South African Revenue Service Annual Report 2005

SARS
At Your Service

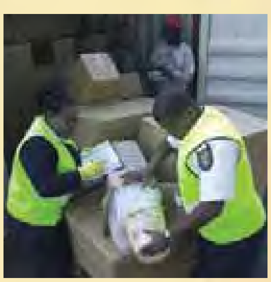
Building a better tomorrow for all our people

SARS

At Your Service

Annual Report 2005

Contents



Our mandate . . .

The South African Revenue Service Act, No 34 of 1997, gives the entity the mandate to perform the following tasks:

- Collect all revenue that is due
- Ensure maximum compliance with legislation
- Provide a customs service that will maximise revenue collection, protect our borders and facilitate trade

Building a better South Africa

SARS has a key role in the delivery of Government's broader mandate by collecting the revenue to support the fiscus, as well as facilitating and protecting trade.

Achieving revenue collection targets is integral to Government's three-pillar approach to tackling poverty and underdevelopment. In this year SARS more than achieved its mandate by collecting revenue of R354,98 billion, which was a remarkable R21,29 billion higher than estimated.

Compliance in context

The ongoing efforts SARS has made in recent years to help its customers understand and comply with tax and trade legislation is delivering a steady increase in compliance levels. Many challenges however remain.

Since 1999 South Africa has experienced a record-setting economic upturn which has generated vigorous growth of the tax register. In this fiscal year alone the tax register expanded by a healthy 9%. South Africa's history is such that many new tax customers were economically marginalised in the past and so often lack awareness of tax obligations. A culture of compliance can only be realised through an ongoing compliance philosophy that is underpinned by extensive tax education campaigns.

The SARS approach

In the interest of promoting voluntary compliance, SARS administers tax and trade functions in an open, accountable and consistent manner.

The SARS approach is based upon identifying all customer types, and developing a thorough understanding of their tax and trade responsibilities. Those supporting good practices and exercising

voluntary compliance can access quality service, while those who are intentionally non-compliant can expect appropriate sanctions. Depending on the seriousness

and extent of the non-compliance, sanctions are followed up by penalties, criminal prosecution, and even public communication of wrong-doing.

The SARS compliance model

SARS uses a compliance model to inform its responses to taxpayer and trader behaviour. This model is based on approaches used by revenue authorities elsewhere and tailored to South Africa's own specific historical and social context. Successful application of this model requires that SARS has a keen understanding of customer segments and associated compliance risks.

The model uses three key elements to support compliant behaviour:

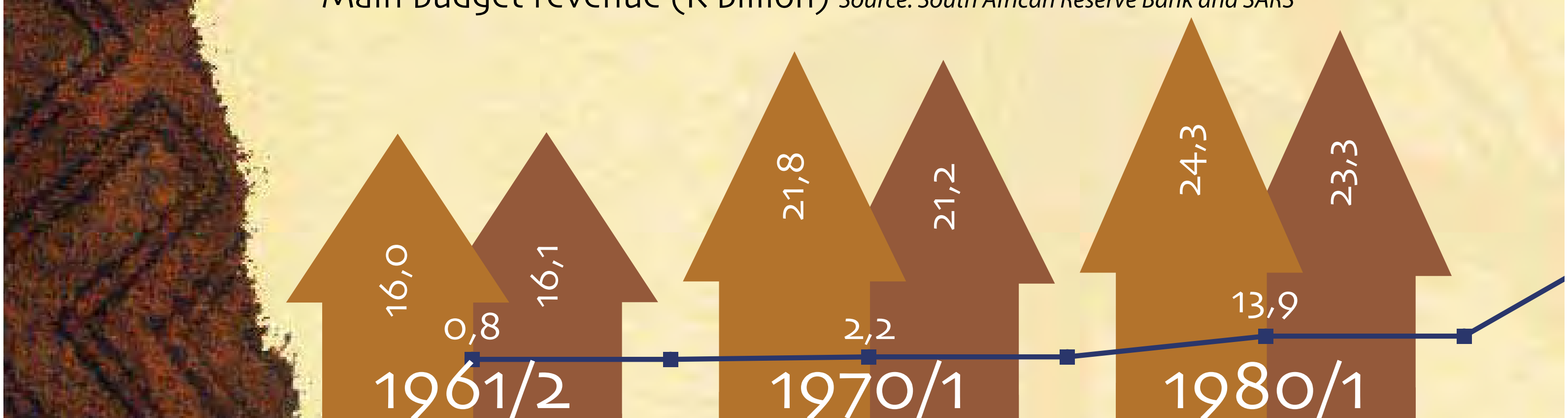
- **Education** to aid customers in understanding their tax and trade obligations

Development of SA

▲ Population (millions) *Source: Statistics South Africa* (refers to calendar year)

▲ Real GDP per capita (thousands) *Source: South African Reserve Bank* (refers to calendar year)

— Main budget revenue (R billion) *Source: South African Reserve Bank and SARS*

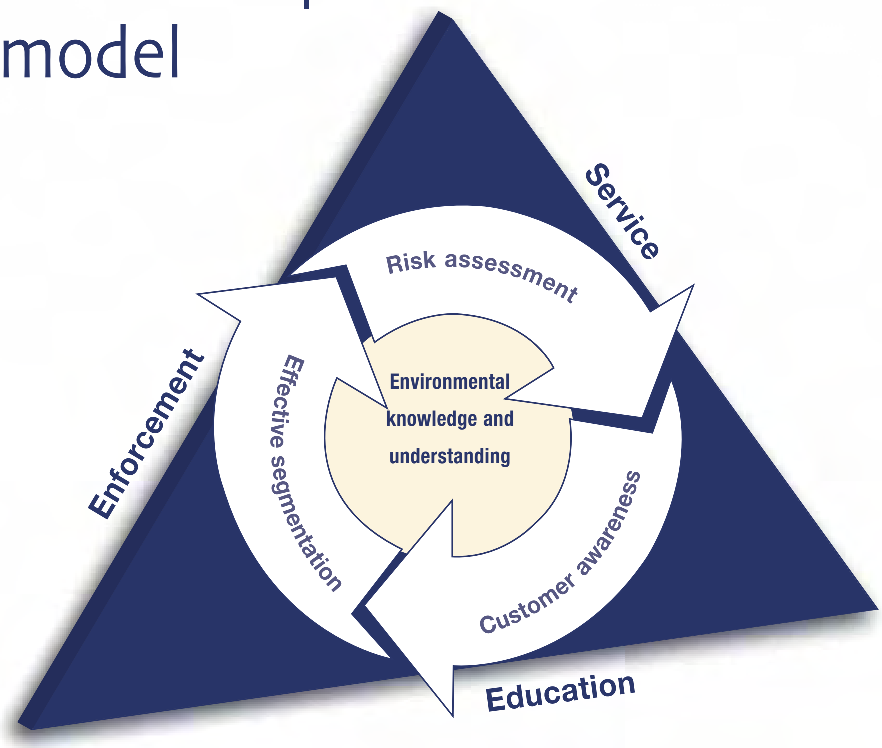


- **Service** to make compliance interactions simple and effective
- **Enforcement** to detect and deter potential non-compliance

SARS's compliance model is premised on the understanding that:

- The majority of taxpayers prefer to comply, provided they are aware of their obligations and understand compliance processes
- Taxpayer behaviour must determine the nature of SARS's responses
- The behaviour of taxpayers will vary from compliant, to "accidental" non-compliance, to gross evasion
- The response to each type of behaviour must match the degree or extent of non-compliance. The sanction must therefore be proportional to the offence

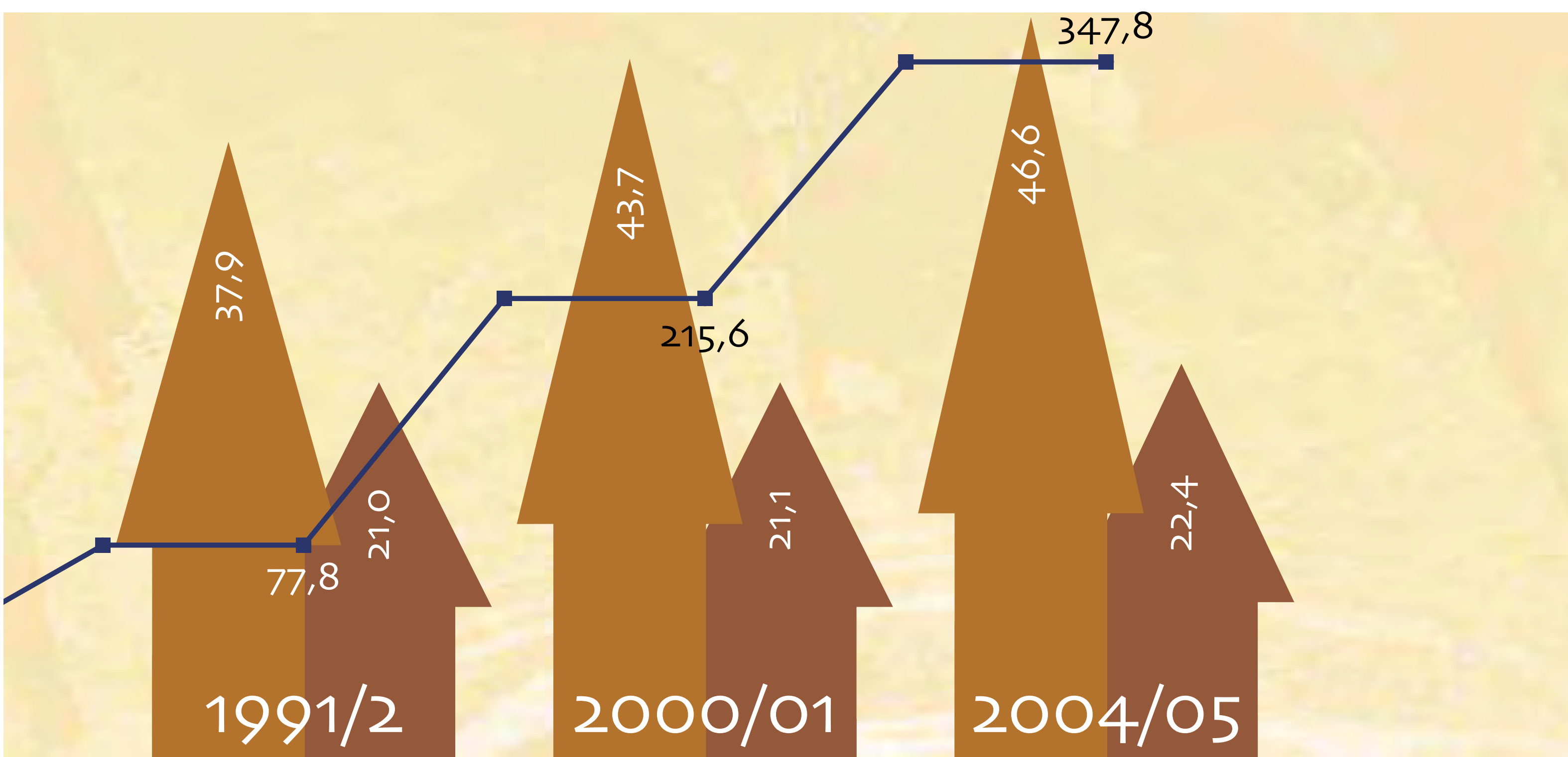
SARS compliance model



- Easy access, simple systems and improved services are important contributors to improved compliance
- Credible, legitimate and firm enforcement with appropriate sanctions is a powerful deterrent

Conclusion

SARS interacts with its customers through various channels and administrative functions, and is upgrading its levels of education, service and enforcement to improve the efficiency of the compliance model. SARS's progress in implementing a culture of compliance is described in greater detail in this SARS 2005 Annual Report.



Our strategic goals and values . . .

✓ Strategic goals

To give effect to the successful delivery of SARS's mandate, the following strategic goals have been adopted:

- Optimising revenue yield
- Providing excellent service
- Engaging in responsible enforcement
- Transforming our people and culture
- Transforming the business and building capability
- Promoting good governance

In order to achieve these goals during the year under review our focal areas were:

- Enhancing the core processes
- Enforcement and closing the tax gap
- Service, education and communication
- Siyakha transformation
- Skills capability and structure
- Comprehensive risk management

✓ Values

We are committed to providing excellent service to the public. Our relationships, business processes and conduct are based on:

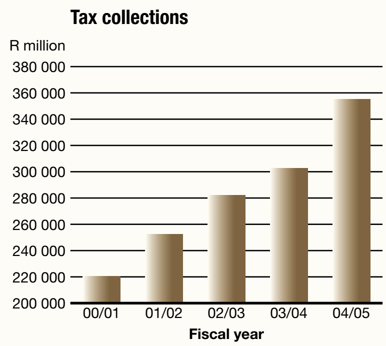
- Mutual respect and trust
- Equity and fairness
- Integrity and honesty
- Transparency and openness

SARS volumetrics

14 600
SARS EMPLOYEES

- **14 million** returns processed
- **1,4 million** corporate taxpayers
- **4,3 million** individual taxpayers
- **573 876** VAT vendors
- **300 268** PAYE employers
- **14 million** passengers moving through customs
- **68 775** consignments stopped
- **1,8 million** SACU movements
- **1 851** total seizures
- **998 221** export transactions
- **1,7 million** import transactions

Figure 1.2



Financial year 2004/05

In this year SARS collected:

- R98,2 billion VAT (R17,5 billion higher than 2003/04)
- R111,7 billion in personal income tax (R12,5 billion higher than 2003/04)
- R71,6 billion in company income tax (R9,9 billion higher than 2003/04)
- R12,9 billion in Customs duties (R4,4 billion higher than 2003/04)

In total, SARS collected tax revenue of R354,98 billion, a remarkable R52,47 billion more than in 2003/2004 and R21,29 billion higher than the original estimate.

Your taxes have contributed to:

Education

More than 56 000 classrooms have been built since 1994, with a record 12 million scholars and students attending schools and universities in 2005.

Water

More than 10 million South Africans have gained access to clean water since 1994, with access to sanitation increasing from 49% to 67% of all South Africans.

Health

In the past ten years Government has built more than 5 300 new healthcare centres to provide care for all South Africans.

Security

South Africa is becoming a safer place, with 11 000 new police trainees recruited in 2005, bringing the South African Police Service (SAPS) total up to 152 000 people.

Social safety net

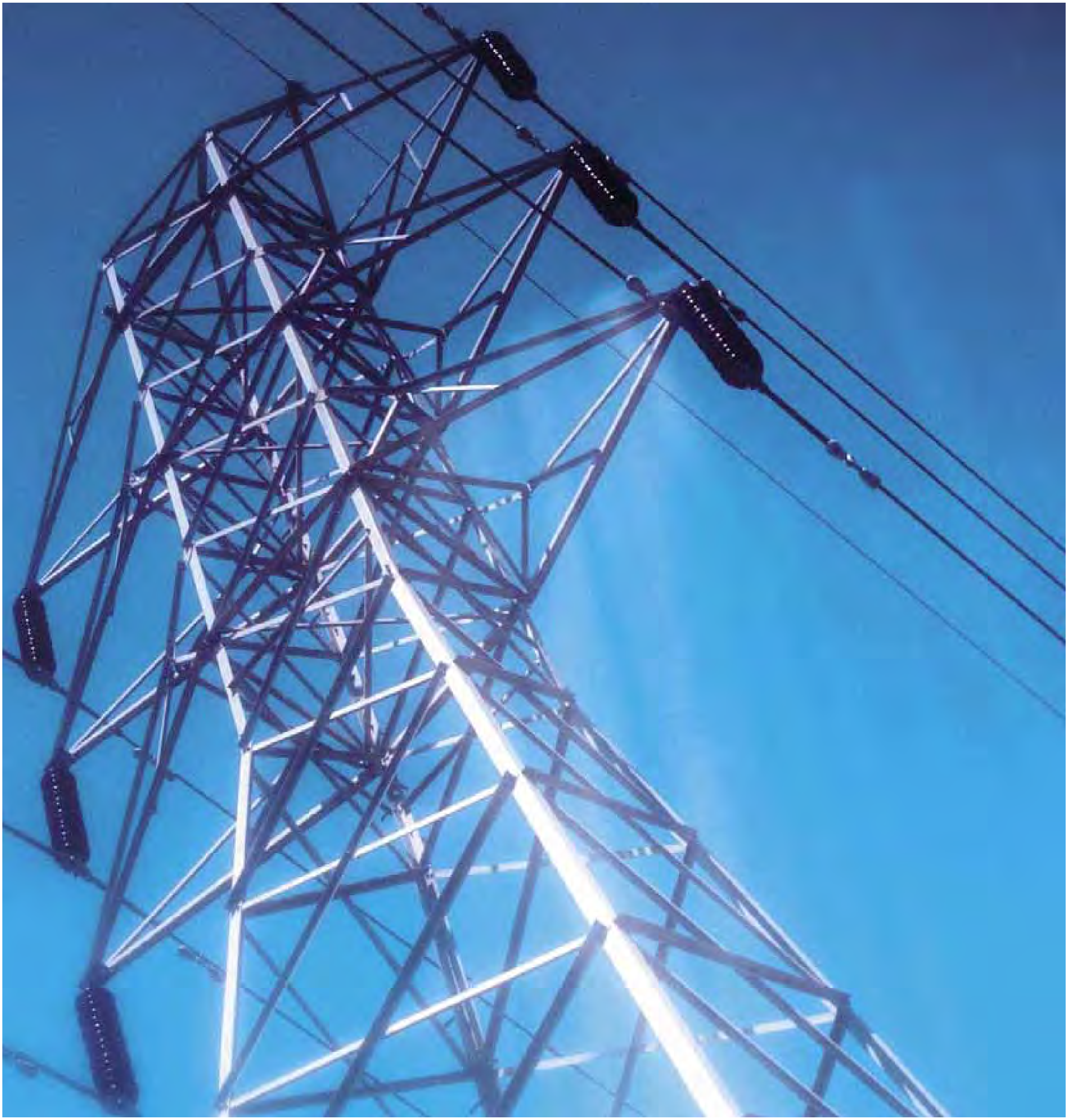
In April 2004, pension and disability grants increased by R40 to a maximum of R740, and the child support grant increased by R10, to R170 a month.

Houses

178 612 houses were completed or were under construction during 2004/05.

Economic growth

Since 1994 your taxes have helped reduce the Budget deficit from 9,3% to 1,5%, boosting economic growth and infrastructural development. Our economy is growing, inflation remains stable, household disposable income has increased and more resources are available to fight poverty.



Minister's foreword

On the occasion of presenting the 2005 Budget to Parliament, we gave the undertaking that this Budget seeks to contribute to a new season of hope through reinforcing the momentum of our social and economic progress.

We also stated that the economy – during successive quarters – has been characterised by a renewed mood of optimism, despite the major challenges we as a country still face to sustain the rise in growth and to increase the pace of job creation.

It was also noted on 23 February this year that sound macro-economic performance and sweeping structural changes in the micro-economy have enabled the national economy to break out of a 2,5 to 3 per cent growth band.

The 2005 Budget further outlined Government's commitment to an economic and fiscal policy framework that will reinforce and deepen the pace of growth, accelerate poverty reduction and broaden economic participation in line with the national developmental agenda.

Since then two international reports confirmed the Budget's view of a "renewed mood of optimism" – an unprecedented upgrade in the credit ratings of our country by the agency, Standard and Poor's, as well as a report by the International Monetary Fund (IMF).

The analysis by both organisations acknowledged that higher economic growth rates and better credit ratings were still being inhibited by severe structural weaknesses: a background of historic socio-economic inequality in the form of income disparities, poverty and pervasive unemployment.

At the same time "impressive progress" was cited by the IMF in achieving macro-economic stability since 1994 which resulted in higher rates of economic growth, low inflation and better living conditions for many South Africans.

Halfway through the current fiscal year we table the South African Revenue Service (SARS) Annual Report for 2004/05, not only to reflect on SARS's organisational performance for this period, but also to examine SARS's remarkable contribution to this renewed mood of optimism.

Minister's foreword (continued)

As the revenue administration of Government, SARS has the mandate to finance development through delivering revenue to the fiscus, to facilitate trade and to contribute to an enabling environment for further growth. **Our budget deficit now stands at about 1,5% of GDP, primarily because SARS collected R354,98 billion for the financial year ending 31 March 2005 – or R21,29 billion more than we initially anticipated at the time of the 2004 Budget.**

To date SARS's performance has strengthened Government's developmental fiscal policy by availing more resources for social services, infrastructure development, job creation and sustainable economic growth. Reforms to the tax structure and base-broadening initiatives implemented over the past decade have substantially strengthened Government's revenue-raising capacity. Improved revenue collections and a broader tax base made progressive tax reductions for both businesses and individuals possible over the last decade.

However, as both the IMF and Standard and Poor's concluded, the challenge for South Africa remains to lift and sustain higher growth rates over the medium term. As projected in the 2005 Budget and previous Budgets, these national challenges affect SARS directly in its efforts to expand and consolidate the revenue base and collections, to further improve its service initiatives to all taxpayers and to implement measures that will ensure that the growth in the South African economy contributes to broader participation and small business development.

Already, during the period under review, SARS Commissioner Pravin Gordhan and his team of senior managers undertook a series of visits to towns and

townships, city centres and business districts to gain first-hand knowledge of how business on the periphery of the second or informal economy operate and how they understand tax. These initiatives enabled SARS to identify key challenges in the SME sector with respect to tax education and tax literacy and allowed the administration to make informed proposals on how to reduce the administrative burden of tax compliance and how to further assist emerging businesses to comply with the law.

This is an inspiring example of how SARS has aligned its "central architecture" for delivery with that of Government by transforming itself into an outward-looking institution that better understands and is more responsive to its operating environment and key national developmental priorities. Many other examples can be cited as motivation.

Similarly SARS is aware of the need to integrate business activity in the formal and informal economies to ensure equity on the one hand, but also to ensure broader participation by previously marginalised entities on the other. In the same way SARS must strive to maintain the fine balance between enforcing tax laws with taxpayer education and service initiatives in sectors where business activity remained largely survivalist or unregulated.

As the domestic economy continues to experience favourable trade growth, the increased movements of goods, people and conveyances pose specific challenges to customs administrations. Similarly SARS through its customs operations is responding to the need to maintain stringent economic security. In this regard, customs had to reorganise its role from the traditional focus on trade control to trade facilitation and to securing international supply chains in an increasingly globalised context.

Further details of SARS's important role in international forums like the World Customs Organisation and its contribution in assisting revenue administrations on the African continent with developmental assistance and training, are outlined in this Report.

I trust that Parliament and South African society as a whole can draw pride from the organisational performance outlined in this Annual Report and SARS's contribution to ensure our democracy enjoys fiscal independence through sustained revenue collection, improved trade facilitation and, ultimately, our collective efforts to build a South Africa that truly belongs to all who live in it.

Trevor A Manuel, MP

Minister of Finance

Commissioner's review

For the year under review a robust domestic economy and the phenomenal contribution from millions of compliant South African taxpayers considerably strengthened SARS's contribution to the fiscus through dramatically increased revenue collections.

A buoyant economy, significant consumer spending and improved collections by SARS, collectively ensured the biggest revenue overrun since SARS was established as a tax administration. In addition, a number of important decisions over the last few years are beginning to bear fruit and enhance the sustainability of the revenue base. Tax and customs policy changes together with innovative and assertive administrative measures have widened the tax base and enhanced revenue performance.

By 31 March this year SARS had collected R354,98 billion in revenue. This is R9,72 billion more than the revised estimate of R345,26 billion and R21,29 billion above the original printed estimate of R333,69 billion.

1. Personal income tax

Collections amounted to R111,7 billion which is in line with the February 2005 estimate. The February 2004 estimate was R106,7 billion. The increase was mainly due to higher than expected wage increases in certain sectors and improved compliance.

2. Corporate income tax

Corporate income tax performed above expectation. R71,63 billion was collected. The February 2004 target was R69,73 billion and the February 2005 target was

revised to R66,30 billion. The better performance is a result of the strong growth in the financial services, retail trade, manufacturing (in certain industries) and telecommunications sectors.

The strength of the rand adversely affected the resources and export orientated sectors. Corporates with exposures mainly to the domestic economy, however, started to post major profit gains in the second half of the fiscal year on the back of strong domestic demand, offsetting some of the reduced tax receipts from resources and export orientated companies.

The active application of paragraph 19(3) of the fourth schedule to the Income Tax Act (Adjustment of provisional payments to reflect latest profit positions) ensured the timeous payment of some R7 billion. Other compliance efforts, for example in respect of structured finance schemes, had positive results.

3. VAT

R98,16 billion was collected. This is R2,66 billion above the February 2005 estimate and R8,66 billion above the February 2004 estimate. This reflects the strong growth in domestic expenditure. According to StatsSA, retail sales volumes increased by a remarkable 9,5% during the first eight months of 2004 compared to the same period in 2003.

4. Transfer duties

R7,11 billion was collected. This was R85 million less than the February 2005 revised estimate of R7,11 billion and R1,91 billion above the February 2004 estimate. A booming property market contributed to improved collections.

5. Excise

R14,08 billion was collected. This is in line with both the February 2004 and 2005 estimates.

6. Fuel levy

R18,69 billion was collected. This is in line with the February 2005 estimate and R1,28 billion above the February 2004 estimate.

7. Customs duties

R12,89 billion was collected. This is R1,39 billion above the February 2005 estimate and R3,39 billion above the February 2004 estimate. The growth in customs duties was fuelled by an increase in imported goods for domestic consumption, on the back of the rand strength and higher available disposable income of consumers.

The past year also saw significant advances in our ambition to become a service-oriented revenue administration that better understands the needs and behaviour of all taxpayers. This ambition is further encouraged by a new citizenship culture among South African taxpayers who increasingly understand the essential link between their tax obligations and sustaining democratic governance. The most notable trends in improved tax compliance can be observed in the year-on-year increases in the number of economically active South Africans who register and file their returns during our annual Filing Season.

The Filing Season campaign was introduced three years ago in the form of a broad marketing and communications initiative that reminds taxpayers to submit their return well before the annual deadline. The campaign affects over four million citizens directly, making it SARS's single largest public campaign and a key determinant of the level of compliance among individual taxpayers. The campaign entails a high

Commissioner's review (continued)

degree of interaction between the South African Government and millions of its citizens, and thus has a significant effect on perceptions of the quality of SARS's service and of Government in general.

To further extend service initiatives to taxpayers, the year under review saw rapid growth in the use of the free eFiling facility by businesses largely because of its convenience, reliability and the many other benefits innovative information technology solutions offer to corporate taxpayers.

Still on the corporate side, in September last year the Minister of Finance launched the new SARS Large Business Centre to provide a professional, dedicated interface with most of our largest corporate clients who are based in Gauteng. The LBC now has sectoral teams assigned to the mining, financial services, retail primary, manufacturing, ICT, construction and general sectors.

These service initiatives are part of the overall compliance model SARS adopted. The compliance approach aims to inculcate into business processes of the organisation the need to balance service provision, taxpayer education and the enforcement of tax laws.

The service leg requires of SARS to reorientate itself to break the bureaucratic mould and develop into an outward-looking, public-centric service organisation that understands its external environment and facilitates interaction and compliance.

Education campaigns conducted through various media channels are making people aware of their fiscal duty to pay tax, while imparting knowledge that enables them to perform this duty accurately and confidently.

Whereas service enables taxpayers to comply, enforcement compels those who attempt to evade their tax responsibilities to abide by the law.

In the past year enforcement activities contributed R21,9 billion to revenue, with R3,38 billion collected through enforcement audits. Our Enforcement division performed 60 378 audits and upgraded its procedures to collect 4,1 million outstanding returns.

SARS is deeply committed to assisting other customs and tax administrations on the continent and pursued an ambitious programme in this regard. In the period under review, we provided assistance to more than 12 other African countries and also hosted delegations from eight Asian and European countries who undertook benchmarking and study visits. This assistance took the form of arranging and hosting study visits; undertaking needs analysis and diagnostics studies; seconding SARS officials to other administrations; arranging for officials from other administrations to be attached to SARS; providing assistance with policy, institutional and legal reform; providing assistance in the area of information technology and automation; and providing technical training through workshops that were held either in South Africa or other countries. We have also engaged with the donor community to support our efforts through financial and technical assistance and want to thank our partners.

SARS has started to strategically position itself to respond assertively to the changing global trade landscape. We secure the nation's socio-economic and developmental interests at border posts and other ports of entry and link up the business community with the global trade market. We are no longer regulators of bureaucratic detail but modern administrators of trade. We are adding value to that role through internal reforms and proactive participation in the evolving international global trade environment. Internally, SARS is midway through a process of second generation reforms aimed at modernising and streamlining Customs.

Any assessment of revenue collection during the past ten years would highlight important gains: in organisational reform and efficiency; in expanding the tax base; in incorporating fragmented customs and revenue administrations into one autonomous administrative organ; and in the significant increases in revenue yield.

Throughout this journey of transformation, I have been privileged to be part of an organisation whose strategic location in the economy allowed us to contribute meaningfully to the country's developmental challenges and to create a climate that stimulates growth. It has been both a humbling and daunting experience: to serve the people of South Africa as part of SARS and yet to be confronted daily with the harsh realities of many in our country.

I would like, in conclusion, to express my gratitude to everyone who has helped SARS develop and grow over the past 12 months – President Thabo Mbeki, Cabinet, the Minister of Finance, Trevor Manuel, the Deputy Minister of Finance, Jabu Moleketi, the various committees and consultative bodies that have provided such valuable input, and of course my management team and every SARS employee throughout the country.

SARS will continue to honour its commitment to work tirelessly to ensure that the aspirations and ideals of our Constitution are realised for all South Africans.

Pravin Gordhan

Pravin Gordhan

Commissioner

Revenue collection

Highlights of the year

- Total tax revenue increased by 212,0% from 1994/95 and by 76,3% from 1999/00
- Personal income tax up by R12,48 billion from previous year
- VAT up by R17,48 billion from previous year
- Company tax up by R9,92 billion from previous year
- Customs duty up by R4,41 billion from previous year
- Total tax revenue amounting to R354,98 billion collected

SARS At Your Service

Your taxes – "Paying for service delivery"

- Tax revenue collected in 2004/05 was R354,98 billion; a R21,286 billion higher than the original estimate. This is the biggest overrun yet registered by SARS
- The record overruns were mainly recorded in the following tax types:

– Personal income tax	R4,989 billion
– Corporates	R1,899 billion
– Secondary tax on companies	R727 million
– Value added tax	R8,658 billion
– Customs duties	R3,388 billion
– Fuel levy	R1,279 billion
– Other taxes and duties	R346 million

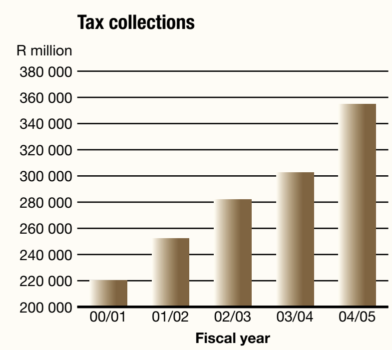
Revenue performance 2000/01 to 2004/05

Figure 1.1

Year (R million)	Printed target	Actual collection	Variance	Cumulative variance
2000/01	213 684	220 334	6 650	28 833
2001/02	236 843	252 298	15 455	44 288
2002/03	268 506	282 210	13 704	57 992
2003/04	310 025	302 508	(7 517)	50 475
2004/05	**333 694**	**354 980**	**21 286**	**71 761**

Note: The cumulative overrun of R71,761 billion since 1994 largely financed the total tax relief of R77,2 billion granted since 1994.

Figure 1.2



Exceptional revenue collections in 2004/05 were underpinned by:

- Better than expected economic performance
- Continued administrative improvements within the revenue administration

Revenue collection (continued)

Economic performance

During this period the South African economy continued to steam ahead, with 71 months of continuous growth constituting the longest economic upswing in the economic history of our nation.

In the past 18 months the global financial environment remained generally accommodative and the world economy expanded briskly, recording a growth rate of some 5% in 2004, with projected growth of between 4 and 4,5% in 2005. While global economic growth moderated somewhat in the second half of 2004 and the first half of 2005, real income still advanced at a fairly rapid pace. The stronger world economy and high international commodity prices contributed to accelerating growth on the African continent to about 5% in 2004 – the highest rate in eight years.

Recent South African economic performance appears more solid and consistent than ever before. In fact, the business cycle entered an upward phase in September 1999 and has continued so for 71 months since, making this the longest upswing in the recorded economic history of South Africa. Real gross domestic product registered 23 quarters of uninterrupted increase, rising at an average annualised rate of 3,5%, which signifies an appreciable increase in real *per capita* production. Growth momentum over the past 18 months was sustained by strong domestic expenditure within a stronger world economy and generally favourable terms of trade.

Real output growth picked up from 3,5% in the first half of 2004 to an annualised rate of 5% in the second half, before reverting to 4% in the first half of 2005. The services sector was the mainstay of our economic expansion, maintaining momentum throughout the past

18 months while reflecting the strength of domestic expenditure. Overall mining output also expanded strongly, although gold output continued its secular decline. Strong demand for residential and non-residential buildings, complemented by certain infrastructural development projects, underpinned brisk growth in the construction industry.

Wage settlements averaged 6,8% in 2004 and receded to 6% in the first half of 2005, while the cost of labour per unit of production in the formal non-agricultural sector rose by 7,2% in 2004, before moderating to an increase of 5,9% in the year to the first quarter of 2005.

The increase in nominal wages per employee exceeded consumer price inflation by a significant margin in 2004 and early 2005. **Together with the improvement in employment levels, tax relief and higher welfare transfers from Government to the household sector, nominal wage increases boosted real disposable household income by a significant margin.** Fuelled by rising income levels and lower interest rates, households increased their real final consumption expenditure by 6% in 2004, and a similar rate in the first half of 2005.

Real general government final consumption expenditure exhibited high growth rates in 2004 and the first half of 2005, as spending on strategic defence equipment and other non-wage goods and services was stepped up. At the same time, fixed capital formation accelerated further, encouraged by rising income and expenditure levels, and supported by the enhanced affordability of imported capital goods and lower interest rates. Capital expenditure on residential buildings and transport equipment was particularly buoyant.

Inventory accumulation continued during 2004 alongside rising sales, with carrying costs reduced by lower interest rates. During the first half of 2005 the pace of inventory accumulation slowed down, resulting in a marginal decline in the ratio of inventories to output. The slower pace at which inventories was accumulated explains why growth in real gross domestic expenditure was subdued compared with growth in real domestic final demand during the first half of 2005.

With gross domestic expenditure consistently exceeding gross domestic product (GDP) over the past 30 months, the current account of the balance of payments recorded a deficit during each of the past ten completed quarters. Buoyed by rising imports of capital and consumer goods as well as crude oil, the volume of imports rose faster than the volume of exports over this period. In the first half of 2005 the slowdown in aggregate domestic expenditure growth resulted in subdued growth in real imports. Together with a further increase in real exports, this contributed to a narrowing of the current account deficit. **Favourable export prices and fairly strong external terms of trade contributed to the containment of the current account deficit: at 3,2% of GDP in 2004 and 3,3% in the first half of 2005, our current account deficit remains modest in comparison with imbalances elsewhere in the world.**

Surpluses on the financial account of the balance of payments more than fully covered the deficits on the current account, leading to continued surpluses on the overall balance of payments over the past 18 months. Apart from significant inflows of capital in the form of portfolio and other capital, large recent direct investment inflows contributed to stronger gold and other foreign reserve levels.

Bank loans and advances extended to the private sector accelerated vigorously from a 12-month growth rate of less than 9% in mid-2004 to rates in excess of 22% by mid-2005. This was supported by rising levels of income and expenditure, relatively low interest rates, strong business and consumer confidence and the buoyancy of the real estate and securities markets. Mortgage advances displayed the strongest growth of the various types of credit. With households stepping up their use of credit facilities to a greater extent than companies, household debt rose briskly to 61% of annualised disposable income by mid-2005 – the highest level in six years. Lower interest rates nevertheless meant that the cost of servicing household debt relative to household income remained well contained.

Prices in the real estate and financial markets attained new record highs over the past year. The yield on long-term bonds fluctuated around a downward trend and reached its lowest level in almost 30 years at the end of February 2005, as the exchange value of the rand appreciated and the prospects for sustained low inflation brightened. The monthly average price level of all classes of shares listed on the JSE Limited increased by 33% from July 2004 to March 2005.

The real estate market remained buoyant during the past year, but as the probability of further interest rate cuts diminished, the climb in real estate prices, which in recent years exceeded 35% on a year-on-year basis, tapered off during 2004 and in the first seven months of 2005.

Over the past five years the emphasis of fiscal policy gradually shifted from deficit reduction to growth and social development, but without compromising the principles of fiscal sustainability. Exceptionally strong tax collections resulted in a national government deficit before borrowing and debt repayment of only 1,5% of gross domestic product in the 2004/05 fiscal year, or roughly half the amount originally budgeted.

During the past year – and in fact on a continuous basis since September 2003 – consumer price index excluding rates on mortgage bonds (CPIX) inflation remained within the target range of 3 to 6%, while production price inflation consistently fell below CPIX inflation, as production prices were influenced more directly by the strength of the exchange value of the rand. These outcomes reduced inflation in South Africa in 2004 to slightly below the world average inflation rate.

In August 2004 and again in April 2005, the Reserve Bank's Monetary Policy Committee (MPC) reduced the rand's repurchase rate by 50 basis points, essentially motivated by indications that prospects for future inflation had improved. South Africa's responsible economic policies and improving prospects for our

economy were recognised by three international rating agencies, who upgraded their rating of South African debt instruments during the course of the past year. This contributed to a further decline of nominal long-term interest rates to levels previously recorded in the late 1970s. Over the past 18 months the variability of short-term and long-term interest rates and of the effective exchange rate of the rand receded appreciably, reinforcing the platform for launching faster growth and development in the coming years.

(The above passage was derived from the South African Reserve Bank Annual Economic Report for 2005.)

SARS's revenue performance for 2004/05 is reviewed in the context of our ongoing efficiency improvements and the above economic review.

Tax revenue

Total tax revenue was reconciled on page 13 using selected information disclosed in the administered revenue financial statements set out on pages 107 to 119.

SOUTH AFRICAN REVENUE SERVICE – ADMINISTERED REVENUE

for the year ended 31 March 2005

Figure 1.3

	2005 R million	2004 R million
NET REVENUE FOR THE YEAR	**353 794**	**304 840**
Add:		
South African Customs Union Agreement	**13 328**	9 723
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement		
Less:		
Unemployment Insurance Fund (UIF)	**5 911**	5 403
Departmental receipts	**6 063**	6 382
State fines and forfeitures	**116**	197
Provincial administration receipts	**51**	72
State licences	**1**	1
TAX REVENUE	**354 980**	**302 508**

Budget revenue

Revenue performance 2004/05

Figure 1.4

Source of revenue (R million)	Printed estimate	Revised estimate	Actual result	Increase/ (decrease) on printed estimate	Increase/ (decrease) on revised estimate
Taxes on income and profits	189 198	189 900	195 219	6 021	5 319
Persons and individuals	106 708	111 500	111 697	4 989	197
Companies	69 730	66 300	71 629	1 899	5 329
Secondary tax on companies	6 760	7 600	7 487	727	(113)
Tax on retirement funds	6 000	4 500	4 406	(1 594)	(94)
Value added tax	89 500	95 500	98 158	8 658	2 658
Customs duties	9 500	11 500	12 888	3 388	1 388
Fuel levy	17 409	18 800	18 688	1 279	(112)
Excise duties	14 022	14 075	14 082	60	7
Skills development levy	4 300	4 600	4 443	143	(157)
Other taxes and duties	9 765	10 886	11 502	1 737	616
Total tax revenue	**333 694**	**345 261**	**354 980**	**21 286**	**9 719**
Non-tax revenue	6 590	6 027	6 180	(410)	153
Less: SACU payments	13 328	13 328	13 328	—	—
Total budget revenue	**326 956**	**337 960**	**347 832**	**20 876**	**9 872**

Revenue collection (continued)

Taxes on income, profit and capital gains

Taxes on income, profit and capital gains amounted to R195,2 billion, which were R6,0 billion and R5,3 billion respectively higher than the Printed and Revised Estimates.

Personal income tax (PIT) collections exceeded the Printed Estimate and Revised Estimate by R4,989 billion and R197 million respectively, mainly due to higher nominal wage growth and exceptional bonus payments in certain sectors of the economy. The success of the Filing Season campaign and expanded income tax register is also reflected in these higher collections.

Corporate income tax (CIT) collections exceeded the Printed and Revised Estimates by R1,9 billion and R5,3 billion respectively due mainly to increased profitability in the financial, wholesale and retail industries and the active rebasing of provisional payments by corporations in line with profitability. R6,4 billion was collected during the last quarter of 2004/05 largely through the rebasing of corporate provisional payments. Corporate income tax collections slowed considerably during the first half of 2004/05, whereafter it accelerated significantly during the second half in line with stronger economic growth.

Secondary tax on companies (STC) collections exceeded the Printed Estimate by R727 million, but were slightly below the Revised Estimate. The increased collections are attributable to increased company profitability, particularly in the finance and long-term insurance industries.

Tax on retirement funds collections were lower than expected due to the lower interest rate environment and reallocation of funds from interest-bearing instruments to equities. Collections were R1,6 billion

lower than the Printed Estimate and R94 million less than the Revised Estimate.

Value added tax (VAT)

VAT collections amounted to R98,2 billion, which was R8,7 billion higher than the Printed Estimate and R2,7 billion higher than the Revised Estimate.

Real gross domestic expenditure increased from 5,5% in 2003 to 6,5% in 2004. Final consumption expenditure increased from 3,5% in 2003 to 6% in the first half of 2004, whereafter it increased to 6,5% in the second half of 2004. The level of final consumption expenditure was maintained at 6% during the first half of 2005. The aforementioned growth in expenditure underpinned robust growth in VAT collections.

A reduction in the deferment period for import payments during March 2005 yielded an additional R2 billion in VAT. Debt equalisations also ensured the offsetting of VAT refunds due to taxpayers against other categories of tax owed by such taxpayers, thereby reducing the debtors' book.

Fuel levy

Fuel levy collections amounted to R18,7 billion, which was R1,3 billion higher than the Printed Estimate and R112 million below the Revised Estimate. Increased collections were mainly due to heightened fuel consumption levels.

Excise duty

Excise duty collections matched estimates at R14 billion.

Customs duty

Customs duty collections amounted to R12,9 billion, which was R3,4 billion higher than the Printed Estimate and R1,4 billion higher than the Revised Estimate.

Strong domestic demand caused the physical quantity of imported merchandise to increase by a significant 16,5% in 2004. This increase was consistent with fixed investment expenditure and higher imports of crude oil. Included in import volumes were the four corvettes for the SA Navy and several Airbus airliners for South African Airways (SAA). The following fundamental issues, however, impacted on import volumes:

- The tendency for expenditure on capital goods and more luxurious consumer goods, which generally have a high import content, to rise strongly when economic activity and income growth gain momentum
- The substitution of imported goods for domestically produced goods in response to a decline in the relative prices of imported goods. This in turn relates to the generally stronger rand exchange rate and a shift in supply sources to low cost producing countries

In addition to improved customs enforcement, a reduction in the deferment period for import duty payments during March 2005 yielded an additional R470 million.

Skills development levy

Skills development levy collections amounted to R4,4 billion, which was R143 million higher than the Printed Estimate, but R157 million below the Revised Estimate. These increased collections were mainly due to higher nominal wage growth and growth in the tax register.

Other taxes

Revenue collections in respect of other taxes amounted to R11,5 billion, which was R1,7 billion above the Printed Estimate and R616 million above the Revised Estimate. The higher than expected collections were mainly due to higher revenues from transfer duties on the back of substantial growth in the property market.

Comparisons of revenue performance 2000/01 to 2004/05

Major tax administration reforms in recent years have improved efficiencies in the functioning of the tax system and yielded equity gains through a broadening tax base. The contribution mix of the major tax types to the total taxes collected has changed over the period. Figure 1.5 alongside sets out the percentage contribution of the various taxes to total taxes collected, and the Figure 1.6 gives a breakdown of the nominal amounts collected during the period:

Figure 1.5

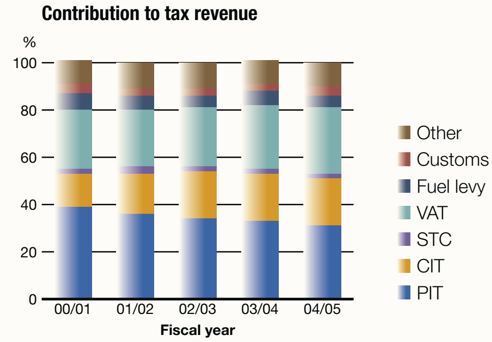


Figure 1.6

Year R millions	PIT	CIT	STC	VAT	Fuel levy	Customs	Other	Total tax revenue	GDP	Total tax as % of GDP
2000/01	86 939	29 956	4 031	54 455	14 495	7 854	22 604	220 334	951 680	23,2
2001/02	90 976	42 979	7 163	61 057	14 923	8 632	26 568	252 298	1 047 992	24,1
2002/03	94 924	56 326	6 326	70 150	15 334	9 331	29 819	282 210	1 193 768	23,6
2003/04	99 220	61 712	6 133	80 682	16 652	8 479	29 630	302 508	1 277 031	23,7
2004/05	**111 697**	**71 629**	**7 487**	**98 158**	**18 688**	**12 888**	**34 433**	**354 980**	**1 405 528**	**25,3**

The benefits of these tax reforms have become tangible for taxpayers in the form of personal income tax relief of R66,825 billion since 1994/95. If reductions in corporate income tax rates, retirement fund tax and other domestic taxes are taken into account, the total amount of tax relief passed back to the economy amounts to R77,212 billion.

Total tax revenue as a percentage of GDP increased from 22,9% in 1994/95 to 25,3% in 2004/05.

Personal income tax (PIT)

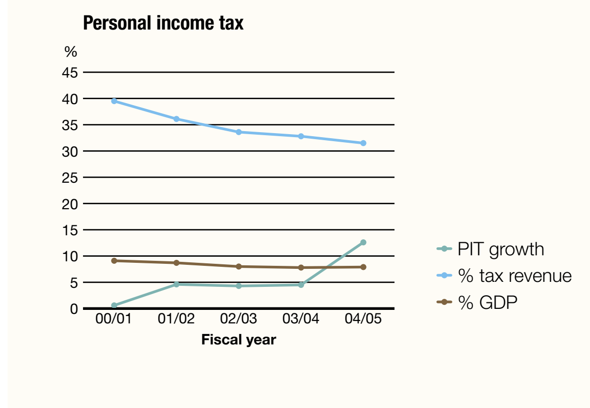
Personal income tax comprises all assessed and provisional taxes as well as PAYE paid by individuals (net of refunds).

Figure 1.7

Year	PIT R millions	Y/Y change %	% of tax revenue	% of GDP
2000/01	86 939	0,6	39,5	9,1
2001/02	90 976	4,6	36,1	8,7
2002/03	94 924	4,3	33,6	8,0
2003/04	99 220	4,5	32,8	7,8
2004/05	**111 697**	**12,6**	**31,5**	**7,9**

PIT contribution to total tax revenue declined from 39,5% in 2000/01 to a current low of 31,5%, an overall decrease of 8,0%, mainly due to substantial tax relief.

Figure 1.9



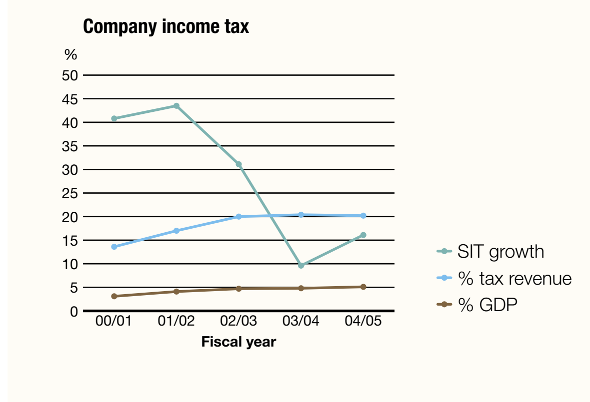
Company income tax (CIT)

Company income tax comprises all provisional and assessed taxes paid by companies (net of refunds).

Figure 1.8

Year	CIT R millions	Y/Y change %	% of tax revenue	% of GDP
2000/01	29 956	40,8	13,6	3,1
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**	**5,1**

Figure 1.10



From 2000/01 to 2002/03, CIT collections grew vigorously due to:

- Robust growth in corporate earnings, underpinned by ongoing cost-cutting, improved commodity prices and a depreciating rand that supported the profit margins of export orientated companies
- Improved enforcement and compliance processes by SARS such as:
  - Adjustments to ensure provisional tax payments were more closely related to taxable profits
  - Improved audits
  - Broadening of the tax base to include foreign source income
  - Improved enforcement and compliance in the banking sector
  - The enhanced collection capability provided by the outbound call centre based in Sunninghill, Johannesburg
  - Changes to the taxation of long-term assurance companies
- Collections declined in 2003/04 due to slower economic growth

Revenue collection (continued)

The rapid growth in CIT collections resulted in an increase in the CIT/GDP ratio to 5,1%, and a contribution of 20,2% to total tax collections in 2004/05 – considerably higher than the 13,6% recorded in 2000/01.

Secondary tax on companies (STC)

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

Figure 1.11

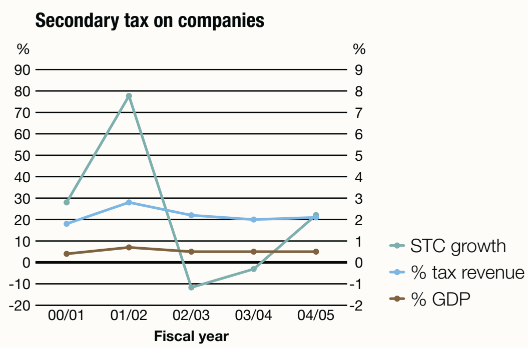


Figure 1.12

Year	STC R millions	Y/Y change %	% of tax revenue	% of GDP
2000/01	4 031	28,0	1,8	0,4
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**

STC collections reached a high in 2001/02, mainly due to increased distribution of corporate earnings, especially in the resource and financial sector.

Certain resource companies declared special dividends due to improved profits, while some financial sector companies decided to reduce their capital reserves.

In the following 2002/03 and 2003/04 periods a general reduction in distributions, particularly by mining companies, prompted a negative year-on-year growth rate.

STC contributed 2,1% to total tax revenue in 2004/05, continuing the stable trend of 0,5% of GDP after peaking at 0,7% of GDP in 2001/02.

Value added tax (VAT)

Value added tax is a tax levied on the supply of goods and services by registered vendors.

Figure 1.13

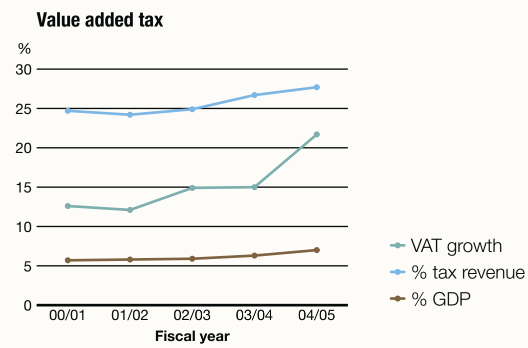


Figure 1.14

Year	VAT R millions	Y/Y change %	% of tax revenue	% of GDP
2000/01	54 455	12,6	24,7	5,7
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	**99 158**	**21,7**	**27,7**	**7,0**

VAT as a percentage of GDP increased steadily from 5,7% to 6,3% in 2003/04 whereafter it jumped to 7% of GDP in 2004/05.

Fuel levy

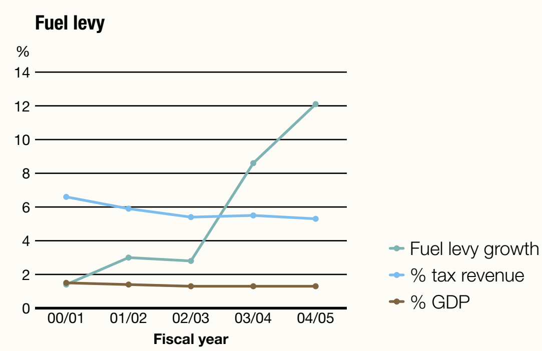
Fuel levy refers to the levy paid on petrol and diesel.

Figure 1.15

Year	Fuel levy R millions	Y/Y change %	% of tax revenue	% of GDP
2000/01	14 495	1,4	6,6	1,5
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	**18 688**	**12,2**	**5,3**	**1,3**

Fuel levy collections decreased steadily over the review period as a percentage of tax revenue to 5,3% in 2004/05 and 1,3% of GDP.

Figure 1.17



Customs duty

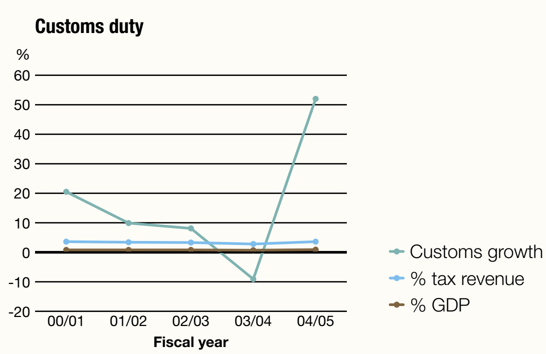
Customs duty refers to all duties paid on the importation of goods.

Figure 1.16

Year	Customs R millions	Y/Y change %	% of tax revenue	% of GDP
2000/01	7 854	20,5	3,6	0,8
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**

After a steady decline over the review period customs duty as a percentage of tax revenue increased to 3,6%, the same level as 2000/01 and increased as a percentage of GDP to 0,9%.

Figure 1.18



Legislative initiatives to enhance revenue

SARS continually reviews tax, customs and related legislation with a view to making compliance easier, eliminating loopholes that skew revenue flows, encouraging saving and investment in designated areas and, where possible, to make tax and customs obligations less onerous.

During the period under review, several pieces of legislation were drafted to give effect to proposals announced by the Minister of Finance. These were the Taxation Laws Amendment Act (No 16 of 2004), the Revenue Laws Amendment Act (No 32 of 2004), and the Second Revenue Laws Amendments Act (No 34 of 2004). Briefly, these items of legislation codified the following proposals:

Taxation Laws Amendment Act No 16 of 2004

- Restructured transfer duty rates
- Income tax rates for 2004/05
- Increase in primary and secondary rebates
- Increase in interest exemption
- 50:30:20 depreciation for assets used in production of bio-fuels
- Provision for optional deduction of medical scheme contributions and premiums paid in respect of income protection policies in determining PAYE
- Repeal of stamp duties on fixed deposits and mortgage bonds
- Provision for interest on delayed refunds of tax on retirement funds
- Extension for submission of tax returns for purposes of exchange control amnesty
- Provision for continuation of payments to the State for the removal and disposal of minerals and petroleum

Revenue Laws Amendment Act No 32 of 2004

- Provision for interest on late payment of transfer duty
- Taxation of broad-based employee share plans
- Revised provisions relating to taxation of employee share option schemes
- Provisions to deal with hybrid debt/equity instruments
- Limitation of losses from disposal of assets where full consideration will only accrue in future years
- Provisions to deal with transactions where assets are acquired in exchange for shares issued
- Timing of accrual and incurral where assets are acquired or disposed of for unquantified amounts
- Timing of incurral and accrual of amounts in respect of the disposal or acquisition of equity shares
- Withholding tax on non-resident sellers of immovable property
- Provision for interest on late payment of stamp duties and additional duty in the case of evasion
- Rate of stamp duty on leases fixed at 50 cents irrespective of the period of the lease
- VAT treatment of game viewing vehicles and hearses
- VAT alignment regarding the introduction of IDZs
- VAT treatment of public authorities, grants and transfer payments
- VAT requirements to issue full tax invoice
- Reporting of property transactions by estate agents for transfer duty

The Second Revenue Laws Amendment Act (Act 34 of 2004)

- Provision for advance tax rulings
- Provision for registration of tax practitioners
- Limitation on refund and drawback claims for customs duty and period within which claims must be received by the Commissioner

International agreements/treaties

In order to improve the environment for trade, avoid double taxation and make provision for cooperation between tax authorities, the following agreements were negotiated:

Double taxation agreements:	
• Germany	Negotiation finalised
• Democratic Republic of Congo	Negotiation finalised
• Turkey	Agreement signed on 3 March 2005
• Serbia and Montenegro	Negotiation finalised
• Gabon	Agreement signed on 22 March 2005
• Tanzania	Negotiation finalised
VAT agreements:	
• Swaziland	Negotiation finalised
• Zimbabwe	Negotiation finalised
Customs agreements:	
• Democratic Republic of Congo	Negotiation finalised
• Nigeria	Negotiation finalised
• Tanzania	Negotiation finalised
• Israel	Negotiation finalised

South Africa was also admitted as an observer to the Organisation for Economic Cooperation and Development's (OECD) Committee on Fiscal Affairs.

Conclusion

The record overrun collected in this fiscal year is ample proof of the growing strength of the South African economy and of SARS's improving efficiency in collecting revenues. With economic growth looking set to continue, SARS expects revenue yields to grow steadily.

Operational review:

Better taxpayer and trader experience

Highlights of the year

- System and technology improvements for the National Call Centre to enhance capability and efficiency
- Vigorous growth of the Tax register
- A very successful Filing Season, with significantly more taxpayers filing on time
- SARS was awarded a national award at the Government Communicator of the Year award
- Establishment of the Large Business Centre for corporate and high net worth individuals

Better taxpayer and trader experience

“Raising the bar of our service offering.”

SARS is making great strides toward transforming into a flexible, customer focused, professional, and service-oriented organisation that is accessible and trusted by the taxpaying public. The following section outlines initiatives commenced this year that were designed to enhance customer focus.

This section also reports facts and figures that show how our relationships with our taxpayers are evolving.

National Call Centre

A major initiative this year was the upgrading of our National Call Centre (NCC), which significantly expanded and improved its capabilities.

The National Call Centre intends providing a single contact number for all customer queries. This will probably be a “0860” telephone number accessible from any part of South Africa for the cost of a local phone call. A customer in Limpopo, for example, would be able to call in at local call rates and receive the same quality and speed of service as someone in Johannesburg.

Rolling out this service means that a common call centre technology platform needs to be implemented throughout.

Call centre operations are presently routed through two inbound operations (Western Cape and KwaZulu-Natal) and an outbound call centre in Gauteng.

Important milestones included:

- Some 500 new seats were created between the three regions, bringing the national total of call centre seats to 795

Call centre employee numbers

- Introducing improved call centre technologies such as Siebel
- Ongoing surveys to measure customer satisfaction and service levels
- Technology was also introduced to enable visually impaired call centre staff to conduct these surveys
- Quality assurance procedures and teams were introduced to assess and improve standards
- Capacity was added to address customs-related queries in tandem with customs subject matter experts
- Universal queuing capability was introduced to allow call centre agents to service multiple channels rather than being dedicated to calls or faxes/emails only. This has simplified the delegation of tasks
- A consolidated management information system (MIS) using Siebel Analytics was deployed as a decision support tool for call centre management

Figure 2.1

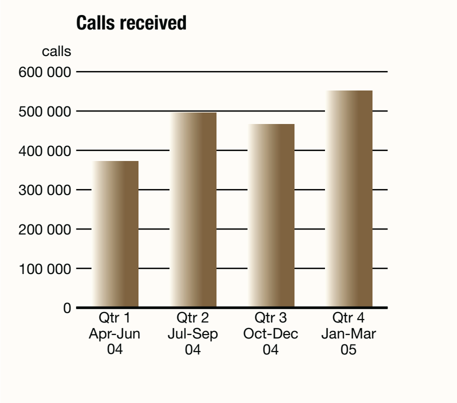
Call Centre	Permanent employees	Temporary employees	Total
Inbound – KwaZulu-Natal	259		**259**
Inbound – Western Cape	220	127	**347**
Outbound – Gauteng	60	129	**189**
Total employees	539	256	**795**

Better taxpayer and trader experience (continued)

National Call Centre: Calls received

Figure 2.2 shows the growing number of calls received by the National Call Centre (NCC). All communication channels recorded increasing numbers of contacts this year.

Figure 2.2



Statistically, the volume of correspondence and faxes increased three-fold, while service centres and branches were inundated with telephone queries.

Figure 2.3 reflects the total number of calls dealt with for the two previous years:

Figure 2.3

Source	2003	2004
Correspondence	37	116
Email	12 697	43 101
Fax	78 492	145 013
Phone	175 870	914 391
Unspecified	12 647	4
Walk-in	581	600
Total	**280 324**	**1 103 225**

The significant increase in taxpayer contacts probably reflects the efficiency of this year's advertising campaigns prior to and during the Filing Season, although this is unlikely to be the only cause.

This swift growth in customer contact means that certain processing capabilities, assumptions and procedures need be reinvented to circumvent the ever-increasing amount of paperwork circulating within the organisation. Repeated faxes and visits from the same customers indicate inefficiencies which need to be solved.

These trends were subsequently redefined against the principles and objectives of First-Time Resolution (FTR) rate. The result implies that the current structural and functional gap between SARS's administrative services (back office) and its "front" or service portion would have to be re-engineered.

The volume and a choice of request channels need also be viewed against the backdrop of query resolution cycles. The accompanying graphs compare NCC queries answered telephonically against physical responses over service counters. Accurate and tracking average queuing cycles, especially during the filing period, requires improved technologies.

High volumes of "walk-in" queries were resolved during the period.

Although this is a positive development, front office resources were heavily strained. It must also be taken into account that "walk-in" customers could have visited in person due to the failure of other means of communication.

Customer feedback needs to be sought regularly to inform ongoing improvements in our service and communications processes.

e-Filing

The introduction of e-Filing within the VAT, PAYE and company tax domain has proven a huge success.

With taxpayers obviously eager to switch to this format, SARS intends rolling it out for Personal income tax. SARS would benefit from the long-term decrease in hard copy paperwork entering the back office, while taxpayers and their consultants would gain from improved simplicity and speed of processing. All parties gain from the reduction of risk and errors.

e-Filing enables taxpayers to conduct various transactions with SARS and third parties such as banks.

Figure 2.4

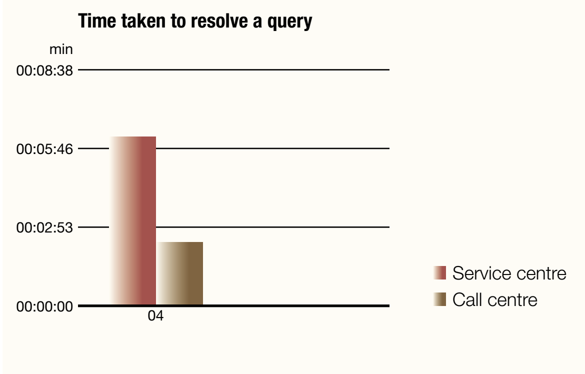


Figure 2.5

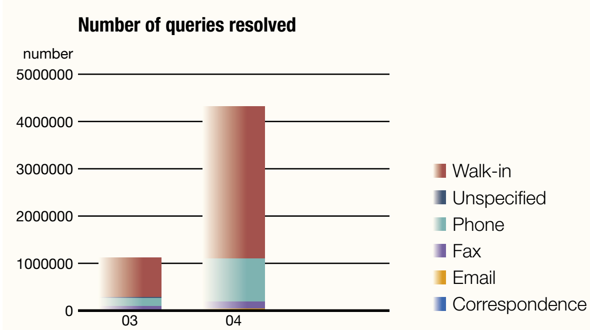
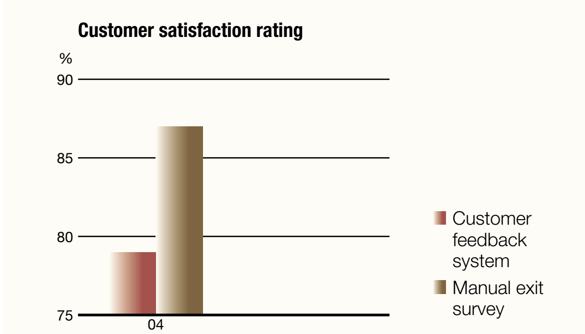


Figure 2.6



e-Filing expansion

Figure 2.7 provides a detailed picture of the rapid growth in the e-Filing registration and submissions:

Figure 2.7

Transactions	2003/04	2004/05	% Change
Number of registrations	191 396	**279 417**	46%
Number of returns submitted	136 795	**479 533**	251%
Number of payment transactions	118 376	**562 213**	375%
Value of payments	R4 100 831 760	**R19 835 975 869**	384%

The increasing value of e-Payments being received shows that taxpayers are gaining confidence in this online interface.

In this year the e-Filing interface was expanded to enable taxpayers to amend their personal records through the internet.

SARS has also launched a new online transfer duty system for conveyancers to access and submit declaration forms. Registered website or e-Conveyancers can now electronically submit transfer duty declaration forms and effect transfer duty payments.

SARS Service Charter

The proposed Service Charter is intended to ensure that public expectations of service delivery are matched by achievable and measurable performance standards.

The primary business impact of the project is that by creating and publishing appropriate service delivery measures, SARS will positively impact the compliance climate in South Africa and will be able to benchmark itself against other leading revenue agencies around the world.

The primary business benefit will be improved voluntary compliance that would result from adhering to published service delivery standards and upholding taxpayers' rights and obligations.

During the period under review various stakeholder workshops were held to establish guidelines towards a Service Charter.

Several of these were accepted as *de facto* guidelines for operational efficiency. Detailed and reliable tracking methodologies for the standards still require major refinement in the years ahead. The key standards include:

- The proposed reduction in processing error rates to below 5% of volume
- Attaining the 21-day processing cycle of VAT products
- Reducing revised assessments from 70 000 to 50 000 per annum
- Reducing the number of dropped calls and increasing the first-time query resolution rate to at least 80%

Publishing appropriate service delivery measures will positively influence the compliance climate in South Africa, and will also enable SARS to benchmark itself against other leading revenue and customs agencies around the world.

When introduced, the Service Charter will enable taxpayers to evaluate SARS on its levels of service rendered in terms of achievable and measurable performance standards.

The tax register

In this year the tax base grew 9,3%. Practically, this means that 592 712 more taxpayers were registered during this period.

SARS
At Your Service

The following tax base-related initiatives were also undertaken:

- All new taxpayer portfolios and banking details were verified
- The electronic data-base was cleaned up

Growth of Register per Product Type

Figure 2.8

	Cases on Register		% change	
	2003/04	2004/05	Current year	Previous year
Income tax	5 563 284	**6 086 023**	9,4%	8,9%
Individuals	4 280 129	**4 647 484**	8,6%	10,2%
Companies	1 283 155	**1 438 539**	12,1%	5,1%
PAYE	274 764	**302 880**	10,2%	8,8%
VAT	536 281	**578 138**	7,8%	6,0%
Total	6 374 329	**6 967 041**	**9,3%**	**8,7%**

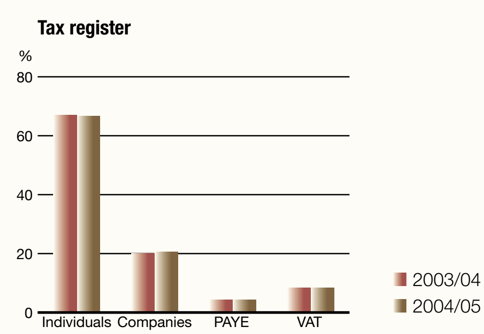
Figure 2.8 shows that the biggest gain was made in the income tax domain, followed by PAYE and VAT respectively.

The PAYE category benefited from the introduction of new reconciliation software which probably increased awareness of it, hence the surge in registrations.

This year's healthy growth in the tax base resulted from:

- An improved compliance environment, resulting from visible enforcement actions and high-profile advertising campaigns
- A steadily improving and stable economy

Figure 2.9



Composition of the register per product

The composition of the register (Figure 2.9) has remained fairly consistent, with individuals and companies comprising its largest portion (87,2%).

Customs service

The Customs division is charged with facilitating trade into and out of South Africa, and also with safeguarding all our country's entry and exit points. This division is presently reviewing all its operational processes to raise service levels, improve efficiencies, and prepare itself for the challenges of future years.

Accreditation

The Customs Accredited Client Scheme was developed with the aim of:

- Stamping out misconduct and fraudulent activities
- Obtaining and maintaining a high level of compliance
- Facilitating legitimate trade
- Achieving benefits for both parties

A system was accordingly developed that enabled Customs to accredit clients that met the requirements, and to enter into agreements with these clients. This degree of self-regulation will allow Customs and Enforcement to concentrate on high risk areas.

Import bills of entry processing times

Targeted times for accredited clients were 100% of bills of entry processed in four hours, and for non-accredited clients were 100% of bills of entry processed in 24 hours. SARS achieved 82% in four hours for accredited clients and 81% in 24 hours for non-accredited clients.

Significant achievements

By June 2004 Customs had accredited 659 clients, but a moratorium was imposed on accreditation from July to September 2004 to deal with certain issues. Accreditation resumed in October 2004 and accredited clients totalled 821 as at 31 March 2005. During this period one client's accreditation was withdrawn (criminal conviction for Customs offences) and a further four applications were refused on the grounds of

non-compliance. The backlog of 541 pending applications was reduced to 417, with most awaiting outstanding documentation.

Assessment throughput efficiency (cycle times)

SARS has set target throughput times for the bulk processing of returns.

In this year the sheer volume of returns received in the last few days before the submission deadline slowed the cycle down to approximately 25% processed in the first 30 working days after the cut off. Income tax cycle times were compromised as temporary staff was deployed to accept returns. By moving back office staff to the front office during the submission period, SARS however, succeeded in improving taxpayer experience in the service environment.

It must also be noted that the assessment units are where most SARS employees gain skills before being redeployed into the wider organisation. The assessment units also achieved higher processing volumes than the previous year.

Average throughput times: Income tax returns

Figure 2.10

Period	Returns received	Within 30 days
Non-peak period	1 227 122	65%
Peak period	3 169 915	22%

Note that during non-peak periods, SARS aims to capture returns within 30 working days of receipt, while during peak periods the turnaround on capturing decreases to 90 working days of receipt.

Although SARS's ITC pipelines and throughput times were heavily strained by increased activity, the VAT and PAYE systems recorded significantly better cycle times, as shown in the table below.

Figure 2.11

Tax type	% returns processed within 21 days
VAT	92%
PAYE	87%

Although SARS aspires towards processing 100% of inflowing documentation within targets, late returns that are linked to alternate submission dates (companies in particular) means that "work-in-progress" will always exist in the cycle at any point of time.

Figure 2.12

Returns processed			% change	
	2003/04	2004/05	Current year	Previous year
Income tax	4 086 746	**4 496 622**	10,0%	6,6%
Value added tax	3 002 053	**3 148 293**	4,9%	2,3%
Pay as you earn	3 026 618	**3 267 287**	8,0%	11%

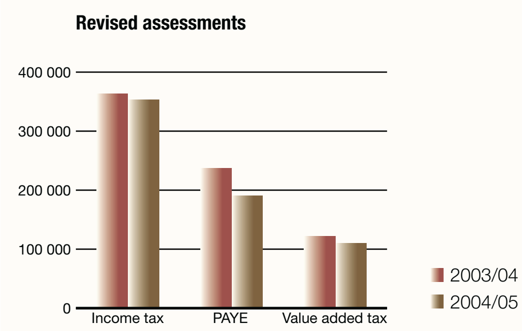
Even though the volume of income tax returns was significantly higher than the previous year, the number of income tax returns not assessed within targeted times was only marginally higher than the previous period.

Better taxpayer and trader experience (continued)

Revised assessments

Although revision of assessments is needed in certain instances, unnecessary reworks must be progressively eliminated. The revised assessments depicted in Figure 2.13 mainly refer to query and objection-driven requests for revised assessments.

Figure 2.13



Filing campaign

The marketing and media campaign for each Filing Season is part of a broader thrust to develop a culture of taxpaying compliance in our society.

SARS's efficiency and service levels are hindered when the taxpaying public lacks taxation knowledge or the urgency to file their returns on time.

SARS has made a strategic decision to run sustained and well directed communications campaigns to develop this culture of compliance. These campaigns also inform taxpayers how best to comply.
For example, filing tax returns through the available electronic channels are cheaper and easier to process.

Filing Season campaign objectives

SARS is using differentiated channels and media to get its "how to comply" messages across to specific taxpayer segments, which in the longer term is designed to further a culture of compliance.

Building on the success of the 2003 Filing Season campaign and taking into account lessons learned, the challenge for SARS in 2004 was to sustain the momentum of instilling a culture of voluntary tax compliance among South Africans.

The overall objective achieved through this campaign has been the 180 degree shift in the organisation's image. Where SARS had historically been perceived as bureaucratic and unhelpful, one only needs to look at recent newspaper headlines and reflect on recent radio call-ins to observe the attitude shift.

The campaign also successfully achieved the following objectives as stated in the initial strategy:

- Reminded taxpayers of the tax return deadline
- Assisted taxpayers to fulfil their obligations through an extensive outreach programme and improved service in all provinces
- Educated taxpayers with regard to tax basics and Filing Season requirements, thereby equipping individuals with knowledge on completing tax returns
- Explained "WHO" must file, building on the "WHEN" must we file message from last year
- Encouraged taxpayers to get returns in early this year
- Educated all categories of taxpayers with regard to submission of 2004 tax returns
- Educated taxpayers earning less than R60 000 per annum and SITE only taxpayers as to why they need not submit tax returns
- Built understanding of the tax compliance process
- Positioned SARS as a firm enforcer that assists filers to comply
- Profiled SARS as accessible, quick to respond and helpful at this important time

Better taxpayer and trader experience (continued)

Target audiences

The campaign focused primarily on individuals:

- Individuals: SITE taxpayers
- Individuals: PAYE taxpayers
- Stakeholders
- Tax professionals
- Media

Highlights

The filing campaign which preceded the 2004 filing day (9 July 2004) focused on the following issues:

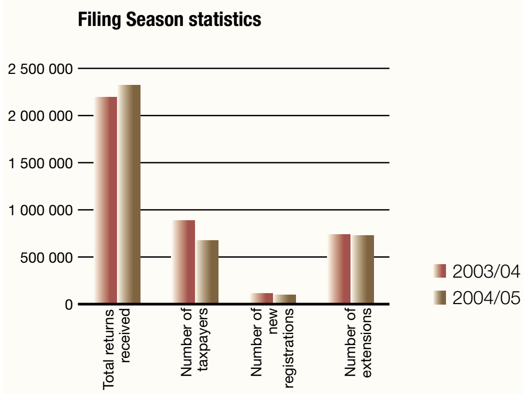
- An extensive effort was made to heighten visibility and support. Every region generated a plan to place taxpayer service and back-office staff within the operational environment of certain large companies
- Back-office staff were trained to assist taxpayer service officials during the Filing Season to complete returns and answer questions
- SARS teams spent many Saturday mornings at shopping malls assisting taxpayers with their returns and queries
- Additional services were provided, such as dedicated cubicles for persons depositing large numbers of returns
- Queues were managed and queries routed more efficiently by dedicated "meeter-greeters"
- Returns were issued and often completed on the spot, in many instances in shopping centres and on street corners

- Frequent media releases to the public media elicited a good response
- Drop-boxes and staff were deployed to outlying and rural sites to provide access to remote taxpayers
- So-called 'drive-through' facilities were set up where strategically needed, for example in Port Elizabeth. The 2004 Filing Season communication campaign was particularly successful given that over 90% of people who are required to file a return were aware of the deadline date. As a result, the number of returns filed increased substantially.

The 2004 Filing Season culminated in a "Thank You" campaign that was well received by taxpayers.

The success of the Filing Season is depicted in Figure 2.14:

Figure 2.14



Service branch offices

In this year SARS took major strides towards delivering a complete service to its stakeholders from its service branch offices.

Previously these branches could interact in a limited manner, and their inability to resolve queries on the spot was a severe drawback.

Having decided to upgrade its service branch offering, SARS had to quickly acquire the necessary queue management skills, capacity and space to ensure that meeter-greeters could effectively manage high volumes of walk-in taxpayers. New agents and consultants were also trained to operate in terms of our revised service approach.

Service centres or branches are now capable of resolving taxpayer queries, assisting with returns, issuing tax clearances and directives, and providing immediate and detailed information on individual assessments, accounts and interest.

More difficult cases are rerouted with supportive documentation already attached, which simplifies the process and shortens turnaround times.

Increasing first-time resolution (FTR) rates show that these upgrades introduced during the 2004 Filing Season are succeeding.

Most service branches and centres were supported by internal helplines that ensured the speedy and efficient routing of correspondence and queries to improve response times.

Taxpayer education

Highlights of the year

- Consistently high levels of quality media coverage were achieved with 5 990 pieces of editorial appearing in the print and broadcast media. According to independent media analysis reports the tone of these was largely positive. SARS's messages were carried by a broad range of mainstream mass media and community media, ensuring high degrees of reach into the South African population
- Consistently high levels of advertising presence was achieved in support of operational campaigns. The most important of these were the 2004 Filing Season campaign, the revenue target campaign, the 2004 Medium-Term Budget Policy Statement (MTBPS) and the 2004/05 National Budget. More detail on the communications outcomes of these campaigns is provided elsewhere in this report
- Effective internal communication campaigns were undertaken through e-mail newsflashes, SARS Intranet, SARS TV and events. These channels are used to share knowledge of new developments; to motivate staff to achieve key targets; to celebrate SARS's achievements and to commemorate significant dates. During 2004/05, much was achieved in improving the quality of information to staff and coordinating messages carried by the internal channels
- Improved interaction with Government, in particular the Government Communication and Information System (GCIS) and the National Treasury. This improved interaction with National Treasury is evidenced by the success of the 2004/05 Budget campaign, which resulted in a high degree of positive media resonance

- A successful 2004 Filing Season campaign that achieved the highest rate of compliance yet in South Africa and reshaped the perception of SARS in the eyes of South Africa's taxpayers. This was achieved through an integrated campaign which included publicity, advertising, community outreach and direct marketing. Research conducted afterwards showed that over 90% of registered taxpayers were, without prompting, able to recall the key deadline message
- SARS's Communications division winning all the national awards at the Government Communicator of the Year Awards 2004

Talking to taxpayers

Effective communication with taxpayers – both new and established – has been instrumental in promoting a climate of compliance through proactive public engagement. This was achieved through integrated communications and marketing campaigns in support of key operational initiatives.

Tracker survey

The tracker survey is an ongoing survey of perceptions and attitudes regarding the South African Government. It tracks perception shifts and informs our taxpayer education campaigns as well as establishing the impact of these campaigns. A representative spread of South African citizens aged 18 years and older is polled daily throughout the year and the results are collated each quarter. From the beginning of 2004 questions relating to SARS and taxation were included in the tracker survey. SARS has utilised the tracker to establish benchmarks on the following:

- Taxpayer consciousness
- Taxpayer literacy
- Compliance perceptions

Tracker survey findings

The most significant findings are depicted in the following graphs.

Question: What are the reasons for a government to collect taxes?

Figure 2.15 reflects a high degree of tax consciousness as most people know the Government uses taxes for infrastructure and social development.

Even so, other questions suggest that most South Africans are insecure about their levels of technical tax literacy. Understanding these concerns has helped shape the education programmes included in SARS campaigns going forward.

Figure 2.15

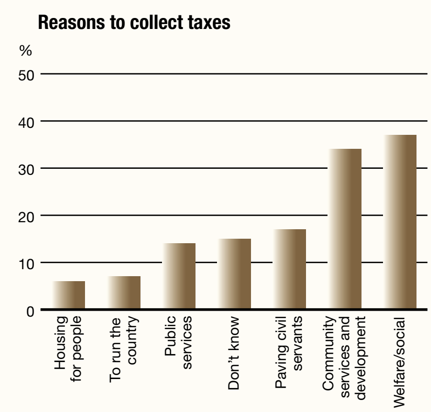
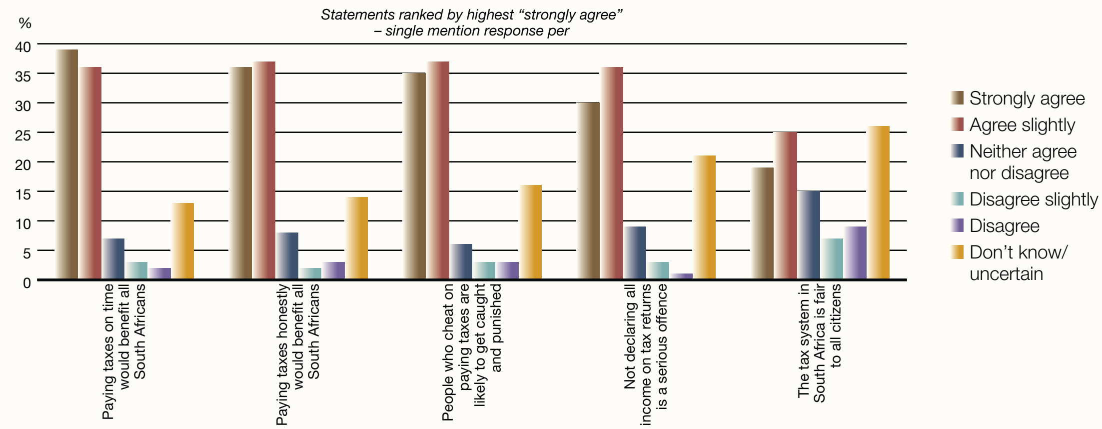


Figure 2.16

Orientation towards taxation



Benchmarks were also established that measure perceptions of compliance among South Africans. Figure 2.16 depicts the first result of these questions.

Most South Africans agree that paying taxes on time and honestly is important. However, the degree of uncertainty on all these questions also suggests that more work needs to be done to promote consensus on compliance issues.

Tracker survey questions will be repeated during the 2005/06 year to establish trends, and the information gleaned to date is already influencing education and communications decisions. Clearly, the challenge is to improve levels of basic tax knowledge among the marginalised sectors of our population and to ensure that the information taxpayers require is made available in a form they can understand.

Taxpayer education on radio

A taxpayer education radio programme negotiated with the SABC was broadcast in ten episodes on all African language radio stations. A first for South Africa, these programmes assumed the format of a SARS spokesperson giving a briefing on a particular topic and then receiving phone-ins from listeners. These programmes were leveraged as an opportunity to cover the topic of taxpayer education as comprehensively as possible to help make compliance easier to grasp. Episode 3 of the series was dedicated to the 2004 filing season. This was the first time that the filing season was covered so comprehensively in all the spoken languages of South Africa.

Large Business Centre

A highlight of SARS's review of its public interfaces with its various customer segments resulted in the launch of its Large Business Centre (LBC) in September 2004.

The LBC provides a "one-stop" facility that will service the needs of corporate and high net worth clients in South Africa. The LBC model was informed by international best practice and research concluded with selected international tax authorities.

Key features of the LBC:

- Eight sector-specific LBC service channels
- An end-to-end service value proposition including: taxpayer relationship management; registrations, returns processing, assessing and account management; auditing and compliance
- Various tax services, with an initial accent on income tax, value added tax (VAT) and pay as you earn (PAYE), are offered
- Compliance model underpinned by service, education, and enforcement

Highlights of the year

- The LBC was launched at Megawatt Park, Johannesburg, in September 2004. Regional LBC offices in Western Cape and KwaZulu-Natal were refurbished and were scheduled to be activated in the second quarter of 2005.
- All eight industry sectors on offer were activated in the Megawatt Park centre
- The centre exceeded initial revenue targets on large business income tax by focusing on provisional tax payments
- Analysis of aggressive tax planning by certain large businesses involving structured finance schemes resulted in revised tax assessments and improved tax compliance

Background

Company income tax (CIT) has increased steadily as a percentage of total revenue collected from 11,9% in 1994/95 to 20% in 2003/04. Given this growth over the past 10 years and the importance of CIT as a source of revenue, the launch of the LBC underscores the seriousness with which SARS approaches its service to this sector.

The LBC is a significant step forward in establishing a more collaborative and effective relationship between SARS and large taxpayers. This concept supports Government's commitment to efficient service and creates an enabling economic environment.

At the core of its value proposition, the LBC employs taxpayer relationship managers who perform a role similar to that of account managers. The LBC services are complemented by fair dispute resolution mechanisms when needed. Clients can expect cost effective and efficient registration of their tax entities and well-managed filing of tax submissions and corporate accounts.

SARS and its taxpayers also benefit greatly from the deeper understanding of business dynamics and value drivers in each sector that are gained through the LBC. Added certainty regarding tax obligations assists large businesses in their investment and trade decisions.

LBC clients

The LBC system is designed to service the large taxpayers categorised below:

- Companies listed on the JSE Securities Exchange
- State owned enterprises
- Unlisted companies with a turnover in excess of R250 million
- Major financial institutions
- Multinational corporations and their local branches

During the 2005/06 financial year the LBC will broaden its offering to include high net worth individuals, many of whom are also involved in the corporate tax environment.

LBC volumetrics

In its first year the LBC has already yielded collections ahead of its targets. This effort will continue into the new financial year.

Revenue collection 2004/05

Figure 2.17

Details	2004/05
1. Revenue collected: Taxes on income and profits	**R53,012 billion**
2. Number of audits conducted	**3 656**
3. Audit results	**R4,856 billion**
4. Debt collected: ● Existing ● Processing/Enforcement ● Provisional tax (Paragraph 19(3))	 **R231 billion** **R169 billion** **R7,495 billion**

LBC: The year ahead

- Building the skills base that will enable the LBC programme to fulfil its mandate
- Completing the Western Cape and Kwazulu-Natal LBC offices and establishing the Eastern Cape regional office before the 2005/06 year-end
- Complete the re-engineering of work processes and technology in support of the LBC methodology
- Encourage relevant corporate and high net worth individuals to migrate their tax affairs to the LBC
- Improve service levels and operational excellence in accordance with best practice benchmarks

At this stage the roll-out of the LBC concept is a "work in progress". It will evolve it into an interactive offering that will make SARS's tax relationships with its large taxpayers as efficient as any other in the world.

Conclusion

The extensive organisational changes triggered by SARS's new "outward directed" approach has steered SARS into new and as yet uncharted waters. The growing importance of the "second economy" in SARS's immediate planning presents its own set of unique challenges.

The leap in service offering has been significant, considering the impact of diverted calls to the NCCs; the implementation of Siebel electronics; the alignment of the back-office functionalities with the front; and new approaches adopted during Filing Season.

The introduction of a new approach to service such as FTR (first time resolution) has inevitably elicited a reciprocal response from the taxpayer public at large. Their approval is evident in the SARS Service Monitoring Office's feedback received.

SARS has also succeeded in aligning a new set of skills with the recently established channels unveiled with the LBC structure, which is but the first of many planned market-specific offerings. The ability to provide a seamless, integrated and electronically driven service of this nature is a step up to the future SARS.

In spite of the many successes attained this year, SARS still has a long road ahead in pursuing excellence. The abundant challenges faced include developing multi skilled and lateral-thinking staff; establishing powerful new ITC platforms; and providing the innovative leadership to take us to South Africa's beckoning future.

Operational review:

Greater operational efficiency

Highlights of the year

- SARS collected R354,98 billion at a cost of ±1,2 cents per rand collected
- Reduction in the volume of revised assessments nationally for income tax, VAT and PAYE
- Debt equalisation was enhanced to ensure consistent application
- An operational management system was introduced throughout SARS to enhance operational management
- Implemented streamline processess (end-to-end) for large corporates

“More with the same”

The South African Government needs expanding revenue streams to meet its mandate of growing the economy to lift much of our population out of poverty. SARS’s ability to raise its game to meet these ever-increasing revenue targets is critical to the Government’s performance in this area.

Over the past few years SARS has performed remarkably well in delivering revenue, while at the same time transforming itself to meet the future demands of South Africans.

The immediate challenge is to continually seek ways of consistently doing more with the same.

SARS is committed to the ongoing ratcheting-up of our operational efficiencies to provide cost-effective delivery of our services to all stakeholders.

In the period under review, SARS collected R354,98 billion at a cost of ±1,2 cents per rand collected. This cost/revenue ratio already makes SARS one of the most cost-effective revenue administrations in the world.

Business improvement initiatives

As an organisation that continually evaluates ways of doing more with the same, SARS has evolved a two phased approach to enhance business processes.

The first phase is focused on continual and consistent improvement in the key performance areas of customer satisfaction, quality, turnaround time, productivity and risk management.

Specific achievements in this financial year included:

- A reduction in the level of revised assessments nationally for IT, VAT and PAYE
- Streamlining the IT12SE return processing environment in the Johannesburg office, which reduced hand-offs by about 40%
- Streamlining the VAT201 and EMP201 return processing environment in the Johannesburg office
- An initiative implemented in the Technology and Process division (TPD) reduced lead time for installing hardware and software from 21 days to eight days
- The dispute resolution process was greatly enhanced by ensuring that objections entering the system are not delayed and are accurately captured
- The current “single-view” software used for debt equalisation was enhanced, and an application developed to ensure that debt is consistently equalised
- An outbound call centre was deployed to centralise the tracing of all outstanding returns

Greater operational efficiency (continued)

- Taxpayers can now more quickly and easily obtain tax clearance certificates and tax directives

The second phase focuses more on enhancement through radical re-engineering of the core facets of SARS, ie the products, processes and enabling technologies.

Assessments

A new process design for income tax return processing was piloted in Johannesburg in the last quarter of the financial year. Key features of the new design include:

- Streaming of complex returns to experienced staff
- Focus on inventory management disciplines to ensure first-in-first-out (FIFO) processing
- Reduction of hand-offs associated with low value-adding activities

Debt management process

The implementation of a debt management process commenced in the third quarter of 2004/05 and is scheduled for completion by the end of September 2005. The SARS debt management process was re-engineered to focus on:

- Recognising debt earlier
- Eliminating waste in core and support processes
- Profiling cases and skills for enhanced collections performance
- Streamlining the end-to-end process

Large Business Centre

The Large Business Centre was aimed at implementing streamlined end-to-end processes for large corporations. The first sector – financial services – went live in October 2004. The full implementation of all eight industry sectors was achieved by the end of the financial year.

Operations management

In July 2004 EXCO approved a programme to enhance the manner in which SARS manages operations.

SARS accordingly launched an initiative called the operations management system (OMS), which consists of four components:

- A new operational structure to improve management accountability, responsibility and discipline
- The upskilling of managers in operations management, based on best practices
- Introducing new management processes and policies dealing with:

  - Performance management
  - People management and coaching
  - Work segmentation and allocation
  - Utilisation of direct reports
  - Work loading
- Bringing in enablers such as tools, frameworks and a knowledge database

OMS was introduced throughout SARS's operations between February and March 2005.

Restructured operations

In January 2005 a new operational structure designed to give clearer accountability and reporting lines was introduced to combine customs and revenue operations into three zones comprising eight newly designated regions. This structure is designed to realise clearer accountability and reporting lines. SARS has appointed Zonal Managers to manage the three zones, with Regional Operations Managers (ROMs) in charge of the new regions.

Three new zones

The fundamental motive behind reorganising SARS into zones remains the intent to improve efficiency and reduce organisational costs.

The new zones are:

- Zone 1: Gauteng North, Gauteng Central and Gauteng South
- Zone 2: Western Cape (including Northern Cape), KwaZulu-Natal, Eastern Cape and Free State
- Zone 3: Mpumalanga, Limpopo and North West

Two new committees were established to support the zonal structure, being the Operations Committee (OPSCO) and the Management Committee (MANCO). OPSCO's brief is to manage operations on a weekly basis, review performances and provide quarterly strategic reviews. MANCO is responsible for managing operational progress against the SARS business plan on a monthly basis. These operations don't include the LCB or Enforcement division.

The five management levels below the commissioner are:

- General Manager (GM)
- Regional Operations Manager (ROM) or Regional Enforcement Manager (REM)
- Branch Manager (BM) or Centre Manager (CM)
- Business Area Manager (BAM)
- Team Leader (TL)

Greater operational efficiency (continued)

This better integrated organisational structure provides simpler reporting lines, centralises operations and eradicates duplication. The previous three policy units have now been integrated into one.

Technology improvements

The Technology and Process division's (TPD) philosophy is to ensure that all business processes, technology applications and technology infrastructure function appropriately to support business delivery.

Key achievements this year included:

- A secure encrypted network link between South Africa, Lesotho and Swaziland that enables information exchanges between customs offices
- A disaster recovery (DR) site established for core mainframe applications, with a similar system planned for the other production servers. This DR site ensures that SARS can continue to operate in the event of any disaster, albeit with a temporarily reduced operational capacity
- A new firewall that provides significantly improved security in respect of:
  - Network segregation between internal and external users
  - Separated access paths to the internet for mail and web browsing
  - High availability and redundancy of the firewall
- The Secure Desktop Project, which established a high-quality and appropriate security environment for the SARS desktop, LAN and WAN computing infrastructure
- A revised SARS intranet and a portal more suited to improving SARS's personnel productivity levels

- An integrated business register (IBR) was implemented for the Business Intelligence Unit (BIU). This IBR provides critical information for BIU investigative activities
- An enterprise data warehouse (EDW) was selected, the solution was designed and tested and the rollout to business is scheduled to commence in the first quarter of the next financial year. The EDW provides an efficient and reliable source of information for the entire organisation

TPD has developed a robust and forward-thinking ICT strategy that will support the current operating model and any transformation that SARS undertakes into the future.

Financial management transformation

Kopano

SARS's financial management transformation is driven through the Kopano programme, which focuses primarily on the modernisation of financial processes and improvements in operational management.

Kopano gained significant momentum during the current financial year due to:

- The successful implementation of SAP in the SARS Own Accounting administration by April 2004
- Significant improvements in processing collections
- Accreditation by the South African Institute of Chartered Accountants (SAICA) as an approved training organisation

Implementation of SAP platform

The implementation of SAP has transformed the SARS financial management environment, bringing greater clarity to financial information and consequent improvements in cost control, financial planning, and resource utilisation.

SAP is a type of software platform commonly referred to as an enterprise resource planning solution (ERP). An ERP is designed to integrate various organisational functions such as logistics, financials and human resource management into a unified end-to-end ITC platform.

The implementation of SAP in SARS's Own Accounting domain replaced all legacy applications within procurement, financial accounting, asset management and management accounting.

This programme extended what was already implemented in the revenue accounting area during 2001/02, and further consolidates SARS's financial management processes and applications.

SAP has enabled functions such as ordering/receipting of goods and services, asset management and on line financial analysis to be successfully decentralised to branch office level. This reorganisation vastly improves procurement efficiencies, internal controls, operational management, planning and budgeting.

SARS has also established system support functions to internally maintain the SAP solution while also providing business and technical support, training process refinements and optimised tracking of benefits.

Future SAP initiatives will build on the solid foundation that has now been established. A key deliverable for 2005/06 involving SAP is to improve SARS's financial analytics and reporting capability in the areas of revenue, cost modelling and strategic planning.

Conclusion

SARS is committed to continuously upgrading itself to remain abreast of its rapidly expanding taxpayer register and the increasing sophistication of the national economy. Our initiatives up to this point have positioned SARS well for its ongoing drive towards improved operational efficiency. A combined approach of ongoing and consistent improvements, supported by radical re-engineering when required, will enable SARS to reach its goals.

Operational review:

Customs: enhanced trade administration and border control

Highlights of the year

- **Seizures:**
  - **Drugs – 125 seizures including cannabis, cocaine and ecstasy with a street value of R71 million**
  - **Counterfeit goods – 331 seizures with a value of R233 million**
  - **CITES – 93 seizures including abalone, ivory and sea shells**
  - **Cigarettes and tobacco – 533 seizures with a value of R63 million**
- **Post-clearance inspections – 206 cases finalised, R52,2 million collected and R125,8 million scheduled**
- **Customs head office received ISO 9001: 2000 certification**
- **Credit card facilities implemented for collection of traveller duties and taxes**

Customs: enhanced trade administration and border control

"Securing South Africa's trade and borders"

Customs controls the flow of trade in and out of South Africa, while protecting our society from hazardous goods and practices.

SARS Customs is the Government agency responsible for administering international trade and safeguarding national economic security. Customs officials are deployed at designated land border posts, airports, ports, rail ports, postal ports and other inland ports of entry. Customs also has a nationwide rapid response roving capacity.

The role of SARS is to ensure the efficient, effective and secure movement of goods across South Africa's borders. Its functions are to:

- Control the entry of goods into South Africa's market
- Protect South African markets, industry and society against illicit imports, exports and trans-shipments of controlled goods
- Administer preferential trade schemes such as the African Growth and Opportunities Act (AGOA)
- Administer international trade agreements such as the Southern African Customs Union (SACU) Agreement and the Southern African Development Community (SADC) Trade Protocol
- Implement Government incentive schemes such as the Motor Industry Development Programme (MIDP)
- Protect national industries against harmful unfair trade practices
- Secure and safeguard South Africa's international trade supply chains and promote South Africa as a trusted trading partner
- Control the movement of environmentally sensitive goods under the Convention on International Trade in Endangered Species (CITES)
- Enforce South Africa's intellectual property rights laws at the border

Customs: enhanced trade administration and border control (continued)

An increasingly complex environment

The world of international travel and trade needs to become more free-flowing, while international terrorism is at the same time requiring increased security.

The international landscape in which Customs operates is complex, fluid, and highly sensitive to external drivers such as continued initiatives to liberalise trade, increasingly complex trade rules, the proliferation of regional trade agreements, and threats to national security. **The volume of goods moved internationally continues to increase and pressure is mounting to facilitate trade.**

A countervailing force is the attacks of 9-11 and elsewhere that have exposed the vulnerability of international trade supply chains. A terrorist attack through international trade supply chains could bring international trade to a standstill and spell disaster to the international economy. At the same time, rogue traders and organised crime syndicates also exploit international trade supply chains through the evasion and avoidance of duties and taxes, smuggling of goods, money laundering and trade in counterfeit goods. These activities threaten our national economic security.

New international standards and rules

The World Customs Organisation is reshaping the international customs environment through a new framework of standards designed to harmonise trade flows, yet at the same time provide increased security.

At international level, two major initiatives that are shaping the customs environment are the development of new Customs Supply Chain Security and Facilitation Standards and the negotiation of the World Trade Organisation (WTO) Trade Facilitation Agreement.

The 168 members of the World Customs Organisation (WCO), which collectively administers 98% of global trade, have established a high-level working group (chaired by South Africa) to develop a Framework of Standards to secure and facilitate global trade. This framework will enable the international customs community to respond to emerging facilitation and security imperatives. The objectives of the WCO Framework of Standards are to:

- Provide supply chain security and facilitation at a global level to promote certainty and predictability

- enable integrated supply chain management for all modes of transport
- promote the seamless movement of goods through secure international trade supply chains

The WCO Framework of Standards consists of four core elements. *First*, the framework harmonises the advance electronic manifest information requirements on inbound, outbound and transit shipments. *Second*, each country that joins the framework commits to employing a consistent risk management approach. *Third*, the framework requires that customs administrations will perform inspections on behalf of each other and should optimise the use of non-intrusive detection equipment such as large-scale X-ray scanners. *Fourth*, the framework defines benefits that customs will provide to businesses that meet minimal supply chain standards and best practices.

The framework also encourages national governments to introduce integrated border management. In essence this means we should manage our border in a smarter and more effective manner.

With respect to the WTO, it was agreed in July 2004 to launch negotiations aimed amongst others, at developing a binding trade facilitation agreement. This is aimed at stimulating international trade by expediting the movement, release and clearance of goods. The main focus of the negotiations is on measures to simplify and harmonise international customs procedures.

The combined impact of these developments is that SARS is compelled to implement new international supply chain security and trade facilitation standards. In this regard, SARS's key objective is to promote effective border management that, with minimal disruption to legitimate trade and travel, prevents illegal movement across our borders.

Key facts

- In this period revenue collected by Customs comprised 27% of total collected revenue. Over the past three financial years this percentage has fluctuated between 25% and 29%
- The 2003/04 and 2004/05 VAT revenue collected by Customs remained constant at 46% of total VAT collected. Customs' VAT contribution historically ranges between 46% and 50%
- VAT collections comprise 48% of Customs' total revenue collections
- Although excise rates of duty increase each year, the excise contribution to total SARS revenue collection has declined from 4,11% in 2002/03 to 3,88% in 2004/05
- The fuel levy contribution to total revenue collected over the past three years has declined steadily from 6,24% in 2002/03 to 5,57% in 2004/05
- Over the last three years, customs duties collected have fluctuated from 4,25% in 2002/03 to 3,81% in 2004/05 of SARS's total collected revenue. An increase in goods imported during 2004/05 due to the strong rand led to a 1% increase in collections

Customs: enhanced trade administration and border control (continued)

Key statistics

Imports – facilitation and control

Figure 3.1

	Number processed 2003/04	Number processed 2004/05	Number stopped 2003/04	Number stopped 2004/05	Percentage hit rate 2003/04	Percentage hit rate 2004/05
Import clearances						
Bill of entry	1 465 950	**1 748 246**	42 045	**56 850**	13,46%	**11,33%**
CCA	165 127	**217 340**	28 426	**14 937**	18,21%	**5,43%**
Sub-total	1 631 077	**1 965 586**	70 471	**71 787**	15,38%	**10,10%**
Transit clearances						
Bill of entry	75 259	**105 193**	22 719	**n/a**	0,43%	**n/a**
CCA 1*	25 787	**23 834**	3 937	**n/a**	10,41%	**n/a**
Sub-total	101 046	**129 027**	26 656	**n/a**	1,91%	**n/a**
Total imports	**1 732 123**	**2 094 613**	**97 127**		**11,68%**	

**The CCA 1 is a simplified clearance declaration used for movements within the Southern African Customs Union, also known as the Common Customs Area or CCA.*

Exports – facilitation and control

Figure 3.2 illustrates the volume of export entries processed through our borders:

Figure 3.2

	Number processed 2003/04	Number processed 2004/05	Number stopped 2003/04	Number stopped 2004/05	Percentage hit rate 2003/04	Percentage hit rate 2004/05
Bill of entry	1 028 200	**1 043 916**	26 898	**14 568**	12,76%	**16,01%**
CCA	1 526 764	**1 611 225**	138 388	**54 020**	19,67%	**4,63%**
Total	2 554 964	**2 655 141**	165 286	**68 588**	18,55%	**7,05%**

Key achievements

SABS ISO 9001: 2000 certification for Customs head office

Customs head office division became the first public sector organisation to be granted an ISO certification for quality management by the South African Bureau of Standards (SABS). In February 2005 the SABS approvals boards approved ISO certification without reservation. This certification has also laid the foundation for SARS-wide ISO certification in future.

Customs valuation improvements

In this year, Customs streamlined and simplified its valuations process by introducing:

- *A **valuation website*** that Customs officers can access for advice on valuation issues. Queries and issues raised on the website are addressed within a two-day turnaround time, as compared to the four- week turnaround time for paper submissions
- *A **valuation quick reference guide*** that provides easy-to-read guidelines to interpreting and applying the law on customs valuations

Credit card payment facility for travellers

A credit card payment facility was implemented at Johannesburg International Airport for the benefit of travellers who need to pay customs duty/VAT. This facility, supported by policy and procedures, will be rolled out to all points of entry, and has the added advantage of reducing the amount of cash circulating in the Customs Duty/VAT system.

Passenger Processing System (PPS)

The newly implemented Passenger Processing System (PPS) replaces the old Passenger Assessment System (PAS) and the Passenger Declaration Information (PDI) system. The PPS combines the functionality of the previous systems with new scanning technologies for passports and passenger declaration forms. PPS will be the core of future systems upgrades in the passenger area, including temporary import permit processing and acquittals. Thus far PPS has been rolled out successfully at Johannesburg International Airport and Beit Bridge, with the intention of implementing it at all points of entry/exit in the near future.

Internet notification facility

A web facility has been implemented through which Customs automatically notifies clients of the latest news and regulations, ensuring that clients are aware of updates as soon as these are posted. Clients wanting to receive these notifications register their e-mail addresses on the SARS website.

Integrated customs risk analysis system (ICRAS) – import and export

ICRAS provides risk analysis and profiling capabilities from a transactional and behavioural context to Customs to ensure more accurate risk targeting. This system also offers electronic case management/tracking and audit assistance. Customs is currently utilising its audit assistance modules, and also its transaction risk analysis module for import and export declarations.

Customs: enhanced trade administration and border control (continued)

Paperless exports

The pilot project launched last year evolved into a procedure for electronically submitting Rules of Origin (ROO) declarations and issuing certifications. Declaration information and proceeds thereof can now be submitted through an electronic file transfer protocol (FTP) interface with the Reserve Bank, which means that paper verification is no longer required.

World Customs Organisation (WCO) e-learning

The WCO e-learning application is an interactive, online training tool which has enabled Customs to automate much of its management training. Since implementing this programme in April 2004 the number of registered trainees increased from 50 to 2 014. More than 30 courses dealing with customs controls and valuations were added. Revenue authorities from other African countries are eager to participate.

Infrastructure

In this period R47,5 million was spent upgrading and maintaining Customs facilities at South Africa's land entry/exit points.

The Department of Public Works (DPW) is implementing a repair and maintenance programme at its land ports of entry. This R130 million programme will ensure that all government facilities at 22 land ports of entry are first repaired and then maintained for the balance of a 36-month contract period. Follow-up contracts may be initiated if necessary.

Border control improvement programme

Upgrades to the port of entry of Oshoek (Swaziland border) were completed during 2003/04, while residential accommodation was provided at both Jeppe's Reef and Nerston (Swaziland border). At Mahamba (Swaziland border) and Kopfontein (Botswana border), the port-of-entry operational areas and residential accommodation were completed.

The completely new port of entry of Nakop (Namibian border) was officially opened during this financial year.

The first phase of the 72 single accommodation units at the Oshoek port of entry (Swaziland border) was completed during 2004/05, with the second phase to be completed during the 2005/06 financial year.

An integrated business solution for Customs

In this period Customs reviewed all its operations and developed a process that would enable it to meet its challenges of the next few years. The initial investigation defined end-to-end product and process flows for all functional areas and provided a measurable end-to-end view of processes.

From this the team developed a holistic system that:

- Sets minimum standards to be adhered to by Customs
- Stabilises the manner in which Customs operations are performed
- Ensures that all Customs clients are treated consistently and fairly in all Customs branches
- Encourages a culture of accountability

Redrafting of the Customs and Excise Act

A comprehensive policy study was undertaken during the course of this year to inform, the drafting of a new Customs Act.

A result of this exercise will be to clearly separate customs and excise provisions. As policy for customs duties is determined by the dti and excise duties by the National Treasury, a separation will provide a clear distinction between the two taxes. This distinction will not only assist in administering these taxes, but will also enable legislation that is more client-friendly. Furthermore, it is believed that separating these provisions will provide the necessary flexibility to incorporate new taxes such as environmental taxes.

In November 2004 SARS appointed a legal drafter experienced in plain language drafting on a contract basis to assist in this project and it is envisaged that a first draft of the customs provisions will be available for release for public comment by December 2005.

Scanners

In line with SARS's operational strategy on heightened border security and trade administration, the scanner project is one of several initiatives SARS is implementing to ensure:

- The protection of the South African community by identifying and addressing risks related with international trade
- That involved parties comply with all relevant legislation, conventions and agreements
- Unhindered movement and flow of legitimate goods through entry/exit points

During the course of 2004, SARS completed a comprehensive feasibility study and options analysis which showed that a public-private partnership (PPP) procurement option was the most favourable for SARS.

With the support of the National Treasury, SARS issued a request for tender in February 2005. Once the tender adjudication process has run its course, SARS will enter into detailed negotiations with the selected private partner. SARS expects to deploy the first of these scanners in mid-2006.

Customs: enhanced trade administration and border control (continued)

International cooperation

Customs regulates trade and goods crossing in and out of South Africa, and is now increasingly becoming involved in the international regulation of these trade flows.

SARS Customs cooperates with a range of customs administrations and international organisations. South Africa's integration into the global economy resulted in the increased cross-border movement of goods, capital and people, necessitating the participation of SARS in international organisations focusing on the development of international regulatory and cooperation instruments. It also requires SARS to establish and maintain close relationships with other administrations. These relationships are required to strengthen international cooperation in combating fraud and evasion, and also to share information that will enhance operations. SARS actively contributes to the achievement of the Government's foreign policy objectives of creating an equitable and just international system and supporting the development of Africa through the African Union (AU) and the New Partnership for Africa's Development (Nepad). SARS is recognised internationally as a dynamic and forward-looking organisation. It has positioned itself as an active player in the international arena and has been called upon to play leadership roles in a number of international and regional bodies.

Participation in African programmes

SARS is active in continental and regional programmes in Africa. It organised and hosted the first All Africa Customs Conference for the heads of African customs administrations and assisted in organising the follow-up conference that was hosted by Algeria. **SARS was also instrumental in organising for the African Union (AU) Special Technical Committee on Trade, Customs and Immigration to establish the AU Customs Sub-Committee of Directors-General, and was consequently appointed as the secretariat of this sub-committee.** This body advises AU ministers on customs and international trade administration matters.

SARS participates in the activities of the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). SARS's key objective within both SADC and SACU is to streamline the movement of goods through borders by applying modern controls based on international standards, enhanced Customs cooperation and the transfer of skills. This approach is underpinned by the following principles:

- Simplifying and harmonising procedures
- Eliminating duplication
- Facilitating legitimate trade and people movement
- Implementing an integrated business solution to ensure secure trade facilitation
- Using modern technology and techniques
- Embedding a professional service culture

SACU Minister's resolution – December 2004

Within SACU, the Council of Ministers adopted a Customs position paper and resolution in December 2004 that was prepared by SARS. The initial key priorities are:

- Developing a coordinated customs operations strategy
- Introducing a single administrative document (SAD)
- Introducing joint Customs controls and the establishment of one-stop border posts
- Developing a common approach towards capacity building

Key developments

Other key developments and achievements in 2004/05 include:

- Mr P Gordhan, the SARS Commissioner, was re-elected as chairperson of the World Customs Organisation (WCO) for a fourth term of office
- High-level Customs delegations were hosted from the People's Republic of China, Malaysia, Norway, Ethiopia and Sudan
- Bilateral customs agreements were signed with the Democratic Republic of the Congo, Norway and Turkey and negotiations were finalised with six other countries
- South Africa and Mozambique agreed in principle to establish a one-stop border post at the Lebombo/Ressano Garcia border post
- Agreement was reached between SARS and the Department of Customs and Excise of Swaziland to roll out the SARS CCA1 customs processing system in Swaziland
- The successful conclusion of the Trans-Kalahari Corridor (TKC) pilot project between South Africa, Botswana and Namibia that simplified Customs procedures, partly through introducing the Single Administrative Document (SAD)

Conclusion

The introduction of consistent international customs standards will further enhance world trade.
New technologies and processes introduced during this period have significantly improved trade and entry point systems.

Operational review:

Improved compliance and risk reduction

Highlights of the year

- **Enforcement activities contributed R21,9 billion to collected revenue**
- **R3,38 billion collected as a result of audits**
- **60 378 audits of all tax types performed**
- **4,1 million outstanding returns collected as a result of an improved collections procedure**
- **894 criminal cases handed to the NPA for prosecution, with 248 cases successfully prosecuted**
- **More than 7 000 new taxpayers registered through enforcement activities**
- **31 107 suspicious activity reports were received for further enforcement action**

Improved compliance and risk reduction

"Promoting good fiscal citizenship"

SARS compliance model

The SARS compliance approach was developed on the basis of similar approaches adopted by sister administrations elsewhere in the world, but adapted to South Africa's own specific historical and social context.

The model is based on the following assumptions:

- The majority of taxpayers will prefer compliance over non-compliance, provided that they are aware of their obligations and are educated about tax and filing processes
- Taxpayer behaviour will vary from compliance to "accidental" non-compliance to gross evasion
- The response and treatment of each type of behaviour must be commensurate with the degree or extent of non-compliance. The sanction must be proportional to the offence
- In the South African historical context, the vast majority of citizens were economically marginalised and awareness of tax was low or practically non-existent. As far as tax awareness is concerned, this legacy persists and it is vital that tax education campaigns be undertaken to redress it
- Easy access, simple systems and facilitation of compliance through better service are vital to improved compliance
- Credible, legitimate and firm enforcement – with appropriate sanctions – is a strong disincentive to non-compliance

In the coming period, greater efforts will be made to popularise this approach within and outside the organisation.

Educating our taxpayers and traders

In order to improve the levels of compliance and entrench a culture of compliance, it is necessary to increase awareness among our citizens of the reasons for paying tax, as well as making it easier for them to clearly understand their obligations. To this end SARS will be proactive in reaching out to taxpayers to assist them. Through these efforts we will improve our knowledge of the taxpayer and trader base and improve our risk assessment model.

Improving service levels

SARS will be taxpayer and trader centric, proactive and accessible in its approach to improving levels of service and providing additional channels of customer interaction.

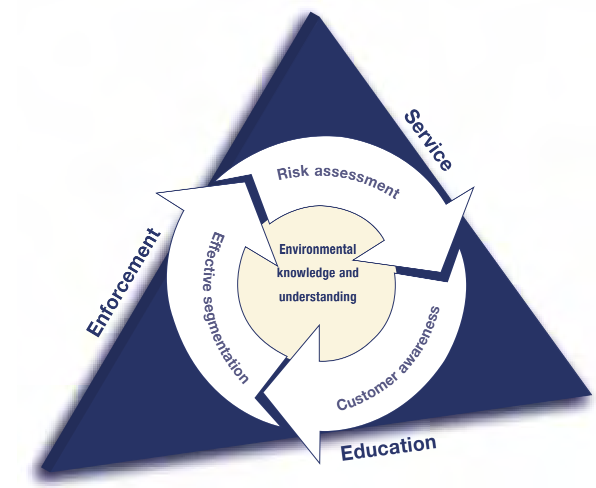
Improved compliance and risk reduction

(continued)

Undertaking enforcement activities

SARS is developing an equitable coverage model in respect of segments, tax types, sectors, types of non-compliance and geographical areas to support a risk-based approach to audit case selection. Where a specific risk of evasion or aggressive tax structuring exists, we will ensure that non-compliance is met with relevant punitive action.

SARS compliance model



Overview – SARS enforcement activities

Revenue authority enforcement is the process of soft and hard actions that are actively taken to ensure compliance with the law.

Generally, enforcement actions include:

- Risk assessment
- Case generation
- Pre-assessment examinations
- Inspections
- Audits
- Investigations
- Prosecutions
- Debt collection
- All legal steps taken in support of the above actions

Soft enforcement actions include:

- Field inspections to verify registrations of taxpayers
- Customs transaction verifications
- Manual assessments of risk-profiled returns
- Audits of randomly selected cases
- Audits of refunds and cases awaiting deregistration
- Collections of debt from first-time defaulters

Hard enforcement actions include actions against taxpayers/traders who have defaulted against soft enforcement and other SARS controls.

A shift in enforcement focus

Four key decisions were taken in the financial year that would have far-reaching consequences.

Reorganisation:

A decision was taken to divide SARS into three zones and eight regions. A key objective was to minimise fragmentation and integrate SARS structures and processes. As this reorganisation unfolds, functional activities (such as registration and assessment of taxpayers, customs and enforcement activities) are integrated across geographical zones. The eight new SARS regions will take full responsibility for taxpayers and traders in their areas. In the near future, responsibility for the softer enforcement actions will also devolve to the regions, with the harder enforcement actions remaining the responsibility of a national division. SARS will move the softer enforcement actions closer to the origins of risk and free up resources to focus on hard enforcement actions.

Large Business Centre

The second decision was the transformation of the Corporate Tax Centre, which previously handled enforcement issues only, into the Large Business Centre (LBC). The LBC provides a one-stop service to corporate clients with the objective of assisting compliant South African business to become internationally competitive through added certainty regarding their tax obligations. Enforcement henceforth will focus on non-compliant large businesses and other non-compliant sectors.

Debt management

The third decision was to introduce a new way of debt collection by physically interacting with the taxpayer rather than simply following administrative procedures. This process involves screening debt and debtors to enable an escalating series of actions proportional to the nature and complexity of the debt. Rollout of this new process to some offices commenced in the fourth quarter of the financial year and will be completed halfway through the next financial year

The rollout of a case management technology solution will commence in the third quarter of the next financial year.

Alternative dispute resolution (ADR)

The fourth decision was to introduce the dispute resolution service this year. ADR offers a quicker and more economic resolution of disputes between the taxpayers and SARS. Response to the introduction of ADR has been encouraging with more taxpayers requesting this option, and fewer acrimonious legal battles as the welcome result.

Performance report – enforcement activities

Business Intelligence Unit (BIU)

The BIU supports SARS's decision-making by gathering, organising and analysing data.

Sector analysis

BIU compiled a total of 42 sector and regional reports during the reporting period. Major sectors analysed this year were:

- Oil
- Electronics
- Liquor
- Clothing and textiles
- Confectionery
- Metals
- Motor vehicles
- Tobacco
- Pharmaceuticals
- Retail
- Cellphones

Case profiling and management

The BIU profiled a total of 29 180 cases at a hit rate of 46,2% during the reporting period, which generated R2,5 billion.

Suspicious activity reports (SAR)

Information on possible suspicious activities is received via the SAR system. The BIU processed 31 107 suspicious activity reports during the reporting period.

These reports dealt with the following areas:

- Registrations
  More than 7 000 new taxpayers were identified and registered as a result of enforcement actions.
- Assessing
  Streaming on the basis of general risk was introduced into the assessing function. More than 520 000 of these manual assessments were conducted.

Customs enforcement

A key aspect of revenue governance is the control of goods and people crossing borders by Customs. Over the past year the following customs-related enforcement actions were performed:

Post-clearance inspections (PCIs)

Figure 4.1

Activity	2003/04	2004/05
Number of PCIs that identified non-compliance	441	506

Post-clearance inspections (PCIs) refer to those examinations and audits that verify compliance of imported goods.

Passenger inspections

Figure 4.2

Activity	2003/04	2004/05
Number of passengers examined	1 198 983	1 313 309

In comparison with the previous year, increased numbers of post-clearance inspections were conducted and passengers stopped and examined.

Seizures

Figure 4.3

	2003/2004	2004/2005
Drugs contraband	62	160
Counterfeit goods	285	521
Other	607	421

Counterfeit goods

Figure 4.4

2003/04		2004/05	
Number of seizures	Value	Number of seizures	Value
444	R343 million	331	R233 million

The total number of seizures for counterfeit goods dropped by 25% in the period due to the implementation of the SARS Counterfeit Goods Policy, which restricts customs interventions to intellectual property right (IPR) holders registered with Customs in terms of section 15 of the Counterfeit Goods Act.

To date, 232 section 15 applications have been approved, resulting in 2 730 trade marks registered for SARS protection.

Improved compliance and risk reduction

(continued)

In December 2004, a successful campaign was conducted against informal traders dealing in counterfeit goods in the Gauteng area. This week-long operation, involving 30 Customs officers, SAPS and the Department of Trade and Industry (the dti), resulted in two criminal prosecutions and the seizure of 9 000 DVDs.

Drugs

Figure 4.5

	2003/04		2004/05	
Drugs	Number of seizures	Quantity	Number of seizures	Quantity
Cannabis	38	1 134 kg	87	14 561 kg
Mandrax	1	4 368 kg	4	10 500 kg/ 100 tabs
Cocaine	12	97 kg	29	50,5 kg
Ecstasy	3	3 500 tabs	5	414 506 tabs
Hashish	1	0,5 kg	—	—
Khat	1	0,5 kg	—	—
Total	**56**		**125**	

Quantities seized by Customs increased in all categories, noticeably that of cannabis, mandrax and ecstasy. Overall, seizure rates in the period of review increased by 225%.

Large seizures of cannabis were effected at Richards Bay and Maseru Bridge (both over 5 000 kg) as well as 2 700 kg confiscated at Ficksburg Bridge.

Two separate seizures of 5 000 kg plus quantities of methaqualone were made in Durban and Port Elizabeth.

Johannesburg International Airport (JIA) continued to set the benchmark, accounting for 60% of national seizures. Highlights were the detection of 414 506 ecstasy tablets and 20 seizures of cocaine of 50 kg in total.

Customs' drug detection teams are dependent on SAPS to arrest and process suspects through the criminal justice system. SAPS units based at JIA are working closer together with their Customs counterparts. The United Nations Office for Drug

Control and Crime Prevention (UNODC) sponsored training on risk assessment and profiling techniques for JIA staff that indicated that Customs techniques were advanced.

Cash

Anti-smuggling officers regularly seize undeclared currency from passengers travelling through JIA. This currency is handed to the Reserve Bank and the perpetrators subjected to tax investigation.

Figure 4.6

2003/04		2004/05	
Number of seizures	Value	Number of seizures	Value
145	R31 million	126	R283 million

Cigarettes and tobacco

Figure 4.7

2003/04			2004/05		
Number of seizures	Quantity	Value	Number of seizures	Quantity	Value
88	82 million sticks	R35 million	533	140 million sticks	R63 million

During the period 533 seizures were made, totalling 140 million cigarettes valued at R63 million. Six percent of these cigarettes were counterfeit. The potential prejudice to duty and VAT totalled R32,7 million.

Figure 4.7 shows that the number of seizures increased by 600% in 2004/05 as compared to 2003/04, although the quantity of cigarettes increased by just 59%. This indicates that smugglers have resorted to smuggling smaller quantities of cigarettes more frequently.

A high profile investigation involving several law enforcement agencies resulted in a company director pleading guilty to 82 charges, ranging from fraud to contraventions of the Customs and Excise Act, the Counterfeit Goods Act and making false declarations to SARS. He was sentenced in May 2004 to a R5 million fine and received an eight-year suspended sentence.

Most cigarette seizures were made at the Beit Bridge border crossing (40%), with the Lebombo border post next with 23%.

Most smuggled cigarettes are destined for Gauteng. Investigation and research show that 33% of cigarettes carried by retailers that accept illicit cigarettes are contraband. The percentage is even greater in the informal sector. This supports the finding that contraband cigarettes account for 30% of this market share.

Improved compliance and risk reduction

(continued)

The large quantities and brand choices of contraband cigarettes available in the Gauteng province indicate that considerable numbers of cigarettes originating in Zimbabwe are smuggled through Beit Bridge. This view is supported by intelligence gathering and information received from informants.

In January 2004 Customs officials were offered a bribe of R600 000 to release two containers of smuggled cigarettes discovered in Gauteng that had passed through Beit Bridge. The suspect consequently arrested is a known leader of an organised crime syndicate. While we applaud the integrity of our officers, this highlights the wealth of these criminal syndicates, and the lucrative profits they are making.

Intelligence also indicates that smugglers are taking advantage of thinly spread Customs personnel to move considerable quantities of cigarettes into the country using aircraft and trains.

Combating the cigarette-smuggling threat

Despite the increased amounts being intercepted, it is evident that cigarette smuggling is a growing threat to the economy.

SARS has identified five strategies through which it intends to tackle this threat in the short term. These are:

- Improving customs controls by increased use of intelligence and risk-based controls
- Simplifying and rationalising legislation
- Implementing programmes to prevent lapses and combat breaches in employee integrity
- Improving technical knowledge
- Improving communication and understanding between customs authorities, other law enforcement agencies and the business community

Investigations and prosecutions

The Customs and Trade Compliance Unit addresses areas of non-compliance and corruption by ensuring that fraud and corruption is investigated and prosecuted. During the year 80 cases were received by the unit, of which 41 were finalised.

Enforcement campaigns

The following enforcement campaigns were conducted during the year:

Figure 4.8

Industry	Cases finalised	Revenue		
		Scheduled	Collected	Outstanding
Sugar	26	R40,0 million	R2,6 million	R37,4 million
Textiles	57	R30,9 million	R6,5 million	R24,4 million
Clothing	33	R10,0 million	R9,1 million	R0,9 million
Footwear	31	R12,0 million	R9,6 million	R2,4 million
Cellphones	3	R0,7 million	R0,7 million	–
MIDP (motor industry)	56	R32,2 million	R23,7 million	R8,5 million

Tax audits

Part of SARS's enforcement strategy is to ensure an audit presence among all tax and taxpayer types across the geographical span of South Africa. Coverage of the tax base must ensure an adequate presence in different sectors of the economy, segments and regions, while taking account of all tax types.

Previous performance targets emphasised assessment value, which led to high assessment values being achieved at the expense of coverage and quality. In this year, equal emphasis was placed on assessment value, number of cases finalised and cash collected from audits.

Figure 4.9

	2002/03	2003/04	2004/05
Total number of audits conducted	135 535	58 054	**60 378**
Rand value of assessments raised	R11,7 billion	R11,4 billion	**R9,4 billion**
Cash amount collected as result of audits	This was not measured during the relevant year	R2,6 billion	**R3,3 billion**
Hit rate	48%	52%	**46%**

The hit rate and assessment values were negatively affected by the increased number of mandatory audits that did not typically provide high yields. In addition, a single case in 2003/04 had an assessed value of R2 billion.

Improved compliance and risk reduction

(continued)

Additionally during 2002/03, the activity now known as "screening" required a cursory inspection of documents at face value but was recorded as a type of audit. This is no longer the case, which explains the apparent drop in audit figures.

Savings resulting from audits

Figure 4.10

	2004/05
Rand value of refunds reduced	**R1,3 billion**
Rand value of assessed losses	**R5,6 billion**

Filing season campaign – compliance focus

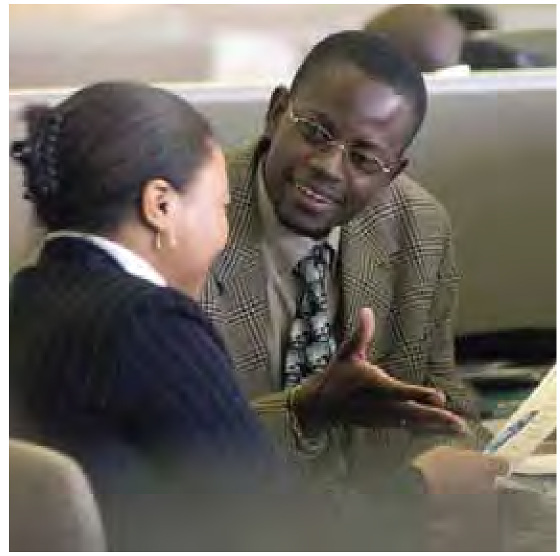
In the 2004 filing season, SARS focused on making taxpayers aware of the need to accurately claim travel allowances

This action was taken to reinforce earlier public comments made by the Minister of Finance and the Commissioner that SARS would clamp down on travel allowance irregularities during this period.

Some 2 335 cases were selected at random from individuals claiming travel allowances who had received refunds following their 2004 returns.

These audits yielded a non-compliance hit rate of 20%. Each non-compliant assessment yielded an average of R10 756 in additional revenue.

Reasons for non-compliance ranged from intentional misinformation to mistakes attributed to taxpayer ignorance. Certain accounting firms were consistently linked to many of these cases.



The most common forms of non-compliance were:

– Overstated kilometre readings (tax returns higher than odometer readings)

– Overstated cost price of vehicles (resulting in an increased deduction)

– Claims without a proper logbook to substantiate distances travelled

Enforcement Sector campaigns

The Enforcement division launched focused actions at those previously identified areas thought to be exposed to particular risk. These were the Western Cape property sector and the oil industry. An additional benefit derived from
these activities included the development of a better understanding of the risks associated with these industries.

These audits were conducted on the basis of intensive end-to-end routine audits based on industry risks. The auditors engaged with management prior to the audits when the companies' core business and value-chain was explained. Thereafter an audit plan was agreed. After the audits were completed the findings were discussed with management. Assessments were issued thereafter.

Three companies were audited during this year and resulted in the following:

Figure 4.11

	Assessments	Collected
Excise	R2,9 million	R2,6 million
VAT	R19 million	R19 million
PAYE	R99 million	R50 million
Income tax	R179 million	R66 million

Outstanding returns

The outstanding returns strategy began to focus on multiple offenders, which significantly improved our results.

Figure 4.12

	2003/04	2004/05
Total number of returns outstanding	5,4 million	6,1 million
Total number of returns collected	3,2 million	4,1 million

Outstanding debt

Although some enhancements were made during the year to the debt management tracking system, significant results can only be expected once the entire system is replaced, which should be toward the end of the next financial year.

Figure 4.13

	2002/03	2003/04	2004/05
Debt book value	R62,1 billion	R64,7 billion	R66,04 billion
Total debt collected	R17,2 billion	R22,5 billion	R23,5 billion

There was a slight increase in the growth of the debt book. It is expected that the new debt process will improve results in the next year.

Improved compliance and risk reduction

(continued)

Criminal prosecutions

Criminal Investigations handled the following cases in the year:

Figure 4.14

Investigations finalised and handed over for prosecutions	Cases successfully prosecuted during 2004/05	Backlog of cases awaiting trial on 1 April 2005	Cases successfully prosecuted during 2003/04
894	248	1 265	120

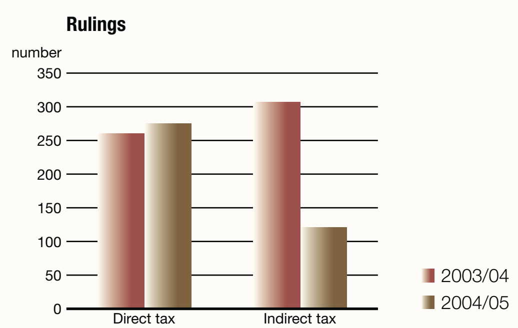
Because of the different way in which cases were recorded during the previous year, a direct comparison will not be useful.

Law Administration

Rulings

The Law Administration unit regularly issues rulings on certain transactions to provide certainty for taxpayers and promote compliance.

Figure 4.15



Ruling trends for direct taxes:

- Although BEE transaction rulings were few, these had the biggest overall impact on the national economy
- Corporate reorganisations and restructuring
- International transactions

Numbers of direct tax rulings remained largely consistent. Rulings on operational matters were referred back to SARS's operational units.

Indirect tax rulings mainly impacted:

- Foreign donor fund transactions
- Practicalities in requiring documents to substantiate VAT zero-ratings
- Loop supplies into South Africa through foreign intermediaries utilising South African suppliers, where VAT input credits may be lost to South African vendors
- Booking of local tours by foreign agents. These were treated as zero-rated, even though consumption takes place within South Africa
- Transfer duty property splits. Transactions to transfer artificially divided properties thereby undervaluing these properties
- VAT place of supply rules required clarification. Rulings provide certainty on VAT accountability for certain international transactions

Fewer indirect tax rulings were made, which stems from attempts to increase and improve capacity within the branch offices.

These were bolstered by high-level visits to 37 SARS offices throughout the country to clarify issues and inform of legislative amendments. Workshops were attended by over 1 300 SARS staff.

SARS At Your Service

Litigation

Litigation is the route to resolving legal disputes when all other avenues have been exhausted.

The following tables reflect cases brought before various courts such as the Tax Court, the High Court and the Supreme Court of Appeal. In this period no cases appeared before the Constitutional Court.

Tax Court cases

The number of cases actually appearing in the Tax Court during 2003/04 amounted to 38. In 2004/05 this figure dropped to 19. Tax Court cases are dropping as other dispute and settlement resolution processes take hold. The number of cases settled increased by 155%.

Figure 4.16

	2003/04		2004/05	
	Number	% of total	Number	% of total
Won	28	28	10	11
Withdrawn	22	21	18	21
Settled	23	22	49	56
Conceded	15	14	16	18
Lost	12	10	7	8
Total	**95**		**114**	
Pending	136		244	

High Court and Supreme Court of Appeal

In 2004/05 three more cases were heard than in 2003/04. This figure could have been much higher were it not for the increasing number of settlements occurring through quicker and more efficient dispute resolution processes.

Figure 4.17

	2003/04		2004/05	
	Number	% of total	Number	% of total
Won	8	47	10	26
Withdrawn	3	18	2	5
Settled	1	6	16	41
Conceded	–	–	5	13
Lost	5	29	6	15
Total	**17**		**39**	
Pending	15		21	

Excluding Customs cases, SARS won 60% of these cases and lost 40%.

Improved compliance and risk reduction

(continued)

Section 96 notices (notice of action and period for bringing action)

Figure 4.18

	2004/05	
	Number	**% of total**
Finalised without litigation	17	21%
Pending	63	79%

Section 96 notice figures were not recorded in previous years, thus no comparisons can be reflected.

Magistrate's Court (counterfeit goods)

Figure 4.19

	2004/05	
	Number	**% of total**
Won	150	75
Brand holder did not proceed	6	3
Settled	42	20,5
Conceded	2	1
Lost	1	0,5
Total	**201**	
Pending	124	

Comparative figures for 2003/04 are not shown as these were previously included in the Higher Court statistics, which are shown in Figure 4.20.

Customs total cases in the Higher Courts

Figure 4.20

	2003/04		2004/05	
	Number	**% of total**	**Number**	**% of total**
Won	97	64	6	30
Withdrawn	43	28	0	0
Settled	0	0	8	40
Conceded	7	5	3	15
Lost	5	3	3	15
Total	**152**		**20**	
Pending	271		152	

The figures for 2004/05 are substantially lower than the figures for 2003/04, as the 2003/04 figures included counterfeit matters that were dealt with in the Magistrate's Court. The counterfeit figures for 2004/05 are now reflected separately in Figure 4.19.

Significant judgments

Tax Court

- A judgment confirmed SARS's approach in taxing the receipts of illegal enterprises such as pyramid schemes. This supports the SARS view that the illegality of receipts cannot deny their taxability.
- An issue requiring a decision was whether the words "any law" in sections of the Income Tax Act refer to South African statutes only, or whether foreign laws are included in that definition. The Court confirmed the principle that, as a general rule, reference to the words "any law" in a South African statute means an enactment having legislative authority in South Africa, unless the statute expressly provides otherwise

Improved compliance and risk reduction

(continued)

Supreme Court of Appeal

- The matter concerning the deduction of an allowance in the case of the acquisition of a trademark was decided in favour of SARS. Its significance is that it provides binding case law that will assist with numerous trademark cases that have tied up large amounts of tax. The Supreme Court of Appeal, for the first time, also ruled on when property is of “a similar nature” to trademark and other devices
- A matter decided in favour of SARS confirms SARS’s previously highly contested view that investment (passive) income does not constitute income derived from trade against which assessed losses can be set off. The Supreme Court of Appeal confirmed the principle that an assessed loss can only be carried forward to the next year of assessment, if in that year income from trading was derived

Trends identified in Customs litigation

- Increase in counterfeit seizures: Despite the high number of seizures by Customs officials, the illegal importation of counterfeit goods remains high. It is also evident that these offences are repeatedly committed by the same companies
- Increasing forfeiture of vehicles and related equipment: In this year the number of detentions and/or seizures of trucks and trailers used to smuggle goods through border posts increased markedly

Alternative dispute resolution (ADR)

Figure 4.21 outlines matters dealt with during the dispute resolution process at Head Office level.

Appeals dealt with by head office alternative dispute resolution (ADR)

Figure 4.21

	2003/04		2004/05	
	Number	**% of total**	**Number**	**% of total**
Settled	42	31	91	42
Conceded by SARS	32	24	40	18
Withdrawn by taxpaper	13	10	21	10
Referred to litigation	48	35	65	30
Total	**135**		**217**	
Pending	143		210	

The use of ADR has increased by 82 cases compared to the previous year, indicating that growing numbers of taxpayers opt for ADR instead of going the formal litigation route. The number of cases settled has increased by 117%. This positive performance indicates the success of ADR. The potential number of cases not going the formal litigation route increased from 87 in 2004 to 152 in 2005. This has certainly expedited the quicker resolution of disputes.

Tax avoidance

Legislation was introduced to detect structured finance and other schemes in advance. Guidelines introduced during the year under review included, *inter alia,* guides on reportable arrangements and securitisations. Few reported transactions have been received to date. This is believed to be attributable to a drop in such transactions, and the use by certain taxpayers of hyper-interpretations of the legislation to avoid reporting transactions.

Conclusion

Our enforcement and compliance activities are becoming increasingly focused, with specific consideration given to a differentiated approach to different taxpayer types, segments and sectors. This approach is underpinned by continued enhancements to our business intelligence capability and risk models.

Targets set for the next year include:

- Reducing the debt book to 12% of revenue
- Reducing the numbers of outstanding returns by 50%
- Developing the synergies between customs and tax functions
- Embarking on more campaigns to increase compliance
- Increasing the risk-based audit success rate to 60%
- Further developing and adopting an equitable coverage model

Going forward, controls will be enhanced and soft enforcement actions migrated closer to where non-compliance can be caught earlier. Harder enforcement will be reserved for those entities that circumvent these controls and softer enforcement actions.

People

Highlights

- Placed in the top 10 of *Finance Week's* "Best company to work for" awards for two years running (2003 and 2004)
- Establishment of the SARS Academy
- Training partnership set up with the University of Canberra (Australia)
- Expansion of the graduate development programme
- Exceeded or met all employment equity targets

People

"SARS is about people – its employees and taxpayers"

People are central to SARS achieving its goals and mandate. It is the diverse talent, commitment and performance of our people that enables SARS to deliver outstanding results.

SARS people are identifiable by their passion for the business of SARS, their ownership of issues, their commitment to deliver and their ability to align with SARS strategy. Together, our strategy and culture is delivering substantial value to the continued development of South Africa.

A knowledge and learning organisation

SARS is a knowledge organisation and appropriately skilled people are crucial to our continued success.

Not only should SARS people be technically competent, they should also live the SARS core values, display a customer-centric and service oriented approach and be inspired to contribute to our nation-building.

The inculcation of a team culture is vital to the development of a learning organisation. The SARS Academy was specifically set up to ensure that SARS grows its internal talent and leadership through strategically aligned training and development initiatives. The Academy's founding proves that SARS is serious about developing its people and capacity. SARS remains committed to raising the bar on the integrity, skills and professionalism of its staff.

SARS has achieved its employment equity targets for 2004/05 and remains committed to the spirit and letter of the objectives of the Employment Equity Act.

SARS remuneration and benefits are designed to attract talent as well as reward people for consistently high performance.

SARS also strives to create a dynamic, healthy and caring environment for employees to work in, and has embarked on several strategies to improve our value proposition to our people. SARS again featured prominently in *Finance Week's* annual "Best company to work for" survey.

Skilling our people

Establishment of the SARS Academy

All SARS training initiatives and budgets have been consolidated into the SARS Academy, which opened its doors in August 2004. The Academy consists of the Schools of Leadership and Management; Customs; Enforcement; and Assessment and Service.

Skills development strategy

The establishment of the Academy has enabled SARS to launch a comprehensive skills development strategy that utilises all four academy schools.

This strategy is built on competence development frameworks that utilise recognised teaching modules such as the mastery model and team learning model. These ensure that students can successfully transfer their newly acquired skills into workplace competencies.

Ensuring effective training and development

The "Leader as Enabler" model ensures that SARS managers responsible for employee development adhere to effective learning practices.

National training plan

An extensive training needs analysis was completed during February 2005 in conjunction with consultations with stakeholders who could contribute on strategic and performance-related levels.

A business-aligned training plan for 2005/06 was consequently drawn up.

SARS will also continue to provide training for various revenue authorities in the region, including those of Lesotho, Zimbabwe, Malawi, Namibia and Rwanda. Closer to home, training was also provided to the National Prosecuting Authority and Scorpions to assist in the effective prosecution of tax offenders.

Training initiatives/partnerships

SARS has signed a memorandum of understanding (MOU) with the Centre for Custom Studies at the University of Canberra, Australia (CCES) to realise the following:

- To jointly develop and deliver a comprehensive programme of customs training and education. This programme may involve partnering with a local educational institution
- To maximise the level of articulation between the SARS and CCES training programmes
- To jointly explore opportunities to deliver customs training and education in southern Africa
- To permit SARS and CCES, with the other party's permission, to refer to the professional association between the two parties in public documents such as information brochures

The first of these cooperative initiatives was introduced this year, when seven customs trainers were enrolled in a pilot Graduate Certificate Programme in Customs. This course is being evaluated by experts who will identify areas where the learning material and processes can be enhanced.

Leadership development

In October 2004 a "Lessons in Leadership" programme was successfully broadcast via satellite to more than 250 management level personnel in three separate locations.

An accelerated management development programme is being developed and will be implemented in partnership with the leading business schools of South African universities in 2005/06.

An initiative to use satellite technology to deliver programmes is under way. This method will support blended-learning processes and cost effective delivery of learning to outlying centres.

Training delivery

The delivery of training is carefully monitored, as shown in Figure 5.1, which summarises training provided during the year ended 31 March 2005.

Employee training days for 2004/05

Figure 5.1

Category	Female	Male	Total
Core taxes	5 898	3 353	9 251
Functional	4 699	2 477	7 176
Systems	3 805	1 564	5 369
Computer	1 373	641	2 014
Leadership and soft skills	1 596	872	2 468
Other	1 029	698	1 727
Total days	**18 400**	**9 605**	**28 005**

Investment in training for 2004/05

Figure 5.2

	2004/05 R million
Direct costs	**61,6**
Indirect costs	**13,5**
Overheads	**9,1**
Development costs	**2,1**
Total	**86,2 (4,16% of payroll)**

Recruitment

During the 2004/05 financial year, 967 job positions were advertised internally, of which 232 were also advertised externally.

By year's end, 852 of these positions had been filled, of which 26 were rehires and 826 were new appointees. This total can be further broken down into 335 fixed term contracts, 504 permanent appointments and 16 trainees.

Graduate recruitment programme

A graduate recruitment drive has been launched to alleviate the critical shortage of suitably qualified staff and to boost SARS's efforts to employ a representative workforce.

Candidates with potential are identified from historically disadvantaged tertiary institutions and developed through intensive and comprehensive on-the-job training. Other objectives of this programme are to:

- Provide graduates with the opportunity to acquire skills and improve their employment prospects
- Assist SARS in meeting its staffing needs in critical and scarce skill areas by developing an entry-level pool of potential employees with the requisite skills

Graduate contracts range from one to three years, depending on business needs. Exceptional performers may be offered permanent employment through normal SARS recruitment and selection processes.

To date, SARS has employed 22 graduates, of which seven have since been taken into permanent employment. The success of this programme has persuaded SARS to significantly step up its graduate recruitment programme in the next financial year.

Equity in the workplace

Employee equity (EE) accomplishments

In terms of the Employment Equity Act No 55 of 1998, SARS submits an annual report on SARS's EE status to the Director-General of the Department of Labour. The salient features of the 2004/05 report are:

Analysis of workforce profile

Progress in black representation in SARS

Since March 2002 black representation has increased from 44% of the workforce to 56%, which is 6% higher than the target. White representation decreased by 12% over the same period.

For the period under review:

- The 56% black representation consists of 40% African employees, 10% Coloured employees and 6% Indian employees
- 87% of new appointments were black recruits, of which the majority was African (65%)

Figure 5.3

Black representation for the past three years

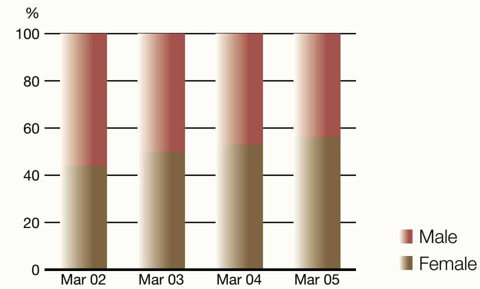
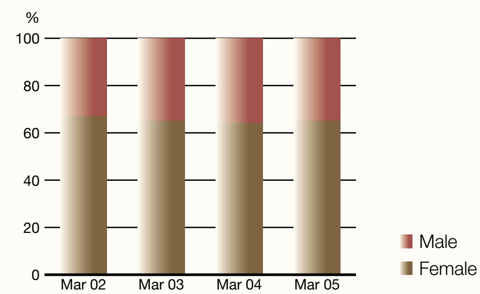


Figure 5.4

Female representation for the past three years



People (continued)

Black representation in SARS management

Figure 5.5 illustrates that, since March 2002, black management staff has increased by 12%, black supervisory staff by 22% and black general staff by 13%.

Figure 5.5

Organisational/staff level	Mar 02	Mar 03	Mar 04	Mar 05	Target 05
Management staff	39%	44%	47%	51%	50%
Supervisory staff	26%	36%	44%	48%	50%
General staff	45%	51%	55%	58%	50%
All staff	44%	50%	53%	56%	50%

Gender profile

SARS female representation is historically at higher levels than the required minimum standards.

- Black female representation increased since March 2002 from 36% to 50%
- Specific actions are being planned to achieve gender equity at SARS top management levels
- Of the 892 appointments made in 2004/05, some 61% were female

Disability workforce profile

At the end of the year under review 199 employees, or 1,5% of SARS's total workforce, comprised people with disabilities. We therefore considerably bettered our target of at least 1%.

Of this total, 30 people with disabilities were recruited externally. Customs employs 73% of SARS people with disabilities, while the call centres employ 23%.

SARS was able to increase its employment of people with disabilities by partnering with organisations such as the National Council for the Blind, which made 10 visually impaired people available for potential employment. Of these, SARS found seven suitable for training and appointment as call centre agents.

Establishing employment equity structures

The Employment Equity Act No 55 of 1998 obliges SARS as an employer to consult with its employees (or their nominated representatives) on the implementation of employment equity (EE) in the organisation.

To this end a national employment equity committee was established to help drive the EE process in SARS. This committee is consulted when conducting EE analyses, the preparation and implementation of EE planning, and the submission of EE reports to the Department of Labour.

Regional EE sub-committees are being established and will be fully functional in the new reporting year.

Communication and awareness

A summary of the SARS's 2004 Employment Equity Report was published in the SARS 2004 Annual Report, and also in booklets distributed to all SARS offices.

National EE Committee activities were communicated to the workforce via newsflashes. This committee also launched an online suggestion box for SARS employees to provide suggestions and comments.

SARS also held disability sensitisation workshops, which were attended by approximately 1 000 employees.

Wellness@Work

In the 2004/05 financial year, 1 192 employees (9,04% of the workforce) contacted the Wellness@Work programme.

These figures indicate a well-established programme as the recognised norm is about 10%. The SARS Wellness@Work website registered an average of 4 013 hits a month.

Statistics

The 24-hour wellness call centre was used by 2 603 individuals.

Face-to-face counselling was provided to 654 individuals.

Reasons given for using the service were:

- 73% – emotional (life event, work, family problems and depression)
- 7% – management referral
- 8% – legal
- 4% – financial

Promotion of Wellness@Work

New employees are briefed on the programme during their induction process into SARS. The fact that employees across the country, even in outlying areas, are using Wellness@Work shows that our internal communications strategy is proving effective.

Wellness@Work held sessions for various departments on request. Topics included:

- Improving mental energy
- Time management
- Handling family conflict
- The art of brainstorming
- Encouraging voluntary testing in the workplace
- Financial management
- Stress management
- Conflict management

HIV/Aids management

The organisation has instituted a programme called SARS Optimise that involves educating staff on HIV/Aids and the need to destigmatise people affected by HIV/Aids and other degenerative disorders.

SARS has contracted a service provider to perform an initial study on the impact of HIV/Aids. This study, scheduled for completion in July 2005, includes an absenteeism analysis and a demographic analysis.

The HIV/Aids campaign will commence in the 2005/06 financial year, with its initial rollout planned for the Eastern Cape, KwaZulu-Natal and Megawatt Park. The programme will include HIV/Aids awareness and voluntary counselling and testing (VCT).

Employee relations

SARS regards recognised worker representative bodies as important partners in our organisation, and continues to consult on issues involving mutual interests. SARS remains committed to improving employee relations and enhancing its relationship with organised labour wherever possible.

Collective bargaining

The collective bargaining process for 2004/05 was concluded successfully, and the parties agreed to a 6,75% across-the-board increase for grades 1 to 7. Increases for grades 8 and 9 also averaged 6,75%.

Terminations and disciplinary action

Terminations for the year under review

Figure 5.6

Nature of termination	
Advertised position	4
Cancellation of appointment	1
Contract expired	35
Death	37
Discharge: absconded	3
Discharge: ill health (incapacitated)	1
Discharge: misconduct	52
Dissatisfied with promotion operations opportunities	1
Early retirement	3
Employee request	9
Health reasons	2
Ill health (medical boarding)	23
Misconduct	6
Normal retirement 60 or 65	30
Operational reasons	1
Personal reasons	105
Preferential exit package	1
Resignation	338
Grand total	**652**

Disciplinary actions

SARS introduced a new disciplinary code and grievance procedure throughout the organisation this year. Disciplinary action was taken against 193 employees, primarily for absenteeism, misconduct and fraud. Three persons were dismissed for sexual harassment.

Conclusion

SARS is continuing to build capacity and upgrade the skills of its employees to meet the increasingly complex challenges of the future. We are establishing a comprehensive Employment Equity structure throughout the organisation, while our Wellness@Work has assisted many employees. Initial studies for a comprehensive HIV/AIDS management programme have been completed.

Transformation of SARS

Highlights

- Measurable improvement in service levels throughout SARS
- New business processes to simplify compliance for taxpayers
- Key service centres now offer “end-to-end” services
- Working environments and public areas have been upgraded
- A robust foundation for further SARS transformation has been laid
- A total of 7 552 employees were successfully re-assigned

Transformation of SARS

“Meeting the challenges of a growing economy”

In the late 1990s, an in-depth diagnostic survey of SARS found that the organisation lacked the capacity and culture of service to properly fulfill its mandate in a rapidly evolving society and economy. Most prominent among the many problems uncovered was the existence of inefficient, non-standardised processes and a need to transform its organisational culture.

Siyakha transformation programme

The Siyakha transformation programme was launched in 2000 to fundamentally reshape SARS into a 21st century organisation able to sustainably collect revenues and fulfill its responsibilities with optimum efficiency. This programme would need to address historic SARS inefficiencies, which included:

- A bureaucratic culture
- Lacking service culture and client facilities
- Inadequate understanding of – and attention to – the tax gap
- Inefficient processes and organisation of functions
- A workforce that didn’t match South Africa’s demographics

Siyakha planned outcomes

With problem areas clearly identified, Siyakha was designed to achieve the following outcomes:

- SARS to become outward and taxpayer focused
- To optimise the first time “end to end” resolution of taxpayer queries through an optimal mix of working environment, skills and technological enhancements
- To standardise processes, procedures, training material, technologies, interdependencies and operations across the business
- To create multi- functional teams across departments and functions
- To build compliance capacity and skills in line with the SARS compliance model
- To improve turnaround times
- To optimally co-locate customs and revenue activities where applicable

Transformation of SARS (continued)

Implementation of Siyakha

KwaZulu-Natal was chosen for Siyakha's initial roll-out. After a period of process redesign and planning, the rollout commenced in October 2001. Service, assessing and enforcement processes were examined and re-engineered before being introduced to the region's service and call centres.

In February 2003 the programme was implemented in the Western Cape, which had significantly more SARS offices to reorganise. The processes and lessons learned in KwaZulu-Natal were applied and further enhanced through new concepts and much improved process design applications.

In its third phase, commencing in March 2004, the Siyakha programme was launched in Gauteng, which generated further quantum leaps in process and front office – back office systems redesign that were subsequently implemented countrywide. These included revised assessment and debt procedures.

Siyakha is currently being introduced to the Eastern Cape, Free State, Limpopo, North-West and Mpumalanga. This programme, including new service, assessment and enforcement centres, is scheduled for completion by the end of 2005.

Transformation results from 2000 to 2005

To date Siyakha has positively transformed the SARS business model in terms of the following:

- Enhanced service offering and tax education
- Increased operational efficiency through standardising business processes
- Introducing segmentation exercises
- Establishing a better working environment
- Introducing a more appropriate organisational structure
- Providing a platform on which greater changes and innovations can be built

Staff transformation

Siyakha has provided an opportunity to improve race and gender representivity at all levels of the organisation. Since March 2001 black representation in the organisation grew from 40% to 53%. At management level black representation increased from 38% to 54% over the same period. Female representation at management level lifted from 36% to 48%.

Despite the obvious uncertainty created by the extensive staffing transfers and changes caused by Siyakha, the spirit and co-operation of our employees has been laudable. NEHAWU and PSA, the two main unions representing SARS employees, have been extremely valuable partners in this process.

The establishment of centralised capability

Dedicated assessment and enforcement centres were created to retain and leverage scarce expertise. These also enabled experience sharing among staff and introducing risk methods and audit systems that are standardised across all tax types.

Siyakha Training

Siyakha has generated major organisational and process improvements throughout SARS since its launch five years ago, which required the SARS team to consequently develop training manuals for all revised areas of SARS operations. These training manuals are made available to all SARS operational units through the SARS intranet. Other training interventions offered include:

- “Train the trainer” programmes
- Contract training, including “The Seven Habits, “Team Member”, “Team Leader” and “Specialist” courses.
- On the job training

The drive to improve Customs’ operational performance

Customs has reinvented itself over the past four years through initiatives such as Siyakha (2000/01), the Container Security Initiative (2002/03), Obsession (2003/04) and the Quality Operations Drive (2003/04).

Siyakha programmes have transformed 40 customs offices, with more than 2 000 customs officers being assigned to new roles in imports, exports, anti-smuggling and post clearance inspections teams.

These initiatives have built the foundation of a modern customs organisation that uses:

- Electronic interchanges
- A simplified process for large cargo clients
- A risk-based approach
- A significant anti-smuggling capability
- Cargo post-clearance inspections

Transformation of SARS (continued)

Upgraded infrastructure

A key facet of SARS's transformation is to create appropriate working environments for its employees and upgraded public areas for taxpayers and clients. The Siyakha team accordingly established a framework of infrastructure standards for:

- The look and feel of offices
- Finishing standards
- Space planning norms
- Furniture and equipment standards

Siyakha has regulated procurement for and the fit-out of SARS premises by founding an in-house team of infrastructure specialists and appointing lead contractors and associated professionals. Non-essential services such as office cleaning, security and courier services have been outsourced.

Siyakha achievements in 2004/05

Noteworthy successes reported for this period were:

- The Siyakha programme implemented new processes in the Johannesburg (customs and tax) branch office and assessment centre in April and August 2004 respectively
- In August 2004 new processes were introduced to the Randburg branch
- Infrastructure at the Megawatt Park complex was provided for the Central Enforcement Unit, National Outbound Call Centre, Gauteng West Enforcement Centre, Large Business Centre and SARS Academy
- New processes were implemented in the Gauteng West Enforcement Centre in October 2004

- SARS's service offerings were enhanced by multiple area access core systems upgrades implemented in February 2005
- The introduction of the "Duty at Source" provisions fundamentally changed the manner in which excise is administered by SARS
- By the end of the financial year, the Siyakha programme was able to place 7 552 staff members

Transformation: next steps

The first phase of the Siyakha programme of transformation was largely concluded on 1 November 2004, although some operations are continuing in the Eastern Cape, Free State, Limpopo, North West and Mpumalanga. These successes were consolidated to establish an organisational foundation upon which Siyakha 2 – the next phase of transformation projects – can be built. Siyakha 2 is scheduled to begin in August 2005.

The transformation to date has been geared to the creation of a stable, functioning organisation which will serve as a platform from which greater changes and innovation can be built. The imperative is now to build on the current solid base, to support the sustained efforts of Government to deliver on its broader goals today, and into the future. While SARS has fulfilled its primary mandate in the first decade of democracy, there are a number of areas requiring further improvements that will position SARS to effectively operate in the ever changing environment. Five transformational outcomes have been identified that form the crux of the SARS transformation programme.

SARS transformational outcomes

- Better taxpayer and trader experience
- Improved compliance and risk reduction
- Enhanced human capacity
- Heightened border security
- Greater operational efficiencies.

In achieving these outcomes, SARS continues to strive towards a greater outward looking focus, appropriate automation, increased proactive taxpayer engagement, as well as becoming an agency serving the whole of Government.

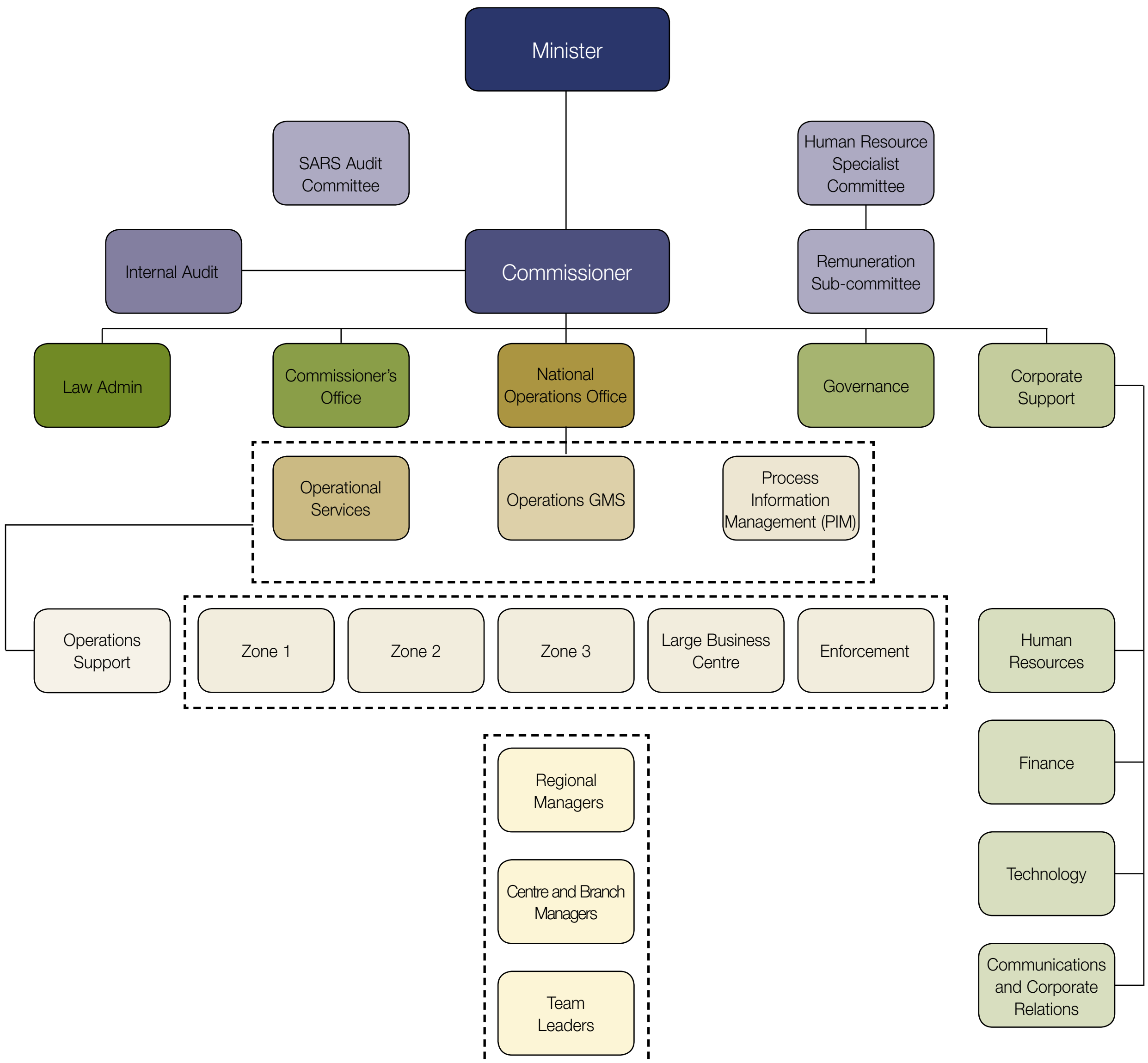
In the build up towards the second series of change, SARS aims to reposition itself to support the SA Government expenditure programmes and initiatives leading up to 2010 and beyond. SARS is further challenged by delivering increasingly demanding revenue targets with minimal increase in its cost of delivery. Therefore SARS will require innovation to achieve breakthrough growth through innovative strategy development and implementing sound processes to track and implement these ideas (from idea generation to execution).

Governance

Highlights of the year

- SARS established a governance unit
- Internal Audit completed a total of 72 planned audits and 25 *ad hoc* audits
- The Auditor-General was able to place reliance on the work of the Internal Audit unit for the first time
- A Risk Management Committee was established to continuously assess risk
- A SARS ethics office and an Ethics Committee were established

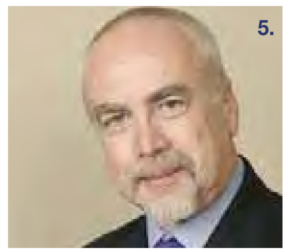
SARS organisational structure



General managers

respect

trust



honesty

integrity

transparency

openness

fairness

1. Kosie Louw, *Law Administration;* **2. Ivan Pillay,** *Enforcement;* **3. Vuso Shabalala,** *Operations: Zone 1;* **4. Edward Kieswetter,** *Large Business Centre;* **5. Peter Richer,** *Risk Management;* **6. Thandi Mabaso,** *Operations: Zone 3;* **7. Ken Jarvis,** *Chief Information Officer;* **8. Mbongeni Manqele,** *Transformation Director;* **9. Itumeleng Matsheka,** *Communications and Corporate Relations;* **10. Brenda Hore,** *Process Information Management (PIM);* **11. Prakash Mangrey,** *Finance;* **12. Leonard Radebe,** *Operations Services;* **13. Thinus Marx,** *Operations: Zone 2*

Entrenching governance throughout SARS

Good governance

The South African Revenue Service (SARS) is a public sector enterprise falling under the Public Finance Management Act No 1 of 1999 (as amended) (PFMA) and the South African Revenue Service Act No 34 of 1997 (SARS Act). SARS recognises the significance of good governance, which is crucial for effective public services and improved social outcomes. SARS is committed to ensuring good governance throughout the organisation and observing the principles of the King Report on Corporate Governance for South Africa – 2002 (King II Report) where possible within the parameters of public sector legislation.

Governance unit

During this year SARS established a governance unit for the specific purpose of further entrenching good governance throughout the organisation.

Governance structures

SARS was founded by the SARS Act as an organ of state by the SARS Act in the public administration, but as an institution outside the public service. The SARS governance structures are informed by the SARS Act, the PFMA, National Treasury Regulations and the King II Report.

Management

SARS is headed by the Commissioner, who is its Chief Executive Officer and Accounting Authority [PFMA 49(2); SARS Act 9(1)(d)]. The President of South Africa appoints the Commissioner for an agreed term not exceeding five years, but which is renewable (SARS Act 6 (1) and (2)). Mr Pravin Gordhan, the current Commissioner, was appointed to serve a second five-year term by President Thabo Mbeki in 2004.

The Commissioner is accountable to the Minister of Finance, Mr Trevor Manuel, who is the Executive Authority. The Commissioner is assisted by an extended Executive Committee (Exco), which consists of all the General Managers. The extended Exco is in turn supported by two sub-committees, namely a Management Committee (Manco) and an Operational Committee (Opsco).

The extended Exco is chaired by the Commissioner. Among the extended Exco's duties is proper governance of SARS, providing strategic advice to the Commissioner and maintaining open communications with SARS management. The Minister of Finance meets with Exco regularly.

Organisational governance (continued)

The members serving on the extended Executive Committee for the period under review were:

- Pravin Gordhan (Chief Executive Officer and Accounting Authority)
- Brenda Hore
- Ken Jarvis
- Edward Kieswetter
- Kosie Louw
- Thandi Mabaso
- Prakash Mangrey
- Mbongeni Manqele
- Thinus Marx
- Itumeleng Matsheka
- Ivan Pillay
- Leonard Radebe
- Peter Richer
- Vuso Shabalala
- Shirley Zinn (resigned from SARS with effect 15 July 2005)

The Manco and Opsco have the following functions:

– *The Management Committee (Manco)*: meets monthly to manage and track SARS's performance against the business plan. Manco is in turn supported by various sub-committees that include, among others, procurement, project prioritisation, enterprise-wide risk management, planning and budget, employment equity and strategic IT governance. These sub-committees have clear objectives and a proper allocation of responsibilities.

– *The Operations Committee (Opsco):* meets weekly, monthly and quarterly to ensure the execution of operational plans.

Committees

The SARS Act makes provision for the establishment of specialist committees to advise the Commissioner and the Minister on any matter concerning the management of SARS resources.

The following external committees have accordingly been constituted:

– Audit Committee

– Human Resource Specialist Committee, including the Remuneration sub-committee.

Audit Committee

The SARS Audit Committee was established in terms of section 51(1)(a)(ii) of the PFMA and section 27.1.1 of the Treasury Regulations, which task the Accounting Authority (the Commissioner) with establishing an audit committee as a sub-committee of the Accounting Authority.

The Audit Committee operates in terms of written terms of reference, which deals with its membership, authority and responsibilities and takes cognisance of the PFMA, Treasury Regulations, SARS Act as well as the King II Report on governance.

SARS At Your Service

Membership

Members and record of attendance at Audit Committee meetings:

Figure 6.1

Member	Date of meeting			
	16 April 04	20 Aug 04	22 Oct 04	28 Jan 05
Sizwe Nxasana (chairperson) *BCompt (Hons); CA(SA);* *Chief Executive Officer, Telkom SA Ltd*	✓	✓	✓	✓
Dillip Garach* *MCom; CA(SA); CFP;* *Professor in Accountancy at University of KwaZulu-Natal*	✓	✓	✓	✓
Mustaq Brey *BCompt Hons; CA(SA);* *CEO Brimstone Investment* *Corporation Ltd*	✗	✓	✓	✓
Berenice Lue-Marais *MBA International Finance;* *Head: CSIR Business Development* *& Key Stakeholder Management*	✓	✓	✓	✓

**Also member of Remuneration sub-committee*

All the members of the Audit Committee are non-executive members. The composition of the Audit Committee members is such that all Treasury Regulations requirements are met in terms of financial literacy and independence. All members, in accordance with the SARS Act, give a declaration at each Audit Committee meeting of any personal or financial interests that may conflict with their duties in this regard. The Finance Minister must concur with the premature termination of services of a member of the Audit Committee.

Authority

The Audit Committee operates within the parameters of its written terms of reference. The Audit Committee is provided with the resources it needs to fulfil its duties and has full access to information it may require. All information provided to the Audit Committee must be safeguarded within the ambit of the law.

Organisational governance (continued)

Responsibilities and scope of functions

The committee's responsibilities and functions include the review of:

– The effectiveness of SARS internal control systems
– The effectiveness of SARS internal audit function
– The risk areas of SARS operations to be covered in the scope of internal and external audits
– The adequacy, reliability and accuracy of financial information provided to management and other users of such information
– Any accounting and auditing concerns identified as a result of internal and external audits
– SARS compliance with legal and regulatory provisions
– The activities of the internal audit function, including its annual work programme; coordination with the Auditor-General; reports of significant investigations and the responses of management to specific recommendations

For the year under review, the Audit Committee has fulfilled all the requirements in terms of its responsibilities and functions as per the PFMA and Treasury Regulations.

Human Resource Specialist Committee

The Human Resource Specialist Committee was established in terms of section 11(2) of the SARS Act to advise:

– the Minister on matters concerning the terms and conditions of employment of any class of employees in the management structure of SARS, as agreed between the Minister and the Commissioner; and

– the Commissioner on any matters concerning the terms and conditions of employment of all employees of SARS, other than employees contemplated above.

Scope of work

During the year under review the committee made recommendations and gave direction in respect of the following:

– The annual human resources business plan and strategy
– The interim performance management system
– Remuneration issues
– The code of ethics policies, which include policies on gifts and conflict of interests
– Advice on the need for the creation of a leadership succession plan for the organisation's top management
– Committee's report to the Minister of Finance on human resources issues

– Committee's year planner based on reflections from the previous year and expectations for the coming year
– The organisational structure as well as the retention of key personnel in the organisation
– Pertinent management information including staff establishment, absenteeism and employment equity

In this year SARS management provided a report to the committee on the status of the transformation programme.

Membership

The committee comprises five non-executive members, of which two members and a member of the Audit Committee also comprise its Remuneration sub-committee.

Members and record of the Human Resources Specialist Committee attendance at meetings:

Figure 6.2

Member	Date of meeting			
	16 April 04	25 June 04	29 Oct 04	10 Dec 04
Ms Judy Parfitt (Chairperson)	✓	✗	✓	✓
Mr Lionel Human	✓	✓	✗	✓
Mr Mike Olivier*	✓	✓	✓	✓
Mr Adolf Maphutha	✓	✓	✓	✓
Ms Elizabeth Thebe*	✗	✓	✓	✓

**Also member of Remuneration sub-committee*

The members of the Remuneration sub-committee are Mike Olivier (chairperson), Dillip Garach and Elizabeth Thebe. Dillip Garach is also an Audit Committee member.

Internal Audit

Introduction

The SARS Internal Audit unit was established in terms of section 51(1)(a)(ii) of the PFMA, whereby the Accounting Authority (the Commissioner) must ensure that SARS has and maintains a system of internal audit under the control and direction of an Audit Committee. The formally defined scope of "Internal Audit" is to evaluate and improve the overall effectiveness of risk management, control and governance processes. This scope accords to the parameters of the Treasury Regulations and the Institute of Internal Auditors. The purpose, authority and responsibility of the Internal Audit function is formally defined in its audit charter, as approved by the Audit Committee and the Commissioner (Treasury Regulations 27.2.5). The Head of Internal Audit is required to be independent and objective, therefore reports directly to the Commissioner and has unrestricted access to the chairperson of the Audit Committee.

Management

The investigation of the suspended general manager was finalised during December 2004, after which he was dismissed. The unit was restructured during the year to ensure better accountability and a more hands-on approach with a new management team being appointed towards the end of 2004. The acting head of Internal Audit since December 2003, Ms Liezel Samuel, was formally appointed as its new head early in April 2005.

Operations

The division's audit plan for the 2005/06 year (as required by Treasury Regulations 27.2.7) was drawn up using a risk-based approach and approved by 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 to assist the Audit Committee to discharge its responsibilities in terms of Treasury Regulations 27.1.8. Internal Audit also provides the Audit Committee with a quarterly report, detailing its performance against the approved audit plan to allow for effective monitoring as well as other operational activities. Significant audit findings are reported to the Commissioner on an on-going basis.

Internal Audit completed a total of 72 planned audits and 25 *ad hoc* audits during the year under review The Auditor-General was able to place reliance on the work of the Internal Audit unit for the first time, which meant a saving on the usual external audit fee.

In addition to its audit projects, Internal Audit also provided consulting services through attending the meetings of different tender evaluation committees,

the SARS Enterprise-Wide Risk Management Committee and the monthly Auditor-General Steering Committee. Internal Audit also developed and completed a high level and detailed governance framework based on the King II Report. The framework also accords with the requirements of the PFMA and Treasury Regulations.

An electronic working paper and planning tool implemented towards the end of the year provided significant benefits in terms of operational efficiency. The audit quality control process also received increased attention, and this focus will continue into the 2005/06 year. Internal Audit will continue to build its operational efficiencies through the ongoing training of its staff.

In this year under review Internal Audit fulfilled all requirements in terms of its responsibilities and functions as detailed in the PFMA and Treasury Regulations.

Risk management

In delivering on its mandate to the public and its service delivery objectives, SARS has to contend with a variety of internal and external challenges. SARS's ability to deliver effectively, therefore, depends on identifying and assessing specific events that could affect the discharge of its responsibilities. It then becomes necessary to decide what can be done to avoid, mitigate or manage potential risks identified. For this process of risk management to be effective it must be embedded in all activities as a fundamental part of day-to-day operational management.

The Risk Management division was accordingly established during the 2003/04 financial year to oversee all risk management activities in SARS. An Enterprise-Wide Risk Management Committee is now operational, its members being the general managers of the business units or their nominees. The Risk Committee is a sub-committee of the Management Committee (Manco), with the purpose of assisting the SARS extended Exco and Manco to discharge their risk management responsibilities. The Risk Management Committee meets once a month.

To ensure that risk management is formalised and enhanced, the unit developed an enterprise-wide risk management framework consisting of policy, methodology and risk governance structures to continuously assess risk. This framework formalises risk management throughout the organisation and ensures clear accountability for the process. Risk management is now a regular agenda item on Audit Committee meetings.

This framework has obtained its first level approval by the Risk Committee. Divisional risk management coordinators have been appointed in all business units to coordinate risk management activities.

Ongoing risk management processes will highlight areas where more or less controls are needed. It also covers SARS tax products/services and assists in understanding the inherent risks in each.

Risk Management has acquired specialised software to facilitate the reporting and monitoring of risks throughout the organisation, as well as providing an enterprise-wide view of risk. Business unit risk registers are being implemented for all operations and support areas to ensure that this continuous process of risk identification and assessment operates to plan. These risk registers will be regularly reviewed and updated. From now on business plans issued by any SARS unit must include an assessment of key risks facing it. This will embed risk management as an integral part of day-to-day operational management.

SARS has made significant progress in building a robust risk management programme. With this solid foundation laid, future activities will focus more on business intelligence processes designed to improve risk assessment and training for risk awareness. Going forward, risk management outputs will be further integrated into Internal Audit, business and project planning processes.

Sustainability Reporting

SARS is fully aware of and endorses the global trend toward including sustainable development issues into business reporting.

Ethics

Chapter 3 of the King Report on Corporate Governance for South Africa – 2002 (King II) discusses ethical practices and organisational integrity. To paraphrase, it defines organisational ethics as the principles, norms and standards – in accordance with established values – within which organisations act internally, and interact with external stakeholders. Business decisions and actions are made in accordance with defined behaviours.

King II goes on to say that the organisation's integrity can be measured by the extent to which it measures up to its own established ethical standards.

The ethics of an organisation can have a substantial impact on the levels of fraud and of trust in an organisation. Organisations should not only try to minimise incidents of unethical behaviour, but aim to promote ethical behaviour.

Added to the requirements and principles of King II in respect of ethical and social aspects, senior management recognised that SARS's modernisation and transformation goals will never be realised if fraud and corruption is accepted as an inevitable aspect of organisational life. The eradication of fraud and corruption in the organisation was therefore made a key SARS priority and a major aspect of its transformation efforts.

The organisation's anti-fraud and corruption strategy is a comprehensive approach in the fight against fraud and corruption. It utilises four pillars designed to provide the necessary tools to prevent, detect and deter fraud and corruption.

These four pillars are:

- An ethics framework so that a good ethical environment is nurtured and maintained
- An integrity framework so that the organisation limits its exposure to unscrupulous employees and vendors/suppliers
- A control framework so that an effective control environment is maintained to limit opportunities for fraud and corruption and to punish transgressors
- Building strategic relationships with various stakeholders in the fight against fraud and corruption

SARS management and employees are required to observe the highest ethical standards in the conduct of their business, as incorporated in the formal SARS

Ethics Code of Conduct. A SARS ethics office and an Ethics Committee were established during the 2004/05 financial year. The head of the ethics office reports to the General Manager Risk Management, while the Ethics Committee is a sub-committee of the Enterprise-Wide Risk Management Committee.

The SARS ethics office comprises three units: Ethics, Integrity and Internal Corruption Investigation.

The Ethics Unit monitors compliance to policies, norms and the ethics code of conduct. This unit is also responsible for ethics awareness campaigns, which will receive increased emphasis in the coming year. These awareness campaigns will, for example, be included in the induction training of all new employees. SARS has also obtained declarations of private interests from all senior staff members.

The Integrity Unit is responsible for pre-employment screening of potential staff members as well as vetting of existing employees. This unit plans to implement vendor vetting in line with section 16A.8 of the Treasury Regulations requirements.

The Internal Corruption Unit investigates internal corruption and fraud, as well as external tax and customs fraud when SARS personnel are involved. The reporting of fraud and corruption is facilitated through the SARS hotline and suspicious activity reports. Systems and procedures are in place to discipline unethical behaviour.

Social

SARS recognises its role and the contribution it can make to the reconstruction and strengthening of the South African society. Various initiatives have been implemented to give effect to this:

Employees

That SARS is a knowledge-based organisation means that our people are all-important in achieving our mandate and goals. SARS's managing of its human capital is discussed in the "People" section of this report.

Transforming the workforce

As of March 2005, SARS is exceeding its target of black and female representation in terms of staff totals and numbers of management staff.

Unveiling of the SARS Academy

All SARS training has now been consolidated and reinforced through the newly opened SARS Academy.

Wellness and HIV/Aids

The employee wellness programme "Wellness@Work" aims to improve the efficiency and morale of SARS employees by helping them achieve and sustain wellness in all facets of their lives. SARS has embarked on a national strategy to prevent HIV/Aids among employees and to manage its impact on the workplace.

Organisational governance (continued)

Communities

Black economic empowerment (BEE)

The SARS BEE policy was implemented in June 2004. Our supplier database was verified and suppliers classified as per the BEE Act into three categories: black enterprise; black-empowered enterprise and black women owned enterprise. Our overall BEE spend for the year to March 2005 was 40,6% of our total procurement spend. **SARS's preferential procurement strategies are an ideal vehicle for advancing BEE enterprises and black professionals.** Having established this solid foundation, the challenge for the forthcoming year is to advance the gains made and further empower black women owned enterprises.

Community involvement

Besides its primary revenue-collecting role, SARS helps develop South Africa and its people by getting involved in corporate social investment (CSI) projects.

Corporate social investment (CSI) projects for this year included:

- Diyang Disability Care Centre
- Pumlani Project – abandoned and disabled children
- Taleni Home Care Nursing
- Leaogetswe Safety Home for Children
- South African National Council for the Blind – call centre operators
- Sifundzekhaya Primary School – desks and computers

Environmental

SARS is committed to sustainable development, with an increased emphasis on the environment. Although we believe that SARS's core business activities have a relatively low environmental impact, it is self-evident that hazardous materials do enter and leave South Africa

through our entry and exit points. Customs officials are being briefed on the guidelines of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) guidelines and are on the watch for smuggling of endangered animals or plants.

SARS compliance with legislation

The South African Revenue Service Act, 1997 (Act No 34 of 1997) (SARS Act) was published in Government Gazette No 18257 on 5 September 1997 and came into operation on 1 October 1997.

SARS exists in terms of this SARS 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."

In terms of section 2 of the SARS Act the South African Revenue Service (SARS) was established as an organ of State within the public administration, but as an institution outside the public service. SARS, therefore, became an autonomous revenue service in terms of its own Act with a certain level of control and flexibility over its own resources. SARS furthermore 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 objective (mandate) of SARS in terms of section 3 is the:

- efficient and effective collection of revenue
- control over the import, export, manufacture, movement, storage or use of certain goods

Acts and legislation that SARS administers according to the SARS Act (Schedule 1 to the Act) are as follows:

1. Union and Southern Rhodesia Death Duties Act, 1933 (Act No 22 of 1933)
2. Transfer Duty Act, 1949 (Act No 40 of 1949)
3. Estate Duty Act, 1955 (Act No 45 of 1955)
4. Income Tax Act, 1962 (Act No 58 of 1962)
5. Customs and Excise Act, 1964 (Act No 91 of 1964)
6. Stamp Duties Act, 1968 (Act No 77 of 1968)
7. Value-Added Tax Act, 1991 (Act No 89 of 1991)
8. Tax on Retirement Funds Act, 1996 (Act No 38 of 1996)
9. Uncertificated Securities Tax Act, 1998 (Act No 31 of 1998)
10. Skills Development Levies Act, 1999 (Act No 9 of 1999)
11. Unemployment Insurance Contributions Act, 2002 (Act No 4 of 2002)
12. Any regulation, proclamation, government notice or rule issued in terms of the above-mentioned 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:

1. Basic Conditions of Employment Act (Act No 75 of 1997)
2. Labour Relations Act (Act No 66 of 1995)
3. Employment Equity Act (Act No 55 of 1998)
4. Public Finance Management Act (Act No 1/29 of 1999)
5. Promotion of Access to Information Act (Act No 2 of 2000)
6. Promotion of Administration Justice Act (Act No 3 of 2000)

Conclusion

Introducing the new Governance and Ethics units has considerably strengthened corporate governance structures within SARS.

Financial statements

Highlights of the year

- Unqualified audit report for Administered Revenue for the year ended 31 March 2005
- Unqualified audit report for Own Accounts for the year ended 31 March 2005

Audit Committee Report

Report of the SARS Audit Committee for the year ended 31 March 2005

The Audit Committee reports in terms of Treasury Regulations 27.1.7 and 27.1.10. These require the committee to report whether it has adopted formal terms of reference and whether it has fulfilled its responsibilities in compliance with those terms of reference. These also require the committee to report on the effectiveness of internal controls and to evaluate the financial statements.

The Audit Committee thus operates in terms of approved terms of reference, which determine its membership, authority and responsibilities. For the year under review, the SARS Audit Committee considers that it has satisfied its responsibilities in compliance with the terms of reference.

INTERNAL CONTROLS

The well managed rollout of the SAP system impacted positively on the own accounts control environment. At the same time, the continued, accelerated rollout of Siyakha, together with the associated re-engineering of the business process, are expected to have a positive effect on the administered revenue control environment.

All systems of internal control have unavoidable inherent limitations such as the possibility of human error and their susceptibility to circumvention. Internal controls in SARS have improved over the past years as management has demonstrated a commitment to address and resolve issues raised by the Internal Audit division and the Auditor General.

While there is still room for improvement in the SARS control environment, the committee is pleased to acknowledge the improvements of the past years.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements for the year ended 31 March 2005 for both administered revenue and own accounts were considered and approved by the Audit Committee on 19 August 2005.

Sizwe Nxasana

19 August 2005

Administered Revenue

31 March 2005

Contents

The attached annual financial statements were approved and signed by:

Pravin Gordhan

P Gordhan

Commissioner

27 July 2005

Audit report on Administered Revenue

for the year ended 31 March 2005

AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE: ADMINISTERED REVENUE FOR THE YEAR ENDED 31 MARCH 2005

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 111 to 123, for the year ended 31 March 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), read with sections 4 and 20 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). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the South African Revenue Service (SARS): Administered Revenue at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA).

4. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

4.1 Matters affecting the financial statements

4.1.1 In-bond entries and related internal controls

Cognisance is taken of the improvement of controls in the In Bond Acquittal System (IBAS). However, there were still shortcomings in the controls relating to in-bond entries and temporary imports, which were not acquitted in good time because existing policies and procedures were not adequately followed.

As a consequence of the above, approximately 50 000 documents (2003/04: 49 471) had not been acquitted nationally for SARS as at 31 March 2005. The process of clearing the aforementioned entries will be audited and, if necessary, reported on in the 2005/06 audit report.

The potential revenue in the form of duties that may have been levied on non-acquittals and penalties, which were not always issued on late acquittals for the 2004/05 financial year, could be material. However, the amount thereof was not readily determinable.

4.2 Matters not affecting the financial statements

4.2.1 Debtors

The financial statements were prepared on the cash basis of accounting. In terms of section 91(1)(b) of the PFMA, the Minister of Finance prescribed the standards of generally recognised accounting practice (GRAP), as set by the National Treasury, for the annual financial statements of SARS.

In terms of the requirements of GRAP as promulgated on 30 October 2001, the annual financial statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the public entity.

SARS obtained approval on 4 July 2005 from the Accountant-General to not disclose operating receivables and payables as part of the annual financial statements for 2004/05. It was approved that operating receivables and payables could be disclosed as information to the financial statements only and would therefore not form part of the financial statements on which I express an audit opinion. This information is contained on pages 120 to 122 of the annual report.

Notwithstanding the above approval and the fact that concerted efforts have been made by SARS on the debtors book in recent years, various control weaknesses, due to management policies and procedures not being adequately followed, were identified during the branch audits. These weaknesses included, amongst others, the incomplete and inaccurate recording of debtors and long outstanding debts not properly followed up or written off.

4.2.2 Risk management

As part of the risk management policy of SARS, the Enforcement and Customs divisions annually set targets for monetary values, number of cases to be inspected or audited and success (hit) rates.

SARS continued towards refining its risk management policy and achieved certain nationally set targets for both the Enforcement and Customs divisions for the 2004/05 year.

The risk-based approach and the resulting interventions are regarded as an important control tool during the audits of the different control environments. It is therefore important that internally set performance targets are achieved at all the different levels. In this regard it was found that the set targets for examinations at the Customs BLNS border posts were in a number of instances not achieved due to shortcomings in infrastructure and inconsistent application of procedures.

Achieving targets at all levels would enhance the reliance that can be placed on them as a compensating control measure during the performance of control-based audits during branch visits.

4.2.3 Tax evasion

Attention is drawn to note 1.3 of the accounting policy in which SARS acknowledged that incidences of tax evasion and other breaches of taxation laws affected its fiduciary responsibilities. This report does not include a review of measures put in place by SARS to address this matter.

4.2.4 Performance audit

A performance audit of the management of anti-smuggling teams (AST) within the customs environment at SARS was conducted during the 2004/05 financial year.

Notwithstanding the fact that this is still a relatively new functionality, which has improved in outputs since its inception, the following findings, amongst others, need to be mentioned:

- Problems were being experienced with the traffic flow system (TFS) after its implementation. The TFS has as its objective the enhancement of control over access at a port of entry/exit (PoE) and to comply with obligatory legislative requirements.
- Only one scanner, which was non-operational for a substantial portion of the year, was in use at Durban harbour.
- The primary role and focus of the AST is to detect and curtail the activities that are not beneficial to the economical growth of South Africa. However, in an analysis made it was determined that the focus of 8 of the 17 operational teams was rather revenue driven.

AUDITOR-GENERAL

In the comments from the accounting officer, which addressed all the findings of the audit, the following pertaining to the abovementioned matters was communicated:

- The TFS functionality was a pilot project only, which, because of its significant shortcomings, was now intended to be included in a broader passenger and vehicle control system.
- SARS embarked on an initiative to eventually implement 18 container scanners (first of which is due during 2006).
- A Framework of Standards has been developed, with the intent of taking this aspect to the next level, where the focus would be on predominantly visible policing and economical and social protection.

5. APPRECIATION

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

S. A. Fakie

Auditor-General

Pretoria

28 July 2005

AUDITOR-GENERAL

Statement of financial position

as at 31 March 2005

	Notes	2005 R'000	2004 R'000
ASSETS			
Accumulated administered assets		**318 968**	**413 925**
Current assets			
Cash and cash equivalents	2	**7 358**	10 080
Other assets	3	**6 922**	8 060
Total assets		**333 248**	**432 065**
LIABILITIES			
Current liabilities			
Bank	4	**333 016**	432 065
Other liabilities	5	**232**	—
Total liabilities		**333 248**	**432 065**

Statement of financial performance

for the year ended 31 March 2005

	Notes	2005 R'000	2004 R'000
Taxation		**360 622 755**	**307 918 385**
Income tax	6	**195 219 114**	171 962 773
Value added tax/Sales tax	7	**98 157 875**	80 681 755
Fuel levy		**19 350 474**	17 197 271
Excise duties		**14 081 837**	12 380 727
Customs duties		**12 888 364**	8 479 415
Other taxes	8	**10 177 482**	8 067 350
Unemployment Insurance Fund (UIF)		**5 911 015**	5 403 043
Skills development levy		**4 443 296**	3 896 435
Road Accident Fund (RAF)		**502 879**	—
Air passenger tax		**412 176**	367 163
Universal service fund		**99 848**	26 745
Plastic bag levy		**41 214**	—
Ordinary levy		**103**	591
Diesel refunds		**(662 922)**	(544 883)
Non-taxation		**6 498 996**	**6 644 087**
Departmental receipts		**6 062 933**	6 382 022
Customs miscellaneous revenue	9	**397 227**	(65 728)
Provincial administration receipts	10	**51 057**	72 259
Mining leases and ownership		**2 226**	64 958
Non-tax revenue	11	**(14 447)**	190 576
TOTAL REVENUE		**367 121 751**	**314 562 472**
***Less:* South African Customs Union Agreement**			
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	12	**13 327 791**	9 722 697
NET REVENUE FOR THE YEAR		**353 793 960**	**304 839 775**

Statement of change in net assets

for the year ended 31 March 2005

	2005 R'000
ADMINISTERED ASSETS	
Balance at 31 March 2003	**99 352**
Net gains and losses not recognised in the statement of financial performance	**314 573**
Net revenue for the year	**(304 839 775)**
Transfer to the National Revenue Fund	**305 154 348**
Balance at 31 March 2004	**413 925**
Net gains and losses not recognised in the statement of financial performance	**(94 957)**
Net revenue for the year	**(353 793 960)**
Transfer to the National Revenue Fund	**353 699 003**
Balance at 31 March 2005	**318 968**

Cash flow statement

for the year ended 31 March 2005

	Notes	2005 R'000	2004 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from operating activities	13	**367 123 121**	**314 567 412**
Taxation		**360 624 126**	307 923 325
Non-taxation		**6 498 996**	6 644 087
Cash transferred		**(367 026 794)**	**(314 877 045)**
Payments in respect of Customs Union Agreement		**(13 327 791)**	(9 722 697)
Cash to National Revenue Fund		**(353 699 003)**	(305 154 348)
Net cash (transferred)/retained from operations		**96 328**	**(309 633)**
Cash and cash equivalents at beginning of period		**(421 985)**	**(112 352)**
Cash and cash equivalents at end of period	14	**(325 658)**	**(421 985)**

1. ACCOUNTING POLICIES

1.1 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.

In the absence of definitive norms and standards for complying with generally accepted accounting practice for a revenue administration, agreement was reached with the Accounting Standards Board in terms of section 89(1)(a)(ii) of the PFMA that SARS will progressively comply as the relevant standards are developed.

Standards of generally recognised accounting practice were promulgated in terms of Government Notice No R.1095 on 30 October 2001. These standards still apply.

In terms of this regulation revenue is represented by gross collections banked net of refunds. Refunds are represented by cheques raised (issued) or the raising of electronic refunds. Uncashed refund cheques and monies received and banked on behalf of any national department or any provincial government, which have not been allocated, are reflected in the statement of financial position.

Stale cheques are written back to income while subsequent claims in respect thereof are treated as drawbacks from current revenue collections. Electronic refund and payment rejections are accounted for per bank statement date.

1.2 Revenue recognition

1.2.1 Definition of revenue

Revenue means all taxes, levies, duties, fees and other monies collected by SARS for the National Revenue Fund.

1.2.2 Recognition of revenue

Revenue is recognised on the cash basis when payments are received and banked. This recognition of revenue has been extended to include all monies collected by the South African Post Office Limited which has not yet been paid over to SARS.

South Africa is the administrator of the Southern African Customs Union Agreement. All collections in respect of the Common Customs Union are included in the statement of financial performance as revenue according to the nature of the collection (duties, excise, etc) while refunds made to member countries are disclosed separately.

1.3 Revenue not recognised – tax evasion

SARS acknowledges that its fiduciary responsibilities to the Government are unavoidably affected by the incidence of tax evasion and other breaches of the taxation laws by individuals and entities who have a legal obligation to the Government. No assertion, either implicit or explicit, is made in the financial statements that all such transactions have been brought to account.

1.4 Cash and cash equivalents

Cash includes cash on hand and cash at bank. These items are used in the cash management function of the central government on a day-to-day basis. SARS does not have any term loan or bank overdraft facilities. All balances at the major banks participating in the cash management function of central Government are cleared to central Government on a daily basis.

	2005 R'000	2004 R'000
2. CASH AND CASH EQUIVALENTS	**7 358**	**10 080**
Receiver of Revenue (cash on hand)	6 940	9 998
Main control account – regional offices	418	82
3. OTHER ASSETS	**6 922**	**8 060**
South African Post Office Limited (VAT)	3 918	4 644
South African Post Office Limited	2 384	2 669
Provincial administration	581	706
Accounts receivable	39	41

The provincial debtor of R581 415 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.

4. BANK

Bank primarily comprises cheques issued but not yet presented for payment amounting to R516 497 654 (R500 738 180: 2003/04). The remaining amount of R183 481 644 (R68 672 246: 2003/04) relates to net reconciling items.

	2005 R'000	2004 R'000
5. OTHER LIABILITIES	**232**	**–**
Accounts payable	232	–
6. INCOME TAX	**195 219 114**	**171 962 773**
Pay as you earn	106 719 196	94 592 507
Persons, individuals and companies	76 606 724	66 339 686
Secondary tax on companies	7 487 073	6 132 930
Tax on retirement fund industry	4 406 121	4 897 650
7. VALUE ADDED TAX/SALES TAX	**98 157 875**	**80 681 755**
Value added tax	98 157 875	80 682 448
Sales tax	–	(693)

	2005 R'000	2004 R'000
8. OTHER TAXES	**10 177 482**	**8 067 350**
Transfer duties	**7 114 629**	5 172 062
Marketable securities tax	**1 365 902**	1 101 147
Stamp duty	**1 138 602**	1 329 758
Estate duty	**506 914**	417 130
Master fees	**29 053**	30 328
Donations tax	**25 189**	17 131
Levy on financial services	**(2 807)**	(206)
9. CUSTOMS MISCELLANEOUS REVENUE	**397 227**	**(65 728)**
Customs miscellaneous revenue	**390 535**	(63 705)
Revenue in respect of other departments	**6 692**	(2 023)
10. PROVINCIAL ADMINISTRATION RECEIPTS	**51 057**	**72 259**
Provincial administration consolidated account	**51 057**	72 259

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.

	2005 R'000	2004 R'000
11. NON-TAX REVENUE	**(14 447)**	**190 576**
State fines and forfeitures	**115 482**	196 146
State licences	**998**	1 494
State miscellaneous revenue	**(130 927)**	(7 064)

During the 2004/05 financial year, a significant amount of prior periods Payfin SMR entries have again been resolved and consequently reduced it to a debit balance of R130 927 167. Of the R130 927 167 balance, R2 817 849 represents net revenue received by SARS during 2004/05 which cannot be allocated to specific revenue types. The write back of stale cheques and other miscellaneous revenue items are also accounted for in the balance of R130 927 167.

	2005 R'000	2004 R'000
12. PAYMENTS IN TERMS OF CUSTOMS UNION AGREEMENT		
Contributions to the Common Customs Pool	**26 970 202**	**20 860 141**
Namibia	**186 493**	172 394
Botswana	**162 531**	161 104
Lesotho	**98 459**	69 787
Swaziland	**28 940**	49 838
Sub-total	**476 423**	**453 123**
South Africa	**26 493 779**	20 407 018
Received from the Common Customs Pool	**26 970 202**	**20 860 141**
Botswana	**4 336 711**	3 387 608
Namibia	**4 206 768**	3 035 612
Swaziland	**2 771 908**	1 877 778
Lesotho	**2 012 404**	1 421 699
Sub-total	**13 327 791**	**9 722 697**
South Africa	**13 642 411**	11 137 444
13. RECONCILIATION OF NET REVENUE FOR THE YEAR TO TOTAL CASH RECEIVED		
Net revenue for the year		
Adjusted for:	**353 793 960**	304 839 775
Payments in terms of Customs Union Agreement	**13 327 791**	9 722 697
(Increase)/decrease in other assets	**1 138**	4 942
Increase/(decrease) in other liabilities	**232**	(2)
Total cash received	**367 123 121**	**314 567 412**
14. CASH AND CASH EQUIVALENTS IN RESPECT OF CASH FLOW STATEMENT	**(325 658)**	**(421 985)**
Cash and cash equivalents	**7 358**	10 080
Bank	**(333 016)**	(432 065)

15. SURETIES

(i) Lien – Sanlam shares

3 233 818 (3 403 389 – 2003/04) Sanlam shares with a market value of R39 258 551 (R31 311 179: 2003/04) are held in respect of amounts owing by 4 813 (5 015: 2003/04) taxpayers at 31 March 2005.

(ii) Lien – Old Mutual shares

2 282 600 (752 400 – 2003/04) Old Mutual shares with a market value of R35 836 820 (R8 810 604: 2003/04) are held in respect of amounts owing by 2 988 (1 562: 2003/04) taxpayers at 31 March 2005.

(iii) Guarantees

Guarantees issued in favour of SARS amounting to R85 212 184 (R89 996 769: 2003/04) are held as security for various taxes payable.

Guarantees issued by financial institutions in favour of SARS amounting to R3 455 501 982 (R2 897 175 763: 2003/04) are held as security for various duties payable.

16. WRITE-OFF OF IRRECOVERABLE DEBT

Irrecoverable debt in respect of administered taxes to the amount of R2 290 920 227 (R1 916 502 007: 2003/04) has been written off on or prior to 31 March 2005. 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 R71 367 125 has been written off on or prior to 31 March 2005. A comparative figure for 2003/04 is not available. Amounts still awaiting approval for write-off do not form part of actual write-offs.

OPERATIONAL RECEIVABLES AND PAYABLES (2004/05 AND 2003/04)

TAXES

OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2005

2004/05	1 – 3 months Rands	4 – 6 months Rands	7 – 8 months Rands	9 months > Rands	Interest Rands	Total debt Rands	New debt Rands	Total check Rands
Income tax	1 787 111 258	1 549 297 203	419 642 463	16 837 512 892	9 223 611 735	29 817 175 551	3 339 509 748	33 156 685 299
Individuals	718 276 894	485 995 171	201 663 548	7 992 121 935	3 884 314 234	13 282 371 783	1 488 278 303	14 770 650 087
Trusts	67 629 540	30 501 805	14 886 556	194 041 503	120 836 312	427 895 716	172 120 982	600 016 698
Companies	1 001 204 824	1 032 800 227	203 092 359	8 651 349 454	5 218 461 188	16 106 908 053	1 679 110 462	17 786 018 515
PAYE	475 917 223	763 666 376	303 658 249	9 010 204 168	—	10 553 446 016	220 617 246	10 774 063 262
VAT	395 962 157	573 118 580	321 792 382	20 442 582 333	—	21 733 455 452	359 377 698	22 092 833 150
STC	96 067 971	32 394 526	17 220 819	866 599 598	403 878 185	1 416 161 099	14 526 180	1 430 687 279
Sub-total	**2 755 058 609**	**2 918 476 685**	**1 062 313 913**	**47 156 898 992**	**9 627 489 920**	**63 520 238 118**	**3 934 030 872**	**67 454 268 990**
Diesel	—	—	—	—	—	8 391 225	—	8 391 225
SDL	—	—	—	—	—	535 010 981	—	535 010 981
UIF	—	—	—	—	—	678 851 387	—	678 851 387
Total	**2 755 058 609**	**2 918 476 685**	**1 062 313 913**	**47 156 898 992**	**9 627 489 920**	**64 742 491 711**	**3 934 030 872**	**68 676 522 583**

OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2004

2003/04	1 – 3 months Rands	4 – 6 months Rands	7 – 8 months Rands	9 months > Rands	Interest Rands	Total debt Rands	New debt Rands	Total check Rands
Income tax	1 606 183 523	1 816 967 363	353 246 699	13 752 801 993	7 891 774 421	25 420 973 999	7 981 351 334	33 402 325 333
Individuals	592 069 744	950 549 684	178 957 347	6 691 490 855	3 226 782 935	11 639 850 565	1 619 532 847	13 259 383 412
Trusts	53 795 638	12 138 349	4 220 415	125 438 878	88 324 759	283 918 039	155 093 730	439 011 769
Companies	960 318 141	854 279 330	170 068 937	6 935 872 260	4 576 666 727	13 497 205 395	6 206 724 757	19 703 930 152
PAYE	947 585 802	884 596 897	458 111 281	8 245 898 126	—	10 536 192 106	65 156 987	10 601 349 093
VAT	627 866 163	434 827 949	294 209 597	18 921 843 305	—	20 278 747 014	473 368 505	20 752 115 519
Total	**3 181 635 488**	**3 136 392 209**	**1 105 567 577**	**40 920 543 424**	**7 891 774 421**	**56 235 913 119**	**8 519 876 826**	**64 755 789 945**

Note

STC, Diesel, SDL and UIF not available in respect of 2003/04 and were therefore not disclosed.

OUTSTANDING CREDITS (PAYABLES) AS AT 31 MARCH 2005

2004/05	Total credits Rands
Assessed tax	(6 234 789 586)
Provisional tax	—
Income tax	**(6 234 789 586)**
PAYE	(20 423 592 898)
Returns not received	9 356 539 879
PAYE	**(11 067 053 019)**
VAT	(11 658 469 001)
Returns not received	5 815 907 983
VAT	**(5 842 561 018)**
Sub-total	**(23 144 403 623)**
Diesel	(127 965 131)
UIF	(949 566 100)
SDL	(918 325 186)
STC	(923 695 565)
Total	**(26 063 955 604)**

OUTSTANDING CREDITS (PAYABLES) AS AT 31 MARCH 2004

2003/04	Total credits Rands
Assessed tax	(2 476 188 506)
Provisional tax	—
Income tax	**(2 476 188 506)**
PAYE	(19 696 547 612)
Returns not received	9 245 151 258
PAYE	**(10 451 396 354)**
VAT	(10 307 111 348)
Returns not received	5 042 345 651
VAT	**(5 264 765 697)**
Sub-total	**(18 192 350 557)**
STC	(321 018 563)
Total	**(18 513 369 120)**

DUTIES

OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2005

2004/05	Debt	Interest	Total	Current not due	Total check
	Rands	Rands	Rands	Rands	Rands
Customs duty	482 615 166	197 310 403	679 925 569	40 465 538	720 391 107
Value added tax	259 236 514	77 052 934	336 289 448	7 643 763	343 933 211
Surcharge	6 190 471	5 147 309	11 337 780	—	11 337 780
Fuel levy	36 048 638	16 773 069	52 821 707	124 977	52 946 684
P2A – excise duty	71 663 789	26 698 299	98 362 088	159 122	98 521 210
P2B – ad valorem	54 158 020	14 361 169	68 519 189	1 105	68 520 294
Penalties	77 537 525	—	77 537 525	384 853	77 922 378
Forfeiture	672 684 458	—	672 684 458	1 635 403	674 319 861
Unallocated	(3 268)	—	(3 268)	(20 944 943)	(20 948 211)
Total	**1 660 131 313**	**337 343 183**	**1 997 474 496**	**29 469 818**	**2 026 944 314**

OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2004

2003/04	Debt	Interest	Total check
	Rands	Rands	Rands
Customs duty	451 847 808	144 161 372	596 009 180
Value added tax	238 502 874	46 176 829	284 679 703
Surcharge	6 764 522	2 392 064	9 156 586
Fuel levy	20 971 744	673 205	21 644 949
P2A – excise duty	69 367 784	18 720 541	88 088 325
P2B – ad valorem	59 669 108	14 213 079	73 882 187
Penalties	94 450 291	—	94 450 291
Forfeiture	638 291 021	—	638 291 021
Unallocated	(1 594 560)	—	(1 594 560)
Total	**1 578 270 592**	**226 337 090**	**1 804 607 682**

Note

"Current not due" and "Total check" not available in respect of 2003/04 and were therefore not disclosed.

Note

Operational receivables and payables of SARS are regarded as material. It is presented as additional information, was not audited and no opinion has been expressed thereon. The information on the receivables and payables was extracted on the cash basis of accounting.

WRITE-OFFS

	2004/05	2003/04
PAYE	**131 242 008,61**	91 842 788,63
Penalty	**9 460 203,10**	7 085 623,82
Interest	**37 115 379,96**	25 105 356,93
Total PAYE	**177 817 591,67**	**124 033 769,38**
UIF	**567 287,48**	5 958,38
Penalty	**48 010,58**	519,69
Interest	**55 248,18**	514,40
Total UIF	**670 546,24**	**6 992,47**
SDL	**1 257 642,72**	244 317,39
Penalty	**107 736,71**	19 776,88
Interest	**194 289,13**	37 773,34
Total SDL	**1 559 668,56**	**301 867,61**
VAT	**604 299 928,94**	736 998 700,31
Add VAT	**319 255 584,56**	149 017 122,64
Penalty	**72 712 422,40**	50 404 821,25
Interest	**422 031 295,42**	369 297 047,47
Total VAT	**1 418 299 231,32**	**1 305 717 691,67**
Income tax	**477 476 066,52**	345 756 806,44
Penalty	**214 680 724,12**	336 948,98
Interest	**416 398,10**	140 347 930,15
Total income tax	**692 573 188,74**	**486 441 685,57**
Customs	**71 367 125,00**	
Total Customs	**71 367 125,00**	
Total PAYE	**177 817 591,67**	124 033 769,38
Total UIF	**670 546,24**	6 992,47
Total SDL	**1 559 668,56**	301 867,61
Total VAT	**1 418 299 231,32**	1 305 717 691,67
Total income tax	**692 573 188,74**	486 441 685,57
Total taxes	**2 290 920 226,53**	**1 916 502 006,70**
Total Customs	**71 367 125,00**	
Grand total	**2 362 287 351,53**	**1 916 502 006,70**

Note

A comparative figure for 2003/04 in respect of write-off of irrecoverable customs debt is not available.

Own Accounts

31 March 2005

Contents

The attached annual financial statements were approved and signed by:

Pravin Gordhan

P Gordhan
Commissioner

22 July 2005

Audit report on Own Accounts

for the year ended 31 March 2005

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 2005

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 127 to 146, for the year ended 31 March 2005 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), read with sections 4 and 20 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). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

AUDITOR-GENERAL

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the South African Revenue Service – Own Accounts at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999).

4. APPRECIATION

The assistance rendered by the staff of South African Revenue Service – Own Accounts during the audit is sincerely appreciated.

S. A. Fakie

Auditor-General

Pretoria

31 July 2005

AUDITOR-GENERAL

Report by the SARS Accounting Authority

for the year ended 31 March 2005

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 2005. Specific reference has been made to Administered Revenue where applicable, alternatively all other statistics quoted are for Own Accounts.

The South African Revenue Service (SARS) was established in terms of the South African Revenue Service Act, 1997 (Act No 34 of 1997) as an organ of the State within the public administration, but as an institution outside the public service. It is listed as a national public entity in Schedule 3A of the Public Finance Management Act, 1999 (PFMA).

In terms of the SARS Act, 1997, the Commissioner for South African Revenue Service is the Chief Executive Officer and Accounting Authority of SARS.

2. EXECUTIVE MEMBERS

The members serving on the extended Executive Committee for the period under review were:

- Pravin Gordhan (Chief Executive Officer and Accounting Authority)
- Brenda Hore
- Ken Jarvis
- Edward Kieswetter
- Kosie Louw
- Thandi Mabaso
- Prakash Mangrey
- Mbongeni Manqele
- Thinus Marx
- Itumeleng Matsheka
- Ivan Pillay
- Leonard Radebe
- Peter Richer
- Vuso Shabalala
- Shirley Zinn

3. ORGANISATIONAL STRUCTURE

During the year under review the Commissioner announced a review of the organisational structure of SARS through the Re mmogo (“we are together”) programme, the main difference being the creation of geographic zones with associated structures which will be responsible for all tax types.

Refer to the official organogram in the Annual Report page number 91.

4. PRINCIPAL ACTIVITIES

The SARS Act of 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 maximise 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	2005	2004
Revenue	18,8	**4 265 483**	3 590 759
– Grant	21,4	**4 037 289**	3 326 322
– Interest	(38,9)	**77 866**	127 493
– Other revenue	9,8	**150 328**	136 944

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 revenue consists mainly of commissions earned from acting as the agent for the Department of Labour in collecting Unemployment Insurance Fund (UIF) contributions 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 (loss)/surplus for the year for the entity was as follows:

	% change	2005	2004
Balance accumulated surplus on 1 April		**1 039 295**	1 011 354
Net (loss)/surplus for the year	(265,3)	**(46 178)**	27 941
Balance accumulated surplus at 31 March	(4,4)	**993 117**	1 039 295

ADMINISTERED REVENUE

The net revenue for the year was R353 793 960 (2004: R304 839 775). 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 collected for the year. The net revenue is the amount collected after deduction of payments made to the South African Customs Union. The operating expenditure for Administered Revenue is provided for in the Own Accounts budget.

	% change	2005	2004
Total revenue	16,7	**367 121 751**	314 562 472
SA Customs Union agreement	37,1	**(13 327 791)**	(9 722 697)
Net revenue	16,1	**353 793 960**	304 839 775

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)

Capital and reserves

Capital and reserves consist mainly of the initial capital reserve on establishment of SARS and the reserve created on initial valuation of its assets. For the period under review no amounts were charged to or transferred from the reserves.

The accumulated surplus will change in line with the operational results for the year (2005: R993 117/2004: R1 039 295).

Assets

For the period under review SARS has continued to invest in selected categories of assets to achieve its strategic objectives.

8. PUBLIC-PRIVATE PARTNERSHIPS

The entity is currently undertaking a project for the procurement and implementation of non-intrusive scanning technology for Customs. During the period of reporting, SARS progressed with phase 3 of the PPP life cycle and obtained Treasury approval IIA. This comprised the compilation of bid documents as well as a draft PPP agreement.

Tenders were invited during the first quarter of 2005. Subject to a successful tender process and subsequent approvals, it is anticipated to have the first scanner operational by June 2006.

9. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

The Accounting Authority is not aware of any matters or circumstances since the end of the financial year, not otherwise dealt with in the annual financial statements, which significantly affect the financial position of the entity or the results of its operations.

10. STAKEHOLDER RELATIONS

For the period under review the South African Revenue Service has continued its endeavours to encourage improved voluntary compliance with South African tax laws by engaging with and educating its various stakeholders and public.

The role of the corporate relations office (CRO) has centred on engaging and influencing stakeholders both through the CRO's own activities as well as by providing a framework for stakeholder interaction and relationship management between SARS and other organisations.

SARS will be moving towards a policy guideline on stakeholder relations to help offices to communicate and coordinate effectively on stakeholder engagement and management in the future.

11. SOCIAL RESPONSIBILITY

CRO handles and manages the implementation of SARS's corporate social investment (CSI) programme. Through this programme several initiatives have been launched to demonstrate SARS's commitment to support the upliftment and empowerment of people. To this end CSI has embarked on programmes which have benefited the following causes:

(a) Joint ventures with the Department of Education in several provinces for the donation of refurbished personal computers.

(b) Through the programme called "Re a Thusa" (We are helping) employees are encouraged to engage in team work for charity organisations.

(c) The donation of SARS redundant furniture to Healdtown College near Fort Beaufort.

(d) A donation of R16 762 to Ilitha Labantu, a Western Cape community organisation which strives to end violence and abuse against women and children in disadvantaged communities in the Western Cape. SARS will also be partnering Ilitha Labantu's Youth Development Programme.

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 Muckleneuck	Pretoria	Nieuw Muckleneuck
0181	0001	0181

Addresses for SARS's other offices are available from SARS.

Balance sheet

as at 31 March 2005

	Notes	2005 R'000	2004 R'000
ASSETS			
Non-current assets		**510 421**	**504 096**
Property, plant and equipment	3	510 421	504 096
Intangible assets	4	–	–
Current assets		**1 167 133**	**994 126**
Trade and other receivables	5	33 015	47 129
Cash and cash equivalents	6	1 134 118	946 997
Total assets		**1 677 554**	**1 498 222**
CAPITAL, RESERVES AND LIABILITIES			
Capital and reserves		**1 073 783**	**1 119 961**
Asset revaluation reserve	7	48 302	48 302
Capital reserve on establishment	8	32 364	32 364
Accumulated surplus		993 117	1 039 295
Current liabilities		**603 771**	**378 261**
Trade and other payables	9	396 792	214 343
Provisions	10	206 979	163 918
Total capital, reserves and liabilities		**1 677 554**	**1 498 222**

Income statement

for the year ended 31 March 2005

	Notes	2005 R'000	2004 R'000
REVENUE	11	**4 265 483**	**3 590 759**
EXPENSES		**4 311 654**	**3 562 807**
Administrative expenses		**874 300**	691 514
Depreciation	3	**226 462**	157 864
Amortisation	4	**–**	18 527
Miscellaneous expenses		**9 642**	10 848
Personnel expenses		**2 504 892**	2 209 619
Professional and special services		**696 358**	474 435
(Loss)/profit from operations	12	**(46 171)**	**27 952**
Finance cost	13	**7**	11
Net (loss)/profit for the year		**(46 178)**	**27 941**

Statement of changes in capital and reserves

for the year ended 31 March 2005

	Asset revaluation reserve R'000	Capital reserve on establishment R'000	Accumulated surplus R'000	**Total R'000**
Balance at 1 April 2003	**48 302**	**32 364**	**1 011 354**	**1 092 020**
Net surplus for the year	—	—	27 941	27 941
Balance at 31 March 2004	**48 302**	**32 364**	**1 039 295**	**1 119 961**
Net loss for the year	—	—	(46 178)	(46 178)
Balance at 31 March 2005	**48 302**	**32 364**	**993 117**	**1 073 783**

Cash flow statement

for the year ended 31 March 2005

	Notes	2005 R'000	2004 R'000
CASH FLOWS FROM OPERATING ACTIVITIES		**422 581**	**279 105**
Net (loss)/surplus for the year		**(46 178)**	27 941
Adjustments for:			
Depreciation	3	**226 462**	157 864
Amortisation	4	**–**	18 527
Loss/(profit) on sale of assets and scrapping of intangible assets		**2 673**	(280)
Operating surplus before working capital changes		**182 957**	**204 052**
Working capital changes		**239 624**	**75 053**
Decrease/(increase) in accounts receivable	5	**14 114**	(4 145)
Increase in accounts payable	9 & 10	**225 510**	79 198
Cash generated from operations		**422 581**	**279 105**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	3	**(237 497)**	(384 623)
Proceeds from sale of property, plant and equipment		**2 037**	1 821
Increase/(decrease) in cash and cash equivalents		**187 121**	**(103 697)**
Cash and cash equivalents at beginning of year		**946 997**	**1 050 694**
Cash and cash equivalents at end of year	6	**1 134 118**	**946 997**

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 Presentation of annual financial statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The principal accounting policies are set out below and are consistent with previous years.

2.2 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 revenues. The annual grant and any additional grants that pertain to expenditure not budgeted for are accounted for when they accrue.

Interest income is accrued on a time basis by reference to the principal outstanding and the interest rate applicable.

2.3 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 14.

2.4 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.

2.5 Retirement benefit plans

Current contributions on behalf of employees to the Government Employees Pension Fund, which is a defined benefit plan, are charged to the income statement in the year to which they relate. No provision is made for post-retirement benefits as this obligation vests with the national Government.

The entitlement to these benefits is usually dependent on the employee remaining in service up to a minimum retirement age and the completion of a minimum service period.

Refer to note 19 for details regarding the actuarial valuation method used to determine the fund's financial health.

2.6 Property, plant and equipment

2.6.1 Property, plant and equipment was revalued on 1 April 2000. Subsequent additions to property, plant and equipment are capitalised at cost.

The assets were valued on the following basis:

2.6.1.1 Motor vehicles were valued at the trade value of each vehicle per the Auto Dealers' Guide for March 2000;

2.6.1.2 Furniture and fittings and office equipment were counted, bar-coded and valued at a fair value per item counted. The fair value is based on a comprehensive database maintained by the specialist consultants that were used at the time;

2.6.1.3 Computer equipment was counted, bar-coded and valued at a fair value per item counted. The fair value is based on advice from specialist consultants.

2. STATEMENT OF ACCOUNTING POLICIES *(continued)*

2.6 Property, plant and equipment *(continued)*

2.6.2 Depreciation is provided on all property, plant and equipment to write down the cost or valuation less estimated residual value by equal instalments over their economic lives as follows:

Cabling infrastructure	5 years
Computers (mainframe)	5 years
Computers (personal and printers)	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
Prefabricated buildings	5 years
Security equipment	5 years
Software (mainframe)	3 years
Software (personal computers)	3 years
Vehicles	5 years

2.6.3 Fixed property consists of land and improvements thereto for occupation by employees.

Fixed property is recognised at its initial cost and is revalued every three years by recognised professional valuers to net realisable open market value for existing use.

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 income statement.

2.7 Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from in-house developed software is recognised only if the following conditions are met:

– an asset created can be identified;

– it is probable that the asset created will generate future economic benefits; and

– the development cost of the asset can be measured reliably.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Internally generated assets are amortised on a straight-line basis over their useful lives, which is no more than three years.

2.8 Financial assets and liabilities

Financial assets

SARS's principal financial assets are cash and cash equivalents, which comprise bank balances, cash on hand and receivables.

Receivables are stated at their nominal value as reduced by appropriate provisions for estimated irrecoverable amounts.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Significant financial liabilities include trade and other payables.

Trade and other payables are stated at their nominal value.

3. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment R'000	Computer software R'000	Fixed property R'000	Furniture, fittings and office equipment R'000	Lease-hold improve-ments R'000	Security equipment R'000	Motor vehicles R'000	Low value assets R'000	**Total R'000**
For the year ended 31 March 2005									
At cost or valuation									
Opening balance – 1 April 2004	569 294	204 654	365	43 241	72 984	14 046	75 209	113 601	1 093 394
Additions	92 945	21 195	—	14 779	78 398	317	10 977	18 886	237 497
Disposals	(16 004)	—	—	(210)	—	—	(3 162)	(6 103)	(25 479)
Scrappings	(89 122)	(15)	—	(2 850)	—	(1 484)	(3 566)	(38 521)	(135 558)
Closing balance – 31 March 2005	557 113	225 834	365	54 960	151 382	12 879	79 458	87 863	1 169 854
Accumulated depreciation									
Opening balance – 1 April 2004	354 658	49 673	—	16 430	5 825	5 308	43 803	113 601	589 298
Charge for the year	102 211	69 276	—	7 836	15 997	2 767	9 489	18 886	226 462
Disposals	(16 002)	—	—	(167)	—	—	(3 054)	(6 103)	(25 326)
Scrappings	(86 054)	(15)	—	(2 223)	—	(949)	(3 239)	(38 521)	(131 001)
Closing balance – 31 March 2005	354 813	118 934	—	21 876	21 822	7 126	46 999	87 863	659 433
Carrying amount – 31 March 2005	**202 300**	**106 900**	**365**	**33 084**	**129 560**	**5 753**	**32 459**	**—**	**510 421**

3. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Computer equipment R'000	Computer software R'000	Fixed property R'000	Furniture, fittings and office equipment R'000	Lease-hold improve-ments R'000	Security equipment R'000	Motor vehicles R'000	Low value assets R'000	**Total R'000**
For the year ended 31 March 2004									
At cost or valuation									
Opening balance – 1 April 2003	437 451	44 571	365	136 776	27 915	13 910	61 996	—	722 984
Additions	150 939	160 799	—	7 453	45 069	797	19 566	—	384 623
Write-offs on change in estimate	(14 889)	(691)	—	(100 265)	—	(162)	—	—	(116 007)
Scrappings	(2 475)	(20)	—	(718)	—	(499)	—	—	(3 712)
Disposals	(1 732)	(5)	—	(5)	—	—	(6 353)	—	(8 095)
Closing balance – 31 March 2004	569 294	204 654	365	43 241	72 984	14 046	75 209	—	979 793
Accumulated depreciation									
Opening balance – 1 April 2003	311 206	15 353	—	72 515	—	2 915	42 117	—	444 106
Charge for the year	61 768	35 027	—	44 481	5 825	2 780	7 983	—	157 864
Write-offs on change in estimate	(14 889)	(691)	—	(100 265)	—	(162)	—	—	(116 007)
Scrappings	(1 942)	(14)	—	(300)	—	(225)	—	—	(2 481)
Disposals	(1 485)	(2)	—	(1)	—	—	(6 297)	—	(7 785)
Closing balance – 31 March 2004	354 658	49 673	—	16 430	5 825	5 308	43 803	—	475 697
Carrying amount – 31 March 2004	**214 636**	**154 981**	**365**	**26 811**	**67 159**	**8 738**	**31 406**	**—**	**504 096**

Furniture and fittings and office equipment also include garden equipment, kitchen equipment, laboratory equipment and prefabricated buildings.

Reclassification of assets

An amount of R42,022 million included in additions for the year ended 31 March 2004 represents a reclassification from a current asset (prepayments) to a non-current asset (computer equipment).

Computer equipment (desktops and notebooks) was ordered and paid for in March 2004. This was classified as a prepayment.

The computer equipment forms part of the XP roll-out project that upgrades and replaces, where necessary, all computer equipment in SARS to meet the latest technological standards.

For security and cost reasons the computer equipment was stored by the supplier until installation date.

The computer equipment does not meet the criteria of a current asset and can therefore not be classified and disclosed as a current asset (prepayment); the amount was therefore reclassified as a non-current asset and is disclosed as part of the computer equipment class.

	2005 R'000	2004 R'000
4. INTANGIBLE ASSETS		
In-house developed software		
At cost or valuation	–	**73 227**
Opening balance	–	73 227
Additions	–	–
Accumulated amortisation	–	**73 227**
Opening balance	–	54 700
Charge for the year	–	18 527
Carrying amount	–	–
Development costs are capitalised if they comply with the requirements of AC129.		
5. TRADE AND OTHER RECEIVABLES		
Staff accounts receivable	8 725	8 550
Less: Provision for doubtful debts	7 012	3 544
	1 713	**5 006**
Government departments	27 976	33 122
Refundable deposits	2 860	8 760
Other receivables	466	142
Prepayments	–	99
	33 015	**47 129**
6. CASH AND CASH EQUIVALENTS		
Bank balances and cash comprise cash and short-term, highly liquid investments that are held with registered banking institutions that are subject to insignificant interest rate risk. The carrying amount of these assets approximate their fair value.		
Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Bank balances	1 133 794	218 125
Short-term investments	–	728 556
Cash on hand	324	316
	1 134 118	**946 997**

	2005 R'000	2004 R'000
7. ASSET REVALUATION RESERVE		
Carrying amount – beginning of year	**48 302**	48 302
Movement during the year	**—**	—
	48 302	**48 302**
8. CAPITAL RESERVE ON ESTABLISHMENT		
Surplus of assets over liabilities transferred from Government on 1 October 1997	**32 364**	32 364
Movement during the year	**—**	—
	32 364	**32 364**
9. TRADE AND OTHER PAYABLES		
Trade accounts payable	**153 339**	3 702
Accruals for salary related expenses	**2 297**	88
Other accruals	**160 502**	169 187
Other payables	**365**	217
Retentions	**1 967**	4 391
Project advances	**30 871**	33 645
VAT payable	**47 451**	3 113
	396 792	**214 343**

10. PROVISIONS

	Performance and service bonuses	Leave pay	Hay back pay	Total
At 31 March 2004	**101 248**	**61 379**	**1 291**	**163 918**
Reversal of provisions	(35 177)	—	(571)	(35 748)
Additional provisions	134 136	72 843	—	206 979
Utilisation of provisions	(66 071)	(61 379)	(720)	(128 170)
At 31 March 2005	**134 136**	**72 843**	**—**	**206 979**

Performance, service bonuses and leave pay provisions represent estimated liabilities arising as a result of services rendered by employees.

Hay back pay provision represents the entity's estimated obligation towards the settlement of amounts due in terms of potential claims relative to its Hay grading scheme.

	2005 R'000	2004 R'000
11. REVENUE		
Revenue comprises the following:		
Grant received	**4 037 289**	3 326 322
Interest received	**77 866**	127 493
Other revenue	**150 328**	136 944
	4 265 483	**3 590 759**
12. (LOSS)/PROFIT FROM OPERATIONS		
(Loss)/profit from operations is arrived at after taking into account the following:		
Auditors' remuneration		
– Audit fees overprovision prior years		
2002/2003	**(6 708)**	–
2003/2004	**(7 288)**	–
– Audit fees current year	**25 649**	19 430
	11 653	**19 430**
Depreciation on fixed assets		
– As previously stated	**226 462**	117 533
– Change in accounting estimate	**–**	40 331
	226 462	**157 864**
During the previous year SARS decided to raise the capitalisation limit of its assets to R2 000 unit value compared to R500 previously. This resulted in a change in accounting estimate.		
Amortisation on intangibles – computer software		
– As previously stated	**–**	4 044
– Change in accounting estimate	**–**	14 483
	–	**18 527**
During the previous year management has taken the view that the criteria of AC129 cannot be met given the current transformation of SARS and that consequently no development expenses should be capitalised. The balance of the intangible assets was written off and this resulted in a change in accounting estimate.		

12. (LOSS)/PROFIT FROM OPERATIONS *(continued)*

Executive members remuneration

Designation	Salary	Bonus	Allowances	Contributions medical and pension	2005 Total R'000	2004 Total R'000
Commissioner for SARS	1 560	225	166	14	**1 965**	1 741
Chief Information Officer	1 310	205	182	14	**1 711**	1 540
Director Transformation (5 months)	228	—	58	6	**292**	—
GM: Zone 2	549	66	139	91	**845**	—
GM: Commissioner's Office	734	52	135	14	**935**	—
GM: Communications (9 months)	521	40	143	8	**712**	—
GM: Corporate Relations	667	39	135	14	**855**	—
GM: Zone 1	620	115	169	101	**1 005**	883
GM: Enforcement	613	115	147	100	**975**	879
GM: Finance	641	42	166	103	**952**	—
GM: Human Resources	704	13	137	14	**868**	—
GM: Law Admin	622	114	169	101	**1 006**	887
GM: LBC (7 months)	791	850	102	8	**1 751**	—
GM: Operational Services (2 months)	77	—	36	2	**115**	—
GM: Strategy and Planning	—	—	—	—	**—**	858
GM: Zone 3 (2 months)	58	—	36	11	**105**	—
	9 695	**1 876**	**1 920**	**601**	**14 092**	**6 788**

No remuneration reflected in the current year indicates that the respective members did not serve on the Executive Committee.

	2005 R'000	**2004 R'000**
13. FINANCE COST		
Interest paid on late payment of pension purchased for ex-employee/interest paid on retention fees held	**7**	**11**

		2005 R'000	2004 R'000
14. DONATIONS			
SARS received the following donated benefits in kind:			
(a)	**Sida – Swedish International Development Agency** Short-term advisors, technical assistance and training	4 109	6 150
(b)	**DFID – UK Department for International Development** Technical assistance and training on various Siyakha – Customs initiatives	–	16 154
(c)	**AusAid – Australian Aid** Technical assistance on SARS transformation programmes	108	–
(d)	**Malaysian Royal Customs Academy** Training courses offered by the Malaysian government	153	–
(e)	**SADC – Southern African Development Community** Accomodation and airfares for various activities sponsored by the SADC	76	–
(f)	**US CBP – United States Customs and Border Protection** Airfares and accommodation for CSI (Container Security Initiative) conference	70	–
(g)	**ILEA – International Law Enforcement Academy** Course fees, accomodation and airfares	87	–
(h)	**Inwent – German Donor Agency** Trans-Kalahari corridor training. Airfares ad accommodation expenses	15	–
(i)	**Dell Corporation** Visit to Gartner Research in terms of TCO project and Dell EMEA's Platinum Advisory Council. Accommodation expenses paid by Dell	10	–
(j)	**ZIMRA – Zimbabwe Revenue Authority** VAT training. Accommodation and airfares	22	–
(k)	**UN Office on Drugs and Crime** Counter measures on illicit drug trafficking.Travel and accommodation costs	8	–
(l)	**National Tax Board (NTB) of Sweden** Human resources co-operation visit. Airfares and accommodation	37	–
		4 695	**22 304**

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.

15. 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.

SARS is a registered VAT vendor for the period under review and pays output VAT on grants received, less input VAT on applicable expenditure.

SARS will be deregistered for VAT purposes in terms of amendments passed applicable to certain state departments and entities effective 1 April 2005.

	2005 R'000	2004 R'000
16. CONTINGENT LIABILITIES		
Guarantees issued to various financial institutions in respect of housing loans granted to employees	28 350	27 552
Accumulated leave prior to 31 December 1998	89 912	91 130
	118 262	118 682

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 is disclosed as part of note 10.

	2005 R'000	2004 R'000
17. CAPITAL COMMITMENTS		
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	37 886	16 068

	2005 R'000	2004 R'000
18. OPERATING LEASE COMMITMENTS		
At 31 March the future minimum operating lease commitments are:		
Within one year:	256 430	204 415
Property	241 002	193 880
Equipment	15 428	10 535
Between two and five years:	1 252 294	1 009 105
Property	1 233 962	999 869
Equipment	18 332	9 236
In more than five years:		
Property	1 009 830	910 694
	2 518 554	2 124 214

19. RETIREMENT BENEFIT PLANS

Retirement benefits are provided by membership of the Government Employees Pension Fund which is a defined benefit fund. All eligible employees are members of the defined benefit plan.

Scheme assets primarily consist of listed shares, government bonds, money market and related instruments.

The fund is governed by the Government Employees Pension Law.

SARS has no responsibility regarding any funding of a shortfall of the pension fund. The obligation to fund any shortfall resides with national Government.

According to rule 4.9 of the fund, the entire fund is subject to an actuarial valuation once every three years. Alexander Forbes Financial Services was commissioned by the Minister of Finance, in his capacity as a member of the interim board of trustees, to perform an actuarial valuation of the fund as at 31 March 2003. The previous official valuation was performed as at 31 March 2001. It is the opinion of the actuaries that the fund is in a sound financial position although the funding level is below 90% (the primary funding objective) at the valuation date. Contribution levels as well as the recovery of investment markets would indicate that no further measures be taken regarding the primary funding objective.

No current audited accounts for the pension fund were available at the time the SARS Own Accounts were completed. The notes used for the valuation, as well as the comparatives, were therefore based on the most recent valuations done.

	31 March 2003	31 March 2001
Principal assumptions used		
The accrual of future benefits be funded at	100%	100%
The deficit in respect of past service benefits be redeemed as soon as possible to achieve a funding level of	100%	100%
A long-term inflation rate	6%	10%
A long-term salary inflation rate	7%	11%
Pension increases are provided for	4,8%	7,5%
The interest rate to discount the assets and liabilities	10%	14%
Growth in dividends	7%	11%
	R'm	R'm
Fair value of assets:		
Fair value of investments	273 811	223 078
Fixed assets and net current assets	8 047	1 661
Provision for tax	—	(7 889)
Adjustment for "S-cases"	(671)	—
	281 187	216 850
Fair value of liabilities:		
Contributing members	194 315	138 048
Pensioners	107 590	77 516
Data and contingency reserves	12 766	5 390
	314 671	220 954

	31 March 2003 R'm	31 March 2001 R'm
19. RETIREMENT BENEFIT PLANS *(continued)*		
Financial position		
Actuarial value of assets	281 187	216 850
Actuarial value of liabilities	314 671	220 954
Deficit	(33 484)	(4 104)
Past service costs	314 671	220 954
Contributing members	194 315	138 048
Retirement	129 097	85 947
Ill health	39 838	28 942
Death	14 499	9 483
Resignation	11 356	13 676
Adjustment for "S-cases"	(475)	—
Total loadings	12 766	5 390
Pensioners	107 590	77 516
Retirees	88 187	64 732
Spouses	19 403	12 784

The investment return achieved on actuarial value of the assets was 3,4% compared to 14,6% for the previous period.

The financial health of the fund is measured by reference to its ability to generate enough income through future investment returns and contributions to pay for the benefits of the members as and when they fall due.

	2005 R'000	2004 R'000
Pension fund contributions (employer contribution included in personnel expenditure)	**159 048**	**141 550**

20. 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.

Contact numbers

SARS website	**www.sars.gov.za**
SARS head office	Telephone: 012 422 4000
SARS fraud/anti-corruption hotline	Telephone: 0800 00 28 70
SARS service monitoring office (SSMO)	Telephone: 0860 12 12 16 Fax: 012 431 9695 Email: **ssmo@sars.gov.za** Website: **www.sars.gov.za/ssmo**
Call centre (KwaZulu-Natal, West Cape, JHB)	Telephone: 0860 12 12 18
Large business centre	Telephone: 011 602 3536 Fax: 011 602 3518 email: **LBC.General@sars.gov.za**
Pretoria branch office	Telephone: 012 317 2000 Fax: 012 317 2926 / 2328 / 2297 / 2666
Bloemfontein branch office	Telephone: 051 506 3000 Fax: 0866 12 1244
Port Elizabeth branch office	Telephone: 041 505 7500 Fax: 041 586 0618
East London branch office	Telephone: 043 706 5400 Fax: 043 706 5528
Johannesburg International Airport	Telephone: 011 923 2400 Fax: 011 923 2467
Cape Town International Airport	Telephone: 021 934 0221 Fax: 021 934 2355
Durban International Airport	Telephone: 031 469 1919 Fax: 031 469 3569
Dispute Resolution Unit	Telephone: 012 422 5149 / 4928 Fax: 012 422 5135
Tax Exemption Unit	Telephone: 012 422 8800 Fax: 012 422 8830

Glossary

Glossary of terms and acronyms

ADR	Alternative dispute resolution service: a cost-effective and quicker alternative to litigation.
BIU	Business Intelligence Unit: a SARS unit that specialises in gathering, organising and analysing relevant data.
CIT	Company Income Tax: all provisional and assessed taxes paid by companies (net of refunds).
CRM	Customer Relations Management.
CRO	Corporate Relations Office: manages relations with major stakeholders and also administers SARS' corporate social investment programme.
Customs duty	Duties paid on the importation of goods.
e-Filing	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. Taxpayer filing activity generally peaks towards Filing Day – the filing season closing date.
FTR	First Time Resolution: The resolution of taxpayer or trader queries at the time of query without having to refer the query to back-office or other SARS functions.
Fuel levy	The levy paid on petrol and diesel.
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.
Kopano	A programme for modernising SARS financial processes and operational management.
LBC	Large Business Centre: A "one-stop" facility servicing corporate, public sector and high net-worth clients.
MPC	Monetary Policy Committee (SA Reserve Bank).
PCI	Post-clearance inspections: refer to those examinations and audits that verify compliance of imported goods.
PIT	Personal Income Tax: all assessed and provisional taxes as well as PAYE paid by individuals (net of refunds).
PIM	Process and Information Management: SARS established a PIM list to improve information processes throughout the organisation.
SAD	Single Administrative Document: documentation designed to simplify and speed-up cross-border trade administration.
SAR	Suspicious Activity Reports: Information on suspicious activities generated by Business Intelligence Unit analysis.
SARS Academy	All SARS in-house training has been consolidated into this new academy, which is based at the Megawatt Park complex in Johannesburg.
Siyakha	Meaning "we are building". A programme to completely transform SARS into a 21st century revenue authority that was launched in 2000.
STC	Secondary Tax on Companies: refers to taxes paid on profits distributed by companies.
SSMO	SARS Service Monitoring Office: A channel through which taxpayers can inform SARS of sub-standard service.
Tax rulings	The Law Administration unit regularly issues rulings on certain transactions to provide certainty for taxpayers and promote compliance.
Taxpayer Register	SARS database of all registered taxpayers.
TOPP	Training Outside Public Practice: a programme that accredits organisations to train Chartered Accountants outside of public practice.
TPD	Technology and Process Division: supports and upgrades SARS business processes, technology applications and technology infrastructure.
TPS	Taxpayer Service: SARS staff that directly interface with taxpayers and clients.
TRF	Tax on Retirement Funds.
VAT	Value Added Tax: levied on the supply of goods and services by registered vendors.

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BASTION GRAPHICS