585	-	19 097 938 391	409 863 755	19 507 802 146
STC	296 226 940	88 646 991	37 378 758	1 699 286 077	539 447 461	2 660 986 227	33 802 268	2 694 788 495
Sub-Total	**2 896 536 050**	**2 664 173 801**	**1 383 259 047**	**45 412 585 165**	**10 116 126 790**	**62 472 680 853**	**6 458 892 455**	**68 931 573 308**
Diesel	-	-	-	-	-	1 786 405	-	1 786 405
SDL	-	-	-	-	-	612 529 890	-	612 529 890
UIF	-	-	-	-	-	791 553 115	-	791 553 115
Total	**2 896 536 050**	**2 664 173 801**	**1 383 259 047**	**45 412 585 165**	**10 116 126 790**	**63 878 550 263**	**6 458 892 455**	**70 337 442 718**

UNAUDITED ANNEXURE 2

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**

UNAUDITED OUTSTANDING CREDITS (PAYABLES) AS AT 31 MARCH 2006

2005/2006	Total Credits Rands
Income Tax	-5 686 447 743
Income Tax	**-5 686 447 743**
PAYE	-19 264 178 525
Returns not received	9 967 509 563
PAYE	**-9 296 668 962**
VAT	-12 976 940 722
Returns not received	6 085 853 637
VAT	**-6 891 087 085**
Sub-Total	**-21 874 203 790**
Diesel	-122 655 434
UIF	-1 085 684 551
SDL	-990 492 685
STC	-820 531 379
Total	**-24 893 567 839**

Note: Information regarding UIF and SDL returns not received were not available in respect of 2005/06 and were therefore not disclosed.

UNAUDITED ANNEXURE 3

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**

UNAUDITED OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2006

2005/2006	Debt Rands	Interest Rands	Total Rands	New Debt Rands	Total Debt Rands
Customs duty	410 396 401	149 803 741	560 200 142	1 568 004	561 768 146
Value-added tax	239 934 426	77 991 885	317 926 311	3 804 531	321 730 842
Surcharge	5 567 345	4 222 610	9 789 955	-	9 789 955
Fuel levy	18 508 034	16 741 434	35 249 468	-	35 249 468
P2A - Excise duty	50 789 914	23 176 141	73 966 055	57 990	74 024 045
P2B - Ad valorem	45 949 381	15 122 965	61 072 346	2 797	61 075 143
Penalties	62 299 725	-	62 299 725	341 545	62 641 270
Forfeiture	602 631 319	-	602 631 319	22 455	602 653 774
Unallocated	-6 539 346	-	-6 539 346	-353 018	-6 892 364
Total	**1 429 537 199**	**287 058 776**	**1 716 595 975**	**5 444 304**	**1 722 040 279**

Own accounts
31 March 2007

CONTENTS **Page**

The attached annual financial statements were approved and signed by:

Pravin Gordhan

P Gordhan

Commissioner

2 August 2007

AUDITOR-GENERAL

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 2007

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 2007, 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 172 to 206.

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 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 Statement of GAAP 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) 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 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. 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.

AUDIT REPORT ON OWN ACCOUNTS
for the year ended 31 March 2007 (continued)

AUDITOR-GENERAL

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 note 2.2 to the financial statements.

Opinion

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of SARS – Own Accounts as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as set out in note 2.2 to the financial statements and in the manner required by the PFMA.

APPRECIATION

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

D E L Zondo *for* **Auditor-General**

Pretoria

3 August 2007

AUDITOR-GENERAL

REPORT BY THE SARS ACCOUNTING AUTHORITY
for the year ended 31 March 2007

1. Introduction

The Accounting Authority presents his Annual Report that forms part of the Annual Financial Statements for SARS Own Accounts for the year ended 31 March 2007. Specifc 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 the South African Revenue Service is the Chief Executive Offcer 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)
- Kosie Louw
- Barry Hore (appointed 1 July 2006)
- Oupa Magashula
- Ivan Pillay
- Vuso Shabalala
- Edward Kieswetter
- Leonard Radebe
- Prakash Mangrey
- Jeannee Padiachy
- Peter Richer (resigned 31 July 2006)
- Logan Wort (appointed 1 May 2006)
- Jonas Makwakwa
- Mandisa Mokwena (appointed 1 July 2006)

3. Organisational Structure

The organisational structure of SARS is reviewed as and when the need arises to enable it to fulfll its obligations towards Parliament and the Constitution.

Refer to the official organogram in the Annual Report on page 215.

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.

5. Review Of Operations And Results (amounts disclosed in R' 000)

Own Accounts

The Revenue for the year was made up as follows:

	% change	2007	2006
Transfers from government entities	14.7	4 879 591	4 254 302
- National Treasury	14.6	4 874 591	4 254 302
Criminal Assets Recovery (CARA)	-	5 000	-
Non operating revenue	18.0	283 276	240 013
- Interest received	29.4	74 977	57 963
- Other revenue	7.1	194 901	182 050
- Funds received from international donors	-	2 066	-
Foreign exchange net profit	-	11 332	-
	14.9	**5 162 867**	**4 494 315**

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.

The net profit for the year for the entity was as follows:

	% change	2007	2006
Balance accumulated surplus at 1 April		336 150	993 117
Adjustment in prior period		-	(15 886)
Restated balance 1 April		336 150	977 231
Net surplus/(deficit) for the year	104.6	29 302	(641 081)
Capital Reserve movements		48 307	-
Balance accumulated surplus at 31 March		**413 759**	**336 150**

Losses incurred are mainly due to compliance with the prevailing accounting standards and do not relate to unfunded activities.

Administered Revenue

The net revenue for the year was R484 112 969 (2006: R409 934 113). 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 Southern African Customs Union. The operating expenditure for Administered Revenue is provided for in the Own Accounts budget.

	% change	2007	2006
Total revenue	20.1	509 307 908	424 079 034
SA Customs Union Agreement	78.1	(25 194 939)	(14 144 921)
Net revenue	**18.1**	**484 112 969**	**409 934 113**

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. For the period under review an amount of R48 302 was transferred to the equity as a result of a change in accounting policy.

Assets

For the period under review SARS has continued to invest in selected categories of assets to achieve its strategic objectives.

The agreements with suppliers of information technology entered into in the previous financial year whereby SARS took assignment of certain licences and rights to services for certain software products have been renegotiated. A resultant refund was obtained and is being utilised for the appointment of another service provider for implementation of the required solution. The net cost of the unused original licences has been fully impaired in the annual fnancial statements.

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 2007 affecting the financial statements that require disclosure.

10. Stakeholder Relations

SARS, through the Corporate Relations Office (CRO) liaises with and proactively address issues of mutual interest with all of SARS's key stakeholder groups. An important aspect of this work is regular engagement with key umbrella bodies such as the South African Institute of Chartered Accountants, the Association for the Advancement of Black Accountants of Southern Africa, Chartered Financial Analysts, the South African Chamber of Business, the Chambers of Commerce and Industry South Africa, and Business Unity South Africa.

In the year under review, the CRO has also engaged with specifc organisations, including law firms, as well as several industry groups to address matters regarding tax administration and service channels. In 2006/07, an initiative to educate various professional groups about their tax obligations e.g. the South African Medical Association and the South African Footballers Union was also undertaken.

The OECD Forum on Tax Administration met in Seoul, Korea in September 2006 to focus on the role of tax intermediaries in the aggressive restructuring of tax globally. Subsequently, a series of engagements between revenue authorities and the tax advisory industry have been initiated.

In this regard, SARS has embarked on a series of engagements with the chief executive officers of large corporates in sectors such as insurance, banking, accounting and law to discuss fiscal citizenship, tax compliance and good governance in the interest of promoting economic growth.

The first of these meetings took place between the SARS Commissioner, senior managers and the CEOs of the big four accounting firms i.e. KPMG, Deloitte, PricewaterhouseCoopers and Ernst & Young. Meetings with CEOs of the banks, insurance, oil and legal companies have also been scheduled.

During the period under review a specialist Practitioners Unit was also established to provide a single point of access and interaction for all registered practitioners.

11. Social Responsibility

The CRO is also tasked with the responsibility of overseeing SARS's corporate social responsibility initiatives, thereby helping to contribute to the social and economic upliftment of the country and its various communities.

Under the umbrella of the CSI programme, SARS staff throughout the country has raised funds for a wide range of public benefit organisations that deal wth social issues such as HIV/AIDS, people with disabilities, children and women rights. The Staff Community Involvement campaign has raised a total on R157 654.80 in cash, in addition to the donations in kind.

The CRO, in conjunction with the Ethics Office, also organised and facilitated an auction of SARS corporate gifts, raising R45 741.35 which has been donated to two NGOs in Galeshewe, Kimberley.

The donating of outdated and surplus equipment - including office furniture and computer equipment has been part of an ongoing programme. The beneficiaries of such goods are primarily schools and non-profit organisations.

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 SARS other offices are available from SARS.

STATEMENT OF FINANCIAL POSITION
as at 31 March 2007

	Notes	2007 R'000	2006 R'000
ASSETS			
Current assets		981 117	803 470
Trade and other receivables	4	69 940	56 109
Cash and cash equivalents	5.1	911 177	747 361
Non-current assets		553 699	598 748
Property, plant and equipment	6.1	356 687	372 282
Land and buildings	6.2	177 490	177 008
Intangible assets	6.3	19 522	49 458
Total assets		**1 534 816**	**1 402 218**
LIABILITIES			
Current liabilities		607 717	568 570
Trade and other payables	7	226 328	247 402
Provisions	8	348 453	304 252
Interest bearing liabilities	9	25 833	10 574
Deferred income	11	7 103	6 342
Non-Current Liabilities		480 157	416 297
Interest bearing liabilities	9	277 812	151 578
Financial guarantee contracts	10	16 680	17 979
Deferred income	11	8 055	12 372
Other liabilities	12	177 610	234 368
Total liabilities		**1 087 874**	**984 867**
Net assets		**446 942**	**417 351**
NET ASSETS			
Reserves	13	33 183	81 201
Accumulated surplus		413 759	336 150
		446 942	**417 351**
Total net assets		**446 942**	**417 351**

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 March 2007

	Notes	2007 R'000	2006 R'000
REVENUE			
Transfers from government entities		4 879 591	4 254 302
Other income		283 276	240 013
Total revenue	**14**	**5 162 867**	**4 494 315**
EXPENSES			
Administrative expenses		932 969	1 243 902
Depreciation	6.1, 6.2	201 528	174 810
Amortisation	6.3	68 497	64 322
Other expenses		72 043	7 870
Personnel expenses		3 124 642	2 935 403
Finance cost	15	43 289	2 463
Professional and special services		691 172	706 723
Total expenses		**5 134 140**	**5 135 493**
Gains on sale of property, plant and equipment		575	97
Surplus/(deficit) for the period	**16**	**29 302**	**(641 081)**

STATEMENT OF CHANGES IN NET ASSETS
for the year ended 31 March 2007

	Notes	Asset revaluation reserve R'000	Capital reserve R'000	Accumulated surplus/ (deficits) R'000	Total R'000
Balance at 1 April 2005		**48 302**	**32 364**	**993 117**	**1 073 783**
Adjustment in respect of prior period (Provisions)	8	-	-	(15 886)	(15 886)
Restated balance at 1 April 2005		**48 302**	**32 364**	**977 231**	**1 057 897**
Surplus in revaluation of property		535	-	-	535
Deficit for the period restated		-	-	(641 081)	(641 081)
- As per 2006 annual report		-	-	(430 855)	(430 855)
- Adjustment in respect of prior period (Housing guarantee)	10	-	-	(17 979)	(17 979)
- Adjustment in respect of prior period (Other Liabilities)	12	-	-	(192 247)	(192 247)
Restated balance at 31 March 2006		**48 837**	**32 364**	**336 150**	**417 351**
Transfers					
- Change in accounting policy	3.2	(48 302)	-	48 302	**-**
- Depreciation based on the revalued portion of the assets		(5)	-	5	**-**
Surplus in revaluation of property		289	-	-	**289**
Surplus for the period		-	-	29 302	**29 302**
Balance at 31 March 2007		**819**	**32 364**	**413 759**	**446 942**

CASH FLOW STATEMENT
for the year ended 31 March 2007

	Notes	2007 R'000	2006 R'000
Cash Flows from Operating Activities			
Receipts		**5 160 265**	**4 483 506**
Grants		4 874 591	4 254 302
Interest received		70 501	58 875
Other receipts		215 173	170 329
Payments		**4 842 755**	**4 699 773**
Employee costs		3 079 297	2 803 173
Suppliers		1 720 169	1 894 137
Interest paid		43 289	2 463
Net cash flows from operating activities	**5.2**	**317 510**	**(216 267)**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	6.1	(185 434)	(148 646)
Purchase of land and building	6.2	(3 568)	(176 108)
Purchase of intangible assets	6.3	(106 986)	(6 881)
Proceeds from sale of plant and equipment		802	204
Net cash flows from investing activities		**(295 186)**	**(331 431)**
Cash Flows from Financing Activities			
Increase in borrowings		279 590	176 107
Repayment of borrowings		(138 098)	(13 955)
Net cash flows from financing activities		**141 492**	**162 152**
Increase/(decrease) in cash and cash equivalents		163 816	(385 546)
Cash and cash equivalents at beginning of year		747 361	1 132 907
Cash and cash equivalents at end of year	**5.1**	**911 177**	**747 361**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007

1. Background

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's 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.

2. Statement of Accounting Policies

2.1 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 (Public Finance Management Act, Act No. 1 of 1999). This comprises National Treasury.

2.2 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the revaluation of land and buildings and certain financial instruments.

The financial statements have been prepared in accordance with the 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 Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: 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 & 3 has resulted in the following changes in the presentation of the financial statements:

1. Terminology differences:

Standard of GRAP	**Replaced Statement of GAAP**
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement 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

2. The cash flow statement can only be prepared in accordance with the direct method.

3. Specific information has been presented separately on 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

4. The amount and nature of any restrictions on cash balances is required.

Paragraphs 11 – 15 of GRAP 1 have not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international 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.

SIGNIFICANT JUDGEMENTS

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 judgement is inherent in the formation of estimates. Actual results in the future could differ form these estimates which may be material to the financial statements. Significant judgements include:

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 judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Provisions

Provisions were raised and management determined an estimate based on the information available. Refer to note 8.

2.3 Revenue recognition

SARS's 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 accrue.

Interest income is accrued on a time basis by reference to the principal outstanding and the interest rate applicable.

2.4 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 23.

2.5 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.

2.6 Employee benefits

2.6.1 Short-term employee benefits

Remuneration to employees is charged to the Statement of Financial Performance. Provisions is made for accumulated leave and performance bonuses.

2.6.2 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.

2.7 Property, plant and equipment

2.7.1 Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. 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.

2.7.2 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 method are reviewed at each year end with the effect of any changes in estimate accounted for on a prospective basis.

Cabling infrastructure		5 years
Computers (mainframe)		5 years
Computers (desktop & peripherals)		3 years
Furniture and fittings		6 years
Garden equipment		3 years
Kitchen equipment		6 years
Laboratory equipment		5 years
Leasehold improvements	Over the life of the asset or the lease period whichever is the shorter	
Office equipment		5 years
Leased office equipment	Over the life of the asset or the lease period whichever is the shorter	
Prefabricated buildings		5 years
Security equipment		5 years
Vehicles		5 years

2.7.3 Land and buildings

Land and buildings consist of land and improvements thereto.

Land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amounts do not vary materially from those that would be determined using fair values at the reporting date.

The carrying value of the properties is adjusted to the revalued amounts and the resultant surplus credited to the Asset Revaluation Reserve. Impairment losses will be treated as a revaluation decrease to the extent that the impairment loss does not exceed the revaluation surplus for that same asset.

Impairment losses over and above the revaluation surplus will be expensed to the Statement of Financial Performance.

2.7.4 Leased assets

Fixed assets held under finance leases are recognised as assets of the entity at the lower of their fair value or the 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.

2.8 Intangible assets

2.8.1 Computer software

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:

Software (mainframe)	3 years
Software (desktop applications)	3 years

2.9 Foreign exchange 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.

2.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.11 Operating leases

Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the period of the lease.

2.12 Finance leases

Finance leases are capitalised at the lower of their fair value or present value of the minimum lease payments. 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.

The corresponding rental obligations, net of finance charge are included as part of liabilities.

2.13 Financial instruments and risk management

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.

2.14 Trade and other receivables

Trade and other receivables are carried at original invoice amounts, which approximates their fair value, less provision made for impairment of these receivables.

A provision for impairment of trade receivables is established when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the receivables.

2.15 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.

2.16 Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction cost and subsequently measured at amortised cost.

3. Change in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

3.1 Lease of office equipment

During the 2007 financial year, SARS adopted IFRIC4 (Determining if an arrangement contains a Lease) effective for annual reporting periods beginning on 1 January 2006.

Previously such costs were written off as expenses as incurred through the Statement of Financial Performance.

As these arrangements convey a right to use the assets, the arrangements are now capitalised as finance leases and the office equipment capitalised and written off over the life of the asset or the lease period, whichever is the shorter.

§§§year is as follows:

	Statement of Financial Performance		Statement of Financial Position	
	Increase in surplus R'000	Decrease in surplus R'000	Increase / (decrease) in Assets R'000	Increase in Liabilities R'000
Recognition of interest bearing loans			34 710	34 710
Repayments made	15 073			(15 073)
Finance charges reallocated		1 757		1 757
Depreciation charges for the year		15 635	(15 635)	
	15 073	**17 392**	**19 075**	**21 394**

3.2 Asset revaluation reserve

During 2007, SARS changed its accounting policy for the treatment of the asset revaluation reserve. The asset revaluation reserve as at 1 April 2005 is a result of a revaluation of property, plant and equipment on 1 April 2000.

Depreciation on fixed assets relating to the asset revaluation reserve was expensed through the Statement of Financial Performance.

GRAP 3, Accounting Policies, Changes in Accounting Estimates and Errors, states that a change in accounting policy should be made where the change provides for more reliable and relevant information about the effects of transactions.

Depreciation is now allocated to the asset revaluation reserve to the extent that a related revaluation reserve exists.

The opening asset revaluation reserve was reversed in equity to accumulated surplus via the Statement of Change in Net Assets. This change in policy is in line with the suggested accounting treatment per IAS 16 Property, Plant and Equipment paragraph 41. Prior year data could not have been collected in the prior period in a way that allows for retrospective application of the accounting policy. This change in accounting policy has therefore been applied prospectively from 2007 as it was not deemed practicable to do it from an earlier date.

The effect on the current year is to increase the accumulated surplus by R 48.302 million and reduce the asset revaluation reserve by R48,302 million.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

	2007 R'000	2006 R'000
4. Trade and other Receivables		
Staff accounts receivable	4 072	4 001
Less: provision for doubtful debts	(2 552)	(2 795)
	1 520	1 206
Accounts received (ex-staff)	4 176	3 555
Less: provision for doubtful debts	(4 143)	(3 534)
	33	21
Advance tax ruling (ATR) debtors	31	-
Government departments	2 6	27 592
Refundable deposits	2 818	2 805
Other receivables	5 910	8 437
Prepayments	31 732	16 048
Total	**69 940**	**56 109**

5. Notes to the Cash Flow Statement

5.1 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:

	2007	2006
Balances with banks	910 795	747 016
Cash on hand	382	345
Total	**911 177**	**747 361**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

	2007 R'000	2006 R'000
5.2 Reconciliation of net cash flows from operating activities to surplus/(deficit)		
Surplus/(deficit)	29 302	(641 081)
Non-cash movements	288 208	424 814
Depreciation	201 528	174 810
Amortisation	68 497	64 322
Profit on sale of property, plant and equipment	(574)	(97)
Losses on scrapping of property, plant and equipment	71 075	4 604
(Increase)/decrease in trade and other receivables	(13 829)	(21 387)
relating to interest received	(4 476)	912
relating to other receipts	5 430	(5 379)
relating to employee costs	(693)	836
relating to suppliers	(14 090)	(17 756)
(Decrease)/increase in trade and other payables	(21 077)	(148 966)
relating to employee costs	3 136	7 892
relating to suppliers	(24 213)	(156 858)
(Decrease)/increase in provisions	44 201	105 523
(Decrease)/increase in other liabilities	(56 758)	234 368
(Decrease) in deferred income	(3 556)	(6 342)
(Decrease)/increase in financial guarantees contract	(1 299)	17 979
Net cash flows from operating activities	**317 510**	**(216 267)**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

6.1 Property, plant and equipment

	Computer equipment	Furniture fittings & office equipment	Leasehold improvements	Assets Under Construction	Security equipment	Motor vehicles	Low Value Assets	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
For the year ended 31 March 2007								
At cost or valuation								
Opening balance - 1 April 2006	555 945	51 559	153 163	25 581	12 528	87 326	83 228	969 330
Additions	43 182	50 343	21 270	49 370	1 691	9 379	10 199	185 434
Transfers	-	-	74 951	(74 951)	-	-	-	-
Disposals	(25 315)	(337)	-	-	(6)	-	(2 773)	(28 431)
Impairments	(135 063)	(8 285)	-	-	(7 572)	(539)	(19 315)	(170 774)
Closing balance - 31 March 2007	438 749	93 280	249 384	-	6 641	96 166	71 339	955 559
Accumulated depreciation								
Opening balance - 1 April 2006	370 427	22 814	54 294	-	8 959	57 326	83 228	597 048
Charge for the year	104 225	29 043	38 582	-	2 783	13 321	10 199	198 153
Disposals	(25 142)	(284)	-	-	(5)	-	(2 773)	(28 204)
Impairments	(133 333)	(7 822)	-	-	(7 378)	(277)	(19 315)	(168 125)
Closing balance - 31 March 2007	316 177	43 751	92 876	-	4 359	70 370	71 339	598 872
Carrying amount - 31 March 2007	**122 572**	**49 529**	**156 508**	**-**	**2 282**	**25 796**	**-**	**356 687**

6.1 Property, plant and equipment (continued)

	Computer equipment	Furniture fittings & office equipment	Leasehold improvements	Assets Under Construction	Security equipment	Motor vehicles	Low Value Assets	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
For the year ended 31 March 2006								
At cost or valuation								
Opening balance - 1 April 2005	557 113	54 960	151 382	-	12 879	79 458	87 863	943 655
Additions	98 316	7 868	686	26 676	556	9 056	5 488	148 646
Transfers	-	-	1 095	(1 095)	-	-	-	-
Disposals	(8 550)	(82)	-	-	-	(193)	(1 720)	(10 545)
Impairments	(90 934)	(11 187)	-	-	(907)	(995)	(8 403)	(112 426)
Closing balance - 31 March 2006	555 945	51 559	153 163	25 581	12 528	87 326	83 228	969 330
Accumulated depreciation								
Opening balance - 1 April 2005	354 813	21 876	21 822	-	7 126	46 999	87 863	540 499
Charge for the year	113 592	9 589	32 472	-	2 526	11 144	5 487	174 810
Disposals	(8 536)	(68)	-	-	-	(114)	(1 720)	(10 438)
Impairments	(89 442)	(8 583)	-	-	(693)	(703)	(8 402)	(107 823)
Closing balance - 31 March 2006	370 427	22 814	54 294	-	8 959	57 326	83 228	597 048
Carrying amount - 31 March 2006	**185 518**	**28 745**	**98 869**	**25 581**	**3 569**	**30 000**	**-**	**372 282**

Assets held under finance leases

Property plant and equipment held under finance leases is represented by office equipment with a carrying value of R19,075m (2006: R nil).

Impairment of assets

Assets impaired generally represents assets that are either obsolete or not physically verifiable. Events and circumstances that 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.

6.2 Land and buildings

	Land R'000	Buildings R'000	Total R'000
For the year ended 31 March 2007			
At cost or valuation			
Opening balance - 1 April 2006	11 847	165 161	177 008
Revaluation	98	191	289
Additions	-	3 568	3 568
Closing balance - 31 March 2007	11 945	168 920	180 865
Accumulated depreciation			
Charge for the year	-	3 375	3 375
Closing balance - 31 March 2007	-	3 375	3 375
Carrying amount - 31 March 2007	**11 945**	**165 545**	**177 490**
For the year ended 31 March 2006			
At cost or valuation			
Opening balance - 1 April 2005	27	338	365
Revaluation	306	229	535
Additions	11 514	164 594	176 108
Carrying amount - 31 March 2006	**11 847**	**165 161**	**177 008**

Assets held under finance leases

Land and Buidings held under finance leases are represented by buildings with a carrying value of R176,313m (2006: R176,108m).

Land and buildings carried at fair value

Three houses in Fouriesburg were purchased in 2003 at a total value of R365k. The houses are occupied by Customs Officials.

Land and buildings have been revalued by Breytenbach Van der Merwe & Botha Inc., a sworn appraiser, on 12 March 2007 on a replacement value basis.

Had the land and buildings been measured on a historical cost basis, their carrying amount would have been as follows:

	2007 R'000	2006 R'000
Land	11 541	11 541
Buildings	165 130	164 932
	176 671	**176 473**

	2007 R'000	2006 R'000
6.3 Intangible Assets		
For the year ended 31 March 2007		
At cost or valuation		
Opening balance - 1 April	195 268	225 834
Additions	106 986	6 881
Disposals	(80)	(11)
Impairments	(98 566)	(37 436)
Closing balance - 31 March	203 608	195 268
Accumulated depreciation		
Opening balance - 1 April	145 810	118 934
Charge for the year	68 497	64 322
Disposals	(80)	(10)
Impairments	(30 141)	(37 436)
Closing balance - 31 March	184 086	145 810
Carrying amount - 31 March	**19 522**	**49 458**

Assets held under finance leases

Intangible assets under finance leases have no carrying value. (2006: R nil).

Impairment of assets

The impairment losses charged to the Statement of Financial Performance are the excess of the carrying value over the recoverable amount. The recoverable amount of the relevant assets has been determined on the basis of their fair value in use.

The impairment losses have been included in the line item other expenses in the Statement of Financial Performance.

During the period under review, 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 R68,425m for certain software programmes and licences 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.

	2007 R'000	2006 R'000
7. Trade and other Payables		
Trade accounts payable and accruals	182 314	205 433
Accruals for salary related expenses	37 151	34 015
Other credits	778	209
Retentions	270	1 930
Projects	5 815	5 815
Total	**226 328**	**247 402**

The comparative figures for trade and other payables have been restated as follows:

		2006 R'000
Accruals for salary related expenses		
As stated in the 2006 Annual Report		8 259
Provision for service bonuses reclassified as accruals for salary related expenses (previously part of provisions: note 8)		25 756
IAS 37 defines provisions as liabilities of uncertain timing or amount. The service bonuses provision is a present obligation of which the timing and amount have been determined.		
		34 015
Projects		
As stated in the 2006 Annual Report		24 529
Tenant allowances have been reclassified as deferred income (refer note 11)		(18 714)
		5 815

8. Provisions

	Career Development Programme	Performance Bonuses	Leave pay	Total
At 31 March 2006	6 498	185 400	96 468	288 366
Adjustment in respect of prior period	-	-	15 886	15 886
Restated balance at 31 March 2006	**6 498**	**185 400**	**112 354**	**304 252**
Adjustment of provisions	-	-	1 599	1 599
Utilisation of provision	(7 118)	(191 832)	-	(198 950)
Additional provisions	620	240 932	-	241 552
At 31 March 2007	**-**	**234 500**	**113 953**	**348 453**

Refer to note 7 for reclassification of balances and restated comparatives.

The comparative figures for provisions have been restated as follows:

As stated in the 2006 Annual Report	356 243
Provision for service bonuses reclassified as accruals for salary related expenses (refer note 7)	(25 756)
Operating Leases (straight line basis) now disclosed as other liabilities (refer note 12)	(42 121)
	288 366

Career Development Programme

During the previous year the entity embarked on a programme to address development needs within the organisation as agreed to 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 accumulated leave benefits.

Adjustment in respect of prior period:

A portion of the accumulated leave prior to 31 December 1998 disclosed in note 17 (Contingent Liabilities) meets the conditions required to recognise a provision in accordance with IAS 37 (Provisions, contingent liabilies and contingent assets).

The effect of this adjustment on the results of 2006 is as follows:

Statement of Financial Position

Decrease in accumulated surplus at 31 March 2006	(15 886)
Increase in provisions	15 886

9. Interest Bearing Liabilities

Reconciliation of the total future minimum lease payments at the reporting date, and their present values

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total	Less future finance charges	Present value of minimum lease payments
31 March 2007						
Land and buildings - Alberton lease	16 756	79 601	159 441	255 798	115 530	140 268
Land and buildings - Alberton acquisition	15 039	-	-	15 039	2 499	12 540
Computer software	72 962	72 962	-	145 924	16 481	129 443
Office equipment	13 407	10 816	-	24 223	2 829	21 394
Total	**118 164**	**163 379**	**159 441**	**440 984**	**137 339**	**303 645**

Included in the financial statements as:

Current interest bearing borrowings	**25 833**
Non-current interest bearing borrowings	**277 812**
	303 645

31 March 2006						
Land and buildings - Alberton lease	15 659	74 393	181 403	271 455	130 816	140 639
Land and buildings - Alberton acquisition	12 540	12 540	-	25 080	3 567	21 513
Total	**28 199**	**86 933**	**181 403**	**296 535**	**134 383**	**162 152**

Included in the financial statements as:

Current interest bearing borrowings	**10 574**
Non-current interest bearing borrowings	**151 578**
	162 152

Land and buildings - Alberton lease

The Lessor developed the Alberton South Building for SARS at cost of R176.108m.

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 R12,54m, R13.693m and R15,04m with the 1st instalment payable at the commencement of the lease.

Computer software

This finance lease represents the acquisition of computer software and professional services. The purchase price is payable in 4 annual instalments of R 61.56m in year one and R72,96m in years two to four. The second instalment of R72,96m payable on 1 April 2007 was made on 30 March 2007 as 1April 2007 falls on a Sunday.

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.

	Current		Non-current	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
10. Financial Guarantee Contracts				
Housing guarantees	-	-	16 680	17 979

Housing guarantees are issued in terms of the State Housing Programme to qualifying employees.

Adjustment in prior period

Housing guarantees meet the definition of a financial guarantee contract according to IAS 39 (Financial Instruments). The standard requires implementation for annual periods beginning on or after 1 January 2005.

The effect of this adjustment on the results of 2006 is as follows:

Statement of Financial Performance	
Increase in Personnel expenditure	17 979
Increase in (Deficit)	(17 979)
Statement of Financial Position	
Decrease in Accumulated surplus	(17 979)
Increase in Non Current Liabilities	17 979

	Current		Non-current	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
11. Deferred Income				
Tenant allowances	7 103	6 342	8 055	12 372

Tenant allowances represent amounts received from landlords for improvements made by the tenant to leased properties.

Refer note 7 for reclassification of balances and restated comparatives.

	2007	2006
	R'000	R'000
12. Other Liabilities		
Operating leases (straight line basis)	177 610	234 368

Operating leases represent the differential between lease payments on a cash basis and payments calculated on the straight line method.

Adjustment in respect of prior period:

IAS 17 (Leases) was applied during 2006 on a prospective basis. Restatement of the prior year figures is a result of re-consideration of the lease terms involved.

The effect of this adjustment on the results of 2006 is as follows:

Statement of Financial Performance	
Increase in Administrative expenditure	192 247
Increase in (Deficit)	(192 247)
Statement of Financial Position	
Decrease in Accumulated surplus	192 247
Increase in Current Liabilities	192 247

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

	2007 R'000	2006 R'000
13. Reserves		
13.1 Capital reserve on establisment		
Surplus of assets over liabilities transferred from Government		
on 1 October 1997	32 364	32 364
Balance at 31 March	**32 364**	**32 364**
13.2 Asset revaluation reserve		
Balance at beginning of the year	48 837	48 302
Movement during the year:		
- Transferred to accumulated surplus		
- Change in accounting policy refer note 3.2	(48 302)	-
- Depreciation based on the revalued portion of the assets	(5)	-
- Revaluation of Land and Buildings	289	535
Balance at 31 March	819	48 837
Total reserves	**33 183**	**81 201**
14. Revenue		
Revenue comprises the following:		
Transfers from government entities	4 879 591	4 254 302
- National Treasury	4 874 591	4 254 302
- Criminal Assets Recovery Account (CARA)	5 000	-
Other income	283 276	240 013
- Interest received	74 977	57 963
- Other revenue	194 901	182 050
- Funds received from international donors	2 066	-
- Foreign exchange net profit	11 332	-
	5 162 867	**4 494 315**

Other revenue consists mainly of commission received for services rendered to government entities.

Donorship funding consists of the provision of training facilities for Eastern and Southern Africa customs administrations.

	2007 R'000	2006 R'000
15. Finance Cost		
Finance charges mainly as per finance lease	43 289	2 463
16. Surplus/(Deficit) from Operations		
Surplus/(deficit) from operations has been carried after taking into account the following:		
Auditors remuneration	12 609	24 132
- Audit fees	13 277	22 271
- Expenses	1 964	4 802
- Prior year over provision	(2 632)	(2 941)
Depreciation on fixed assets	201 528	174 810
Amortisation on intangible assets	68 497	64 322
Impairment losses on assets	71 075	4 603
Net foreign exchange rate losses	-	1 873

Executive members remuneration

Designation	Salary	Bonus	Allowances including Leave Payments	Contributions Medical & Pension	2007 R'000	2006 R'000
Commissioner for SARS	1 950	606	155	56	2 767	2 420
Chief Information Officer	-	-	-	-	-	2 006
GM: Strategy, Modernisation and Technology (2007: 9 months)	1 228	-	110	25	1 363	-
GM: National HR Operations	-	-	-	-	-	816
GM: Human Resources (2006: 3 months)	-	-	-	-	-	333
GM: Corporate Services (2006: 3 months)	1 405	-	180	33	1 618	341
GM: Zone 2	-	-	-	-	-	1 083
GM: Compliance and Risk (2007: 4 months)	227	199	134	9	569	1 182
GM: Risk Management (2007: 9 months)	713	-	119	21	853	-
GM: Corporate Relations (2006:11 months)	-	-	-	-	-	947
Deputy Chief Operations Officer	762	199	194	119	1 274	1 191
GM: Enforcement and Risk	840	223	175	130	1 368	1 143
GM: Enforcement (2007: 9 months)	515	-	110	19	644	-
GM: Finance	726	182	192	114	1 214	1 142
GM: Legal and Policy	859	249	203	131	1 442	1 210
Chief Operations Officer	1 516	399	146	34	2 095	1 758
Deputy Chief Operations Officer	890	190	170	27	1 277	843
GM: Services and Channels	-	-	-	-	-	763
GM: Process & Information Management	-	-	-	-	-	1 302
GM: Office of the Commissioner (2007: 9 months)	409	-	129	72	610	-
GM: Corporate Relations (2007: 11 months)	864	-	131	25	1 020	-
Total	**12 904**	**2 247**	**2 148**	**815**	**18 114**	**18 480**

No remuneration reflected in the current year indicates that the respective members did not serve on the Executive Committee.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

	2007 R'000	2006 R'000
Administrative expenditure	932 969	1 243 902
Expenses include:		
- Printing and postage		
- Communications		
- Subsistence and travel		
- Bank charges		
- Building maintenance & accommodation		
- Filing Season expenses		
- Insurance premiums		
The apparent decrease in administrative expenditure from 2006 to 2007 is due to the impact of the straight lining adjustments for building rentals (2006) and the capitalisation of office equipment leases (2007). Refer to notes 3.1 and 12 for details.		
Other expenses	72 043	7 870
Expenses include:		
- Impairment losses on assets		
- Net losses from exchange rate differences		
Professional and special services	691 172	706 723
Expenses include:		
- Audit fees		
- Legal fees		
- IT maintenance		
- Consultation fees		
- Security services		

17. Related Party Transactions

SARS is a Schedule 3A Public Entity in terms of the Public Finance Management Act (PFMA). Related parties include other state-owned entities, government departments and all other entities within the spheres of government.

Transactions with related parties

The government provided SARS with a grant to cover its operating expenditure and to fund specific projects. The transactions with related parties are summarised as follows:

	2007		2006	
	Receiving of services R'000	Trade and other payables R'000	Receiving of services R'000	Trade and other payables R'000
17.1 With other related parties: Government, major public entities and other related parties				
Agricultural Research Council	-	-	3	-
Alexkhor	1	-	1	-
Arivia.kom	-	-	153	-
Department of Foreign Affairs	3 079	96	1 331	480
Department of Public Works	1 670	-	50 394	-
Department of Water Affairs and Forestry	-	-	12	-
ESKOM	2 960	230	3 786	161
Government Communications	2 807	32	1 264	14
Government Employment Pension Fund	186 092	12	158 218	-
Human Sciences Research Council	1 790	-	1 280	-
Independent Regulatory Board	19	5	27	-
KwaZulu-Natal Provincial Government	1	-	33	3
Local municipalities	2 264	194	1 809	184
National Gambling Board	-	-	2	2
National Museum	5	-	2	-
SA Post Office Limited	20 791	-	21 189	-
South African Reserve Bank	1	-	12	-
South African Airways	33	-	36	12
SA Broadcasting Commission	3 006	-	765	745
SA Bureau of Standards	210	-	202	-
State Attorney	22 790	-	20 670	6 659
Telkom SA Limited	160 992	7 660	150 313	8 270
Transnet Limited	31	-	36	1
Unemployment Insurance Fund	17 117	1	13 966	-
Vodacom (as a subsidiary of Telkom SA Limited)	11 299	1 011	11 924	1 051

	2007 R'000	2006 R'000
17.2 With key management personnel		
Executive members remuneration - details are disclosed in note 16	18 114	18 480

	2007		2006	
	Rendering of services R'000	Trade and other receivables R'000	Rendering of services R'000	Trade and other receivables R'000
17.3 Services rendered to related parties				
National Treasury (grant and CARA)	4 879 591	-	4 254 302	-
South African Revenue Service Administered Revenue (attendance fees Customs)	12 281	12 281	-	-
Unemployment Insurance Fund (commissions earned)	118 375	10 778	100 391	18 161
Skills Development Levy (commissions earned)	53 146	4 392	53 979	8 931
Public Investment Corporation (services)	(54)	445	499	499

17.4 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.

	2007 R'000	2006 R'000
18. Contingent Liabilities		
Guarantees issued to various financial institutions in respect of housing loans granted to employees	-	-
Accumulated leave prior to 31 December 1998	72 136	73 998
Total	**72 136**	**73 998**

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's employ 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 8.

The comparative figures for contingent liabilities have been restated as follow:

Guarantees issued to various financial institutions in respect of housing loans granted to employees	
As stated in the 2006 Annual report	17 979
2006 comparative restated to recognise Financial guarantee contracts according to IAS 39 (Financial Instruments) (refer to note 10)	(17 979)
	-
Accumulated leave prior to 31 December 1998	
As stated in the 2006 Annual report	89 884
2006 comparative restated to recognise Provisions according to IAS 37 (Provisions, contingent liabilies and contingent assets) (refer tonote 8)	(15 886)
	73 998

19. Contingent Asset

	2007 R'000	2006 R'000
Saving in professional fees from development contract of Alberton Building	-	1 921

The contingent amount represents probable savings in professional fees in the construction of the Alberton South building. This amount was received during the period under review.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

	2007 R'000	2006 R'000
20. Capital Commitments		
Commitments for the acquisition of property, plant and equipment:		
- Approved by the Accounting authority but not contracted	205 000	-
- contracted	592	5 508
These commitments will be financed from the grant allocated by National Treasury	205 592	5 508
21. Operating Lease Commitments		
At 31 March the future minimum operating lease commitments are:		
Within one year:	239 649	223 368
Property (2006 restated - refer to note 8)	239 649	214 827
Equipment	-	8 541
Between two and five years:	728 257	715 669
Property (2006 restated - refer to note 8)	728 257	712 890
Equipment	-	2 779
In more than five years:		
Property (2006 restated - refer to note 8)	558 876	682 891
	1 526 782	**1 621 928**

The operating leases consist of building and equipment 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.

22. Financial Instruments and Risk Management

SARS's operations are exposed to certain financial risks. Financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on SARS's financial performance.

22.1 Financial risk factors

22.1.1. 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's 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 group's financing policies and the selective use of forward exchange contracts.

22.1.2 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.

SARS's credit risk exposure is limited as follows:

- 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;
- Debt for Government departments are recovered in accordance with terms dictated by the PFMA (Public Finance Management Act);
- Housing guarantees are recovered from the employees salary and/or pension.

SARS does not regard there to be any significant concentration of credit risk.

22.1.3 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 though prudent liquidity risk management, which includes maintaining sufficient cash and cash equivalents.

SARS's chief source of income is an annual grant from Parliament for funding of SARS's operational and capital requirements. This grant is allocated in accordance with the provisions governing the Medium Term Expenditure Framework. 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.

22.1.4 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.

22.2 Fair value

At year end the carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximated their fair values.

22.3 Profiles of financial instruments

	0 - 12 Months R'000	1 - 5 Years R'000	Beyond 5 years R'000	Total R'000
For the year ended 31 March 2007				
Financial assets				
Trade and other receivables				
Staff accounts receivable	1 520	-	-	1 520
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	911 177	-	-	911 177
Financial liabilities				
Trade and other payables				
Trade accounts payable and accruals	182 314	-	-	182 314
Accruals for salary related expenses	37 151	-	-	37 151
Other payables	778	-	-	778
Retentions	270	-	-	270
Projects	5 815	-	-	5 815
Interest bearing borrowings	25 833	162 028	115 784	303 645
Financial guarantee contracts	-	-	16 680	16 680
For the year ended 31 March 2006				
Financial assets				
Trade and other receivables				
Staff accounts receivable	1 206	-	-	1 206
Government departments	27 592	-	-	27 592
Refundable deposits	2 805	-	-	2 805
Other receivables	8 437	-	-	8 437
Cash and cash equivalents	747 361	-	-	747 361
Financial liabilities				
Trade and other payables				
Trade accounts payable and other accruals	205 433	-	-	205 433
Accruals for salary related expenses	34 015	-	-	34 015
Other payables	209	-	-	209
Retentions	1 930	-	-	1 930
Projects	5 815	-	-	5 815
Interest bearing borrowings	10 574	27,001	124 577	162 152
Financial guarantee contracts	-	-	17 979	17 979

23. 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):

		2007 R'000	2006 R'000
1	Sida - Swedish International Development Agency Accommodation in Blantyre, Malawi	2	-
2	SADC - Southern African Development Community Accommodation and airfares for various activities sponsored by the SADC	130	79
3	US CBP - United States Customs and Border Protection Airfares and accommodation	17	-
4	ILEA - International Law Enforcement Academy Accommodation, airfares, meals and course related expenses in Botswana	10	118
5	National Tax Board (NTB) of Sweden Airfares and accommodation in Sweden	24	-
6	Akmal - Akademi Kastam Diraja Malaysia Malaysian Technical Cooperation Programme. Accommodation, airfares and subsistence allowance	42	301
7	UNCTAD - United Nations Conference on Trade and Development Regional Round Table on Trade Facilitation Negotiation. Accommodation, airfares and meals	-	16
8	UNEP - United Nations Environmental Programme Ozone Depleting Subsistence's Offices' Network. Accommodation and airfares	-	21
9	RICA - The Islamic Republic of Iran Customs Administration Second International Conference on Information Technology. Accommodation and airfares	-	16
10	Japan Customs and Tariff Bureau Accommodation, airfares, meals to participate in a training course	70	90
11	GIBS - Gordon Institute of Business Science Global Executive Development Programme. Accommodation, airfares and meals	-	58
12	WTO - World Trade Organisation Trade facilitation negotiations. Accommodation and airfares	-	8

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2007 (continued)

	2007 R'000	2006 R'000
13 NTA - National Tax Agency of Japan	-	65
Taxation course for developing countries (ISTAX) seminar. Accommodation and airfares		
14 National Gambling Board	-	6
Gaming Regulators Africa Forum. Accommodation and airfares		
15 British Council Interaction Leadership Programme	-	20
Pan African Leadership Programme (PALP). Accommodation and airfares		
16 UNODC - The United Nations Office on Drugs and Crime	-	12
African Seaports Project. Accommodation and airfares		
17 Tanzania Revenue Authority	66	-
Airfares and traveling in Tanzania		
18 IPFA - Institute of Public Finance and Auditing	16	-
All costs including airfare and accommodation		
19 SACU	8	-
Accommodation and traveling costs to Namibia		
20 Namibia Customs	12	-
Accommodation and traveling costs to Namibia		
21 FIAS - Foreign Investment Advisory Service	50	-
All expenses including accommodation and airfares in Sierra Leone		
22 UN - United Nations	21	-
Airfares and accommodation in Geneva		
23 Rwanda Revenue Authority	8	-
Airfares and accommodation in Kigali, Rwanda		
24 SITPRO	5	-
Flight to Livingstone, Zambia		
25 World Bank	48	-
All expenses including accommodation and airfares in Hanoi, Vietnam		
26 WCO	9	-
Accommodation and traveling costs to Zimbabwe		
Total	538	810

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.

	2007 R'000	2006 R'000

24. 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.

25. Retirement Benefit Plans

Defined contribution plans

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 service in the current and prior periods.

Retirement benefits are provided by membership of the Government Employees Pension Fund.

	2007 R'000	2006 R'000
Pension fund contributions (employer contribution incl in personnel expenditure)	186 092	158 218

Post-retirement medical benefits

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.

16

SARS SCORECARD

16. SARS SCORECARD 2006/07

1. Strategic Objective: Optimise revenue collection

Outcomes:

- Optimise collections
- To advise on appropriate tax policy and legislative interventions

Deliverables	Target 2006/07	Achievement	Annual Report reference
Revenue Collections (R'million)	R489 662 000	R495 515 000	Page 17
Cost as a percentage of total revenue	1.06%	1.04%	Page 37
Due debt as a percentage of total revenue	14%	12.88%	Page 84

2. Strategic Objective: Better taxpayer and trader experience

Outcomes:

- Targeted communication, taxpayer education and engagement
- Enhanced service processes and responses to queries
- Perform against SARS Service Charter
- Effective, easily available and efficient channels
- Efficient dispute resolution

Deliverables	Target 2006/07	Achievement	Annual Report reference
Percentage of achievement against SARS Service Charter	85%	94%	Page 40
Call Centre – 80% of calls answered within 20 seconds	80%	71%	Page 40
Branch Office Walk Ins – attended 95% of visitors within 15 minutes of arrival (during off peak times) and 90% during peak times	Off Peak – 95% (March – June) Peak – 90% (July – February)	Off Peak – 96.5% (March – June) Peak – 93.9% (July – February)	Page 40
Correspondence – respond within 21 working days to 80% of all correspondence	80%	80%	Page 34

3. Strategic Objective: Improved compliance and risk reduction

Outcomes:

- Understand and segment the tax base and develop appropriate compliance strategies
- Improve compliance culture
- Assess and mitigate risk

Deliverables	Target 2006/07	Achievement	Annual Report reference
Percentage increase in compliance behaviour	9% yearly target	Indicators of increase in compliance: *Increase of 17% in active register* *Decrease of 6% in Outstanding Return book* *Decrease of 3,75% in debt book*	Page 79 Page 81 Page 79
Increase in effective tax rates per selected industry / sector	Improvement by 5%	*The focus has been on the improvement of compliance levels across all industry sectors. This will be addressed further through the modernisation programme*	
Due debt collected (Enforcement Revenue banked)	R17 039 804 676	R17 747 679 110	Page 85
Percentage success in risk based audits	70%	68%	Page 80
Total Audit coverage across tax types	66 000	69 270	Page 79
PIT	21 721	26 267	Page 81
CIT	10 359	13 453	
VAT	27 738	24 603	
PAYE	6 182	4 947	

4. 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 2006/07	Achievement	Annual Report reference
Percentage compliance with equity plan	100%	90%	Page 106
Percentage closure of skills gap	25%	44%	Page 104
Implementation of new Performance Management Development System	90%	90%	Page 105
Percentage improvement in Management capability	30%	30%	Page 104

5. 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 proactive deterrence

<table>
<tr><th colspan="3">Deliverables</th><th>Target 2006/07</th><th>Achievement</th><th>Annual Report reference</th></tr>
<tr><td colspan="3">Percentage documentation compliance with customs regulation coverage and examination success rate: Document coverage</td><td>15%</td><td>34%</td><td>Page 68 and 69</td></tr>
<tr><td rowspan="8">Examinations</td><td rowspan="4">Imports</td><td>Category A</td><td>10%</td><td>14%</td><td rowspan="4">Page 69</td></tr>
<tr><td>Category B</td><td>3%</td><td>7.2%</td></tr>
<tr><td>Category C</td><td>6%</td><td>8%</td></tr>
<tr><td>SACU</td><td>1%</td><td>1.5%</td></tr>
<tr><td rowspan="4">Exports</td><td>Category A</td><td>2%</td><td>3.3%</td><td rowspan="4">Page 69</td></tr>
<tr><td>Category B</td><td>2%</td><td>2.3%</td></tr>
<tr><td>Category C</td><td>4%</td><td>2.3%</td></tr>
<tr><td>SACU</td><td>1%</td><td>5.6%</td></tr>
<tr><td rowspan="8">Success rates</td><td rowspan="4">Imports</td><td>Category A</td><td>25%</td><td>23.2%</td><td rowspan="4">Page 69</td></tr>
<tr><td>Category B</td><td>25%</td><td>36.5%</td></tr>
<tr><td>Category C</td><td>25%</td><td>30.1%</td></tr>
<tr><td>SACU</td><td>45%</td><td>35.1%</td></tr>
<tr><td rowspan="4">Exports</td><td>Category A</td><td>10%</td><td>32.2%</td><td rowspan="4">Page 69</td></tr>
<tr><td>Category B</td><td>10%</td><td>38.1%</td></tr>
<tr><td>Category C</td><td>10%</td><td>38.0%</td></tr>
<tr><td>SACU</td><td>20%</td><td>10.5%</td></tr>
<tr><td colspan="2" rowspan="4">Percentage achievement of turnaround times for trade processes</td><td>Imports - 4 hours (EDI)</td><td>95%</td><td>96%</td><td rowspan="4">Page 64</td></tr>
<tr><td>Imports - 24 hours (EDI)</td><td>95%</td><td>105%</td></tr>
<tr><td>Exports - 4 hours (EDI)</td><td>95%</td><td>96%</td></tr>
<tr><td>Exports - 24 hours (EDI)</td><td>95%</td><td>98%</td></tr>
<tr><td colspan="2" rowspan="2">Percentage success of anti-smuggling activities</td><td>International Offices</td><td>60%</td><td>33.4%</td><td rowspan="2">Page 67</td></tr>
<tr><td>SACU</td><td>15%</td><td>30.3%</td></tr>
<tr><td rowspan="4">Percentage achievement of passenger examination and success rates</td><td rowspan="2">SACU Inbound</td><td>Examination rate</td><td>2%</td><td>33%</td><td rowspan="4">Page 72</td></tr>
<tr><td>Success rate</td><td>2%</td><td>1%</td></tr>
<tr><td rowspan="2">ORTIA inbound</td><td>Examination rate</td><td>3%</td><td>7%</td></tr>
<tr><td>Success rate</td><td>25%</td><td>15%</td></tr>
</table>

6. 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 2006/07	Achievement	Annual Report reference
Percentage of outputs (transactions) delivered within throughput time			
Income Tax Returns	Non-Peak period: 80% within 34 working days (March – June) Peak period: 80% within 90 working days (July – February)	Non-Peak period: 61% within 34 working days (March – June) Peak period: 88% within 90 working days (July – February)	Page 30 - 31
VAT Returns	80% within 21 working days	92% within 21 working days	Page 31
PAYE Returns	80% within 21 working days	86% within 21 working days	Page 31
Percentage accuracy of assessments	92%	91.2%	Page 31
Percentage reworked as a result of own error	4%	2.7%	Page 33
Maintaining success rate in the litigation of appeals in the Tax and higher courts in line with international benchmarks	65%	80% (Revenue Litigation) 84% (Custom Litigation) 82% (Average)	Page 98

7. Strategic Objective: Promoting good governance

Outcomes:

- Entrench our Governance Framework throughout the agency

Deliverables	Target 2006/07	Achievement	Annual Report reference
The percentage of governance framework implemented across the organisation	100%	100%	Page 130

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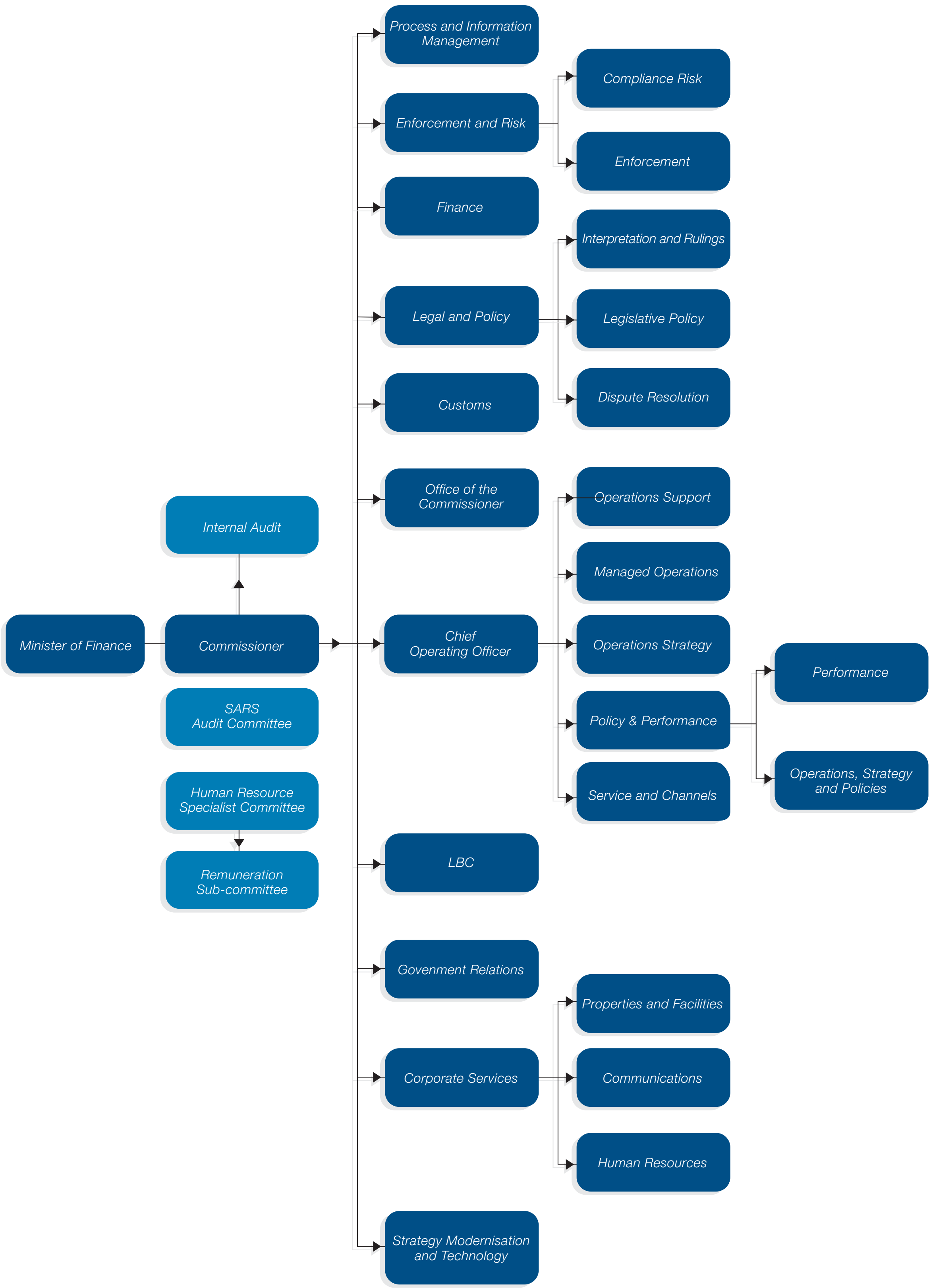
SARS ORGANISATIONAL STRUCTURE

17. SARS ORGANISATIONAL STRUCTURE



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CONTACT DETAILS

18. CONTACT DETAILS

Contact	Telephone	Fax	eMail/Web site
SARS website			www.sars.gov.za
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	ssmo@sars.gov.za & www.sars.gov.za/ssmo
Call centre (KwaZulu-Natal, Western Cape, JHB)	0860 12 12 18		
Large Business Centre	011 602 3536	011 602 3518	LBC.General@sars.gov.za
Pretoria branch office	012 317 2000	012 317 2926/ 2328/2297/2666	
Bloemfontein branch office	051 506 3000	051 448 0829	
Port Elizabeth branch office	041 505 7500	041 586 0618/ 447 7005	
East London branch office	043 706 5400	043 706 5552	
Johannesburg International Airport Customs	011 923 2400	011 923 2467	
Cape Town International Airport Customs	021 934 0221	021 934 2355	
Durban International Airport Customs	031 469 1919	031 469 3569	
Dispute Resolution Unit	012 422 5149/4928	012 422 5135	
Tax Exemption Unit	012 422 8800	012 422 8830	

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GLOSSARY

GLOSSARY

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
BGR	Binding General Rulings
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
BPR	Binding Private Rulings
CBCU	Customs Border Control Unit
CCA	Customs Common 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
CRM	Customer Relations Management
CRO	Corporate Relations Office: manages relations with major stakeholders and also administers SARS's 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's data and information
EDI	Electronic Data Interchange
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
Import/Export hit rate	The percentage of customs inspections that yield positive results
Import/Export stop rate	Indicates the percentage of export or import consignments stopped for inspections

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)
NPA	National Prosecuting Authority
NBF	National Bargaining Forum
NCF	National Consultative Forum
NEHAWU	National Education Health and Allied Workers Union
NOCC	National Operations Command Centre
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
SARS Academy	The SARS in-house training academy, which is based at the Megawatt Park complex in Johannesburg
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
Tax rulings	The Legal and Policy Division regularly issues binding general rulings and binding private rulings in respect of proposed transactions to promote clarity, consistency, and certainty
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

SARS South African Revenue Service







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