


South African Revenue Service

Annual Report 2005/06

SARS
At Your Service

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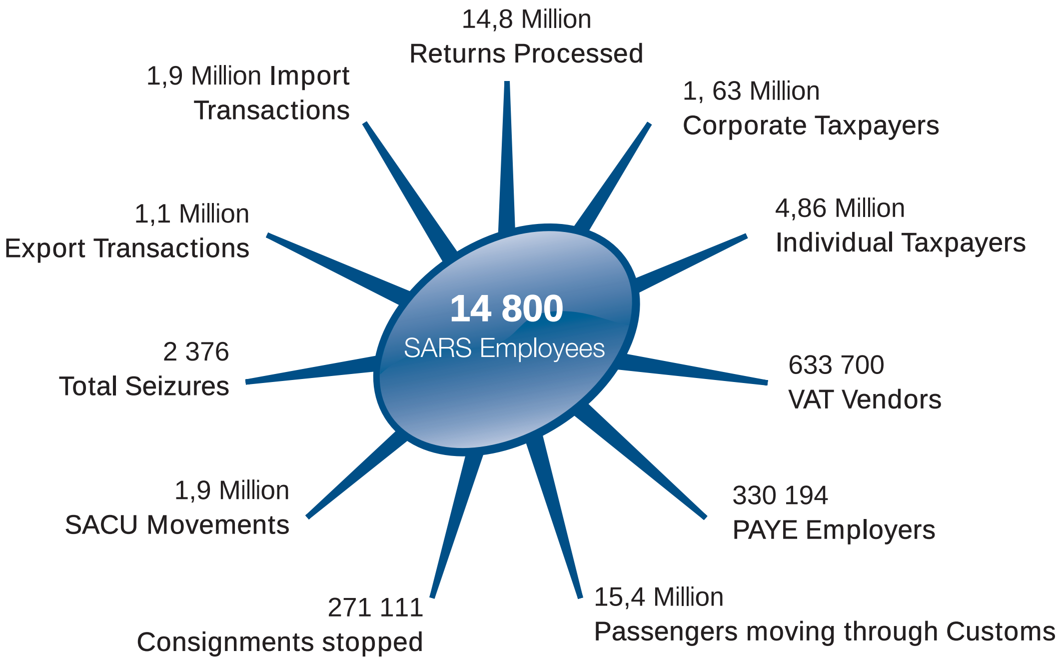
CONTENTS

SARS AT A GLANCE

2005/06



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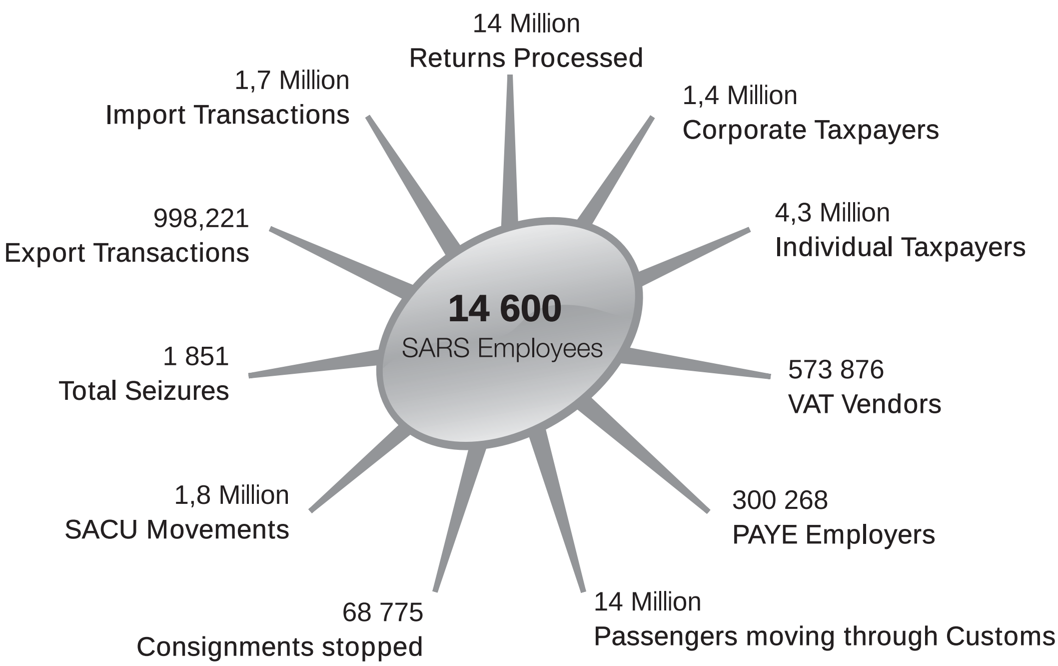


1

MESSAGE FROM THE MINISTER

MESSAGE FROM THE MINISTER

During the State of the Nation address in February this year, President Thabo Mbeki reminded us of our collective undertaking as a government and a people 12 years ago to "define for ourselves what we want to make of our shared destiny".

We were also reminded that the years of our democratic epoch, less than two decades, have "moved at such a hectic pace that even some of the seminal moments marking the birth of democracy… present themselves in the subconscious mind as being mere chapters in an ageing historical record of a distant past".

The urgency of the pace at which we continue to define ourselves as a developing nation cannot lose its virility. Equally, we should not lose focus of the historic path to liberation on which the pillars of our democracy are being entrenched every day.

Yet we remain conscious of the enormous effort that still lies ahead to build the kind of South Africa that we want and to enhance the moral and economic legitimacy of our democracy.

This national effort finds expression in government's broad framework that seeks to further stimulate growth and address the barriers that inhibit growth; the Accelerated Shared Growth Initiative for South Africa (AsgiSA). AsgiSA is designed to ensure that we understand these dynamics fully in order to prepare appropriate policy interventions.

As indicated in this year's Budget Speech, the areas of concern AsgiSa has thus far highlighted impact on broad aspects of our economic prospects and policy framework - the level of stability of the exchange rate and the impact on exports, the role of public infrastructure in lowering the cost of economic activity, the need to increase investment in new technology and the role of the financial markets in supporting investment activity.

Notwithstanding these, the outlook for the domestic economy remains buoyant. This is part of the outcome of economic restructuring and policy reforms over the past decade. Our expectation in February last year was that the gross domestic product would increase by 4,3% in 2005; the revised estimate was 5%. Stronger economic growth now rests on a continued stable macroeconomic environment.

For the same period, the SARS Annual Report illustrates the magnanimity of robust domestic economic growth. Following on its impressive past performances, SARS in 2005/06 recorded a 9,5% growth in the tax register, a 5% increase in income tax returns submitted, while it collected over R44 billion more in revenue than the original printed estimate.

The buoyant revenue collections and tax relief measures implemented over the past few years are evidence of the success of the tax reform agenda. The collection of revenue is a key enabler of Government's Programme of Action to invest in infrastructure, provide more basic services and build our human capability.

The ongoing efficiency demonstrated by SARS has played a major role in government's effort to achieve optimal trade facilitation and border control, improve tax administration and to inculcate a culture of good fiscal citizenship. The employees of SARS under the sterling leadership of Commissioner Pravin Gordhan have again shown how dedication and leadership can secure good service delivery.

Trevor A Manuel, MP
Minister of Finance

2

COMMISSIONER'S REVIEW

COMMISSIONER'S REVIEW

The rate of economic growth during the year under review, coupled with improved tax morality and further efficiencies in our operational procedures, combined to deliver yet another impressive performance from the South African Revenue Service.

Enjoying its sixth consecutive year of uninterrupted growth, South Africa's economic expansion provided the platform for revenue collection enhancements across almost all tax types. This resulted in SARS collecting R417,33 billion, exceeding its original target of R372,8 billion by over R44 billion. It was a steep mountain to climb, but with passion, commitment and sheer dedication, SARS's staff made it to the summit.

Key components of this collection were:

- Personal income tax: Collections amounted to R126,4 billion, exceeding the original estimate by R8,8 billion. This growth – on the back of a 9,5% growth in the tax register - is further evidence of increased job creation over the past financial year and higher average wages
- Corporate income tax: Collections amounted to R87,3 billion, exceeding the original estimate by R17,7 billion. Strong economic growth, especially in the financial services, telecommunication, wholesale and retail, construction and property sectors, was a primary factor in this area of collections as well as improved provisional tax payments through engagements with large corporates by the Large Business Centre and the effective application, where necessary, of Paragraph 19 (3) of the Income Tax Act
- VAT: Strong consumer spending buoyed by the growing economy, relatively low interest rates and a stronger rand saw VAT collections once again perform beyond expectations. VAT collections totalled R114,4 billion for the year in review, R8,4 billion ahead of the printed estimate
- Customs duty: Linked to strong consumer spending and a more stable rand was a growth in domestic demand for imported products which saw R18,3 billion in customs duties collected during the year, R5,3 billion beyond the original estimate.

Most importantly, the revenue gains provided government with funding to further expand its social development programmes while at the same time providing additional tax relief to taxpayers, including over R7,1 billion in relief for individuals. It did this while maintaining its strict fiscal discipline of a budget deficit of below 3%.

COMMISSIONER'S REVIEW

Sustainable revenue collection improvements cannot only rely on economic growth. They must be coupled with improved compliance and enhanced service and efficiency from SARS. I am pleased to report advances in both these areas during the year under review.

Ongoing education and awareness, in tandem with improvements in our enforcement abilities, saw further gains in tax compliance. At the forefront of this drive to enhance voluntary compliance was our annual Filing Season campaign which continues to be a defining moment in the annual tax calendar. Once again tax registrations grew and we witnessed further impressive leaps in the number of taxpayers who engaged with SARS and submitted their returns by the deadline. Most heartening to note is that increasingly, South Africans are accepting not just their legal duty to meet their tax obligations; they are also showing a moral commitment to contributing to the growth and development of our country.

This is important to ensure ongoing improvements in voluntary compliance and was given added momentum by the release last year of a discussion document on tax avoidance which sparked off a vigorous debate on tax morality.

The ability of SARS to detect and act against those who choose not to comply is an important deterrent to criminal activity. In this area we have continued to make gains in high-risk industries and we have raised public awareness about the harm illicit goods do to our local industries and to revenue collection.

We have also introduced important processes and procedures to improve our ability to ensure compliance with customs regulations while still facilitating faster movement of goods to enhance trade. In this endeavour we continue to expand our relationships with other customs and revenue agencies throughout the world, and especially in Africa, to share information, experience and excellence.

Providing excellent service and reducing the cost of compliance for those who seek to make their fair contribution is another fundamental element of our compliance model. In this regard, the year in review saw the enhancement and expansion of our eFiling facility, additional payment channels for taxpayers and traders, a growth in capacity of our call centre, and the introduction of the SARS Service Charter which sets internationally comparable service standards for SARS's operations.

The year also saw the further expansion of our Large Business Centre, which provides a one-stop service for big businesses and high net worth individuals.

These internal improvements would not be possible if SARS did not have a willing, capable and committed staff. The introduction during the year of a Career Development Programme as part of an integrated people development strategy will significantly assist SARS in ensuring that it continues to be staffed by performance-driven, service-oriented, skilled employees. Of equal importance is the goal of ensuring that SARS's people reflect the demographic make-up of South Africa's taxpayers and traders. Here we have continued to make excellent progress in the transformation of our organisation, although further gains are still required.

The challenges faced by SARS grow year by year, not only in terms of ever increasing revenue collection targets but also in terms of increasing volumes in both the revenue collection and Customs arena as the tax register grows and trade rises steeply. Some of the volumes SARS has to deal with are illustrated at the beginning of this annual report.

I would like to take this opportunity to express my gratitude to the 14 800 employees of SARS who each day give real meaning to our Bill of Rights and the promises of our Constitution. It continues to be a privilege to lead such a dynamic, inspired and motivated group of South Africans.

I would also like to thank the Minister of Finance, Trevor Manuel, Deputy Minister Jabu Moleketi, and their staff, the various committees of Parliament and other consultative bodies for the tireless support and guidance they provide.

We at SARS will continue to work unwaveringly in pursuit of our vision of a South Africa where all enjoy the rights of our Constitution and the fruits of our development.

Pravin Gordhan
Commissioner

3

STRATEGIC FOUNDATION

STRATEGIC FOUNDATION

In terms of the South African Revenue Service Act No. 34 of 1997 ("the SARS Act"), SARS as the revenue agency for government is tasked with the collection of revenue, and with control over the import, export, manufacture, movement, storage and use of certain goods.

SARS plays a key role in the fulfilment of government's broader mandate by collecting revenue to support the fiscus as well as by facilitating and protecting trade. Achieving revenue collection targets is integral to government's approach to tackling poverty and underdevelopment. In the year under review, SARS outperformed its target by collecting revenue of R417,33 billion. As in preceding years, this was higher than estimated.

To continue to successfully deliver on SARS's mandate, the following **strategic goals** have been adopted:

- Optimise revenue collection
- Effect an improved taxpayer and trader experience
- Improve compliance and reduce risk
- Enhance human capacity
- Improve trade administration and border security
- Effect greater operational efficiencies
- Promote good governance

Our vision: To be an innovative revenue and customs agency that enhances economic growth and social development and that supports the country's integration into the global economy in a way that benefits all South Africans.

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

Our values: We are committed to providing excellent service to the public. Our relationships, business processes and conduct are based on the following values: mutual respect and trust, equity and fairness, integrity and honesty and transparency and openness.

SARS's imperative is to be an integrated tax and customs authority that delivers on the set objectives within the mandate granted to it in terms of the SARS Act. To deliver on its stated vision, SARS will achieve the targets set by government, streamline and automate core processes, enhance human capacity and simplify the income tax laws.

4

OPTIMISING REVENUE COLLECTION

OPTIMISING REVENUE COLLECTION

Overview

The year under review saw SARS again exceeding its revenue target with revenue of R417,33 billion being collected. The revenue overrun of 2005/06 largely mirrored those of the preceding years in that it was driven primarily by three factors: the continued economic growth of South Africa; ongoing SARS initiatives and efforts towards efficiency and effectiveness; and further gains in the voluntary compliance culture within the country, sparked by SARS's focus on education, service and enforcement.

Highlights

- Total tax revenue collected was R417,33 billion, exceeding the revised target by R284 million
- Company tax contributed R87,3 billion (20,9%) to total tax collections in 2005/06
- Collected R114,4 billion in VAT
- R7,1 billion in tax relief was granted for individuals for the 2005/06 tax year

Economic Performance

During its sixth year of uninterrupted growth, South Africa's economy once again provided a favourable environment for revenue collection. Real growth of the economy picked up from 4,5% in 2004 to 4,9% in 2005, the highest annual growth rate since 1984.

Economic buoyancy was underpinned by strong consumer spending, as well as favourable financial conditions and a stable Rand/US dollar exchange rate, stable interest rates and tax relief of R9,4 billion during the previous tax year which contributed to consumer spending power.

Overall employment increased over the year January to December 2005, but wage settlements and increases in nominal remuneration per worker moderated somewhat, from 9,1% in 2004 to 7,2% in 2005.

The domestic cost of capital has fallen to record lows, which, in conjunction with higher growth and a moderation in nominal remuneration per worker, contributed to the growth in gross operating surplus from 8,28% in 2004 to 8,73% in 2005. The higher corporate earnings resulted in high levels of dividends being declared.

Share prices on the Johannesburg Securities Exchange rose rapidly during 2005, and buoyant trading was reflected in the Marketable Securities Taxes collected. Based on the share price increases in 2005, the dividend yield receded from 3% in 2004 to 2,8% in 2005.

OPTIMISING REVENUE COLLECTION

Imports grew by 11% and exports by 8,5% during 2005.

Broad-based economic growth has contributed to the rapid growth in tax revenue, supporting a sound fiscal position and enabling progressive increases in expenditure. The latest estimates provide for a 2005/06 national government deficit before borrowing and debt repayment of only 0,5% of gross domestic product (GDP), compared with an originally budgeted ratio of 3,1%.

Greater capital expenditure by the public sector overall, targeted tax relief and capital allocations in key areas, as well as a sound fiscal position, form a policy framework aimed at sustainable and broad-based growth.

The fiscal outcome provided substantial room for government to pursue the objectives stated above while restricting the deficit ratio to 0,36% of GDP, as well as allowing the debt-to-GDP ratio to decline even further.

Tax Revenue

Tax revenue is defined by the System of National Accounts as “a compulsory, unrequited payment to government”. Net Revenue as disclosed in the Statement of Financial Performance on page 141 does not reflect revenue in terms of this definition. To ensure clarity, it is prudent to disclose Tax Revenue as set out in the figure below (the calculation on the achievement of SARS’s Revenue target is based on this approach).

Figure 4.1: Tax Revenue for the year ended 31 March 2006

	2006 R million	**2005 R million**
NET REVENUE FOR THE YEAR	409 934	353 794
Add:		
South African Customs Union Agreement	14 145	13 328
Quarterly payments made by National Treasury		
in terms of the South African Customs Union Agreement		
Less:		
Unemployment Insurance Fund (UIF)	6 716	5 911
Departmental receipts	-	6 063
State fines and forfeitures	3	116
Provincial administration receipts	26	51
State licences	-	1
TAX REVENUE	**417 334**	**354 980**

OPTIMISING REVENUE COLLECTION

Figure 4.2: Budget revenue

Revenue Perfomance 2005/06

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	**200 855**	**228 730**	**230 803**	**29 948**	**2 073**
Persons and Individuals	117 640	126 460	126 416	8 776	- 44
Companies	69 615	85 920	87 326	17 711	1 406
Secondary tax on companies	8 700	11 850	12 278	3 578	428
Tax on retirement funds	4 900	4 500	4 783	- 117	283
Value-added tax	105 975	115 000	114 352	8 377	- 648
Customs duties	13 000	18 600	18 303	5 303	- 297
Fuel levy	20 650	20 700	19 923	- 727	- 777
Excise Duties	14 509	14 599	14 547	38	- 52
Skills Development Levy	4 908	5 000	4 872	- 36	-128
Other taxes and duties	12 877	14 421	14 534	1 657	113
TOTAL TAX REVENUE	**372 774**	**417 050**	**417 334**	**44 560**	**284**
Non-tax revenue	9 148	8 180	8 505	-643	324
Less: SACU payments	12 053	14 145	14 145	2 092	-
TOTAL BUDGET REVENUE	**369 869**	**411 085**	**411 694**	**41 825**	**609**

Each broad category of tax had its own key economic indicators and other factors which affected the overall revenue performance. A discussion on the performance of these categories is outlined below.

Taxes on income, profit and capital gains

Taxes on income, profit and capital gains amounted to R230,8 billion, which was R29,9 billion and R2,1 billion higher than the Printed and Revised Estimates respectively.

Personal Income Tax (PIT) – including interest

Collection exceeded the Printed Estimate by R8,78 billion and was slightly below the Revised Estimate, by R44 million. The increase was mainly funded from increased employment as well as an increase of 7,2% in remuneration.

The increase in collections can also be ascribed to bonuses paid in the financial sector, which increased PAYE collections during April and May 2005. The success of the filing season campaign, and the increase in the income tax register, are also reflected in the increased collections.

Corporate Income Tax (CIT) - including interest

Collections exceeded the Printed and Revised Estimates by R17,71 billion and R1,41 billion respectively due mainly to continued strong economic growth and a more comprehensive approach by SARS's Large Business Centre to improving corporate compliance.

Growth in gross operating surpluses of business enterprises increased by 8,7% in 2005 against 8,3% in 2004, and the better performance was mainly in the following sectors:

- Financing, Insurance, Real Estate and Business Services
- Long-Term Insurance
- Telecommunications
- Wholesale and Retail Trade
- Mining and Quarrying
- Food, Drink and Tobacco.

The efforts of SARS officials to ensure that provisional corporate tax payments reflected the latest profit positions (application of paragraph 19 (3) of the Fourth Schedule to the Income Tax Act) yielded R12,5 billion in 2005/06 compared with R7 billion in 2004/05. This involved better and proactive relationship management between SARS and some companies, and, where necessary, the application of paragraph 19 (3). In addition, specific tracking and active follow-up of large payments ensured the timeous payment of taxes due.

A number of large companies that were not expected to make any contribution have come out of assessed loss positions during the year, contributing R1,6 billion to collections during March 2006.

SARS has detected, and successfully challenged, a number of aggressive tax avoidance schemes. This resulted in collections of a further R1 billion. Examples of typical practices include the incorrect allocation of revenue expenditure to capital accounts, the abuse of share allocation schemes, the inappropriate use of international tax structures as well as aggressive loan-financing structures.

OPTIMISING REVENUE COLLECTION

Secondary Tax on Companies (STC)

Collections exceeded the Printed and Revised estimates by R3,58 billion and R428 million respectively, due mainly to corporations declaring sizeable increases in dividends. The growth in dividends declared in 2005 was 20,1%, which is more than double the growth in company gross operating surpluses of 8,7% in 2005. Special efforts by SARS contributed approximately R263 million to the total amount collected.

Tax on Retirement Funds (RFT)

Collections were R117 million below the Printed Estimate and were R283 million above the Revised Estimate.

Value-Added Tax (VAT)

VAT collections were R8,38 billion above the Printed Estimate and R648 million below the Revised Estimate mainly due to the growth in real household expenditure, which was 6,9% in 2005 compared with an increase of 6,5% in 2004. This was the highest annual growth rate in real consumption expenditure by households since 1981. The aforementioned growth in expenditure was the source of the robust growth in VAT collections, even though the actual amount was less than the revised estimate.

Fuel Levy

Fuel Levy collections were below the Printed and Revised Estimates by R727 million and R777 million respectively, mainly due to lower-than-expected consumption as a result of fuel shortages as well as a decline in production due to a change-over in fuel during the last quarter of 2006. The fuel levy collections exclude collections from the Road Accident Fund, which are included in the 'Other taxes and duties' figures.

Customs Duty

Customs duty collections were R5,3 billion above the Printed Estimate and R297 million below the Revised Estimate, mainly due to strong domestic demand, which resulted in a significant increase in the physical quantity of goods. A strengthening of the rand further reduced the cost of imported goods, stimulating imports further.

Skills Development Levy

Skills development levy collections amounted to R4,9 billion, which was R36 million and R128 million below the Printed and Revised Estimates respectively, mainly due to the exemption of small businesses with payrolls of less than R500 000 per annum.

Other taxes and duties

Revenue collection in respect of other taxes amounted to R14,53 billion, which was R1,66 billion and R113 million above the Printed and Revised Estimates respectively. The higher-than-expected collections were mainly from Marketable Securities Tax, which was a result of increased activity and values on the Johannesburg Securities Exchange. Transfer duties also performed as expected and contributed the biggest portion of the collections in this category.

Note: Economic indicators as used in the above Revenue Analysis were obtained from the South African Reserve Bank website, as at the time of compilation of this report.

Revenue Performance 2001/02 to 2005/06

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 amount the different tax types have contributed to total revenue collection has changed over the period as reflected in Figure 4.3 which sets out the percentage contribution of the various taxes to total taxes collected, as opposed to Figure 4.4 which provides a breakdown of the nominal amounts collected during the period.

Figure 4.3: Contribution to tax revenue

Year %	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total
2001/02	36,06	17,04	2,84	24,20	5,91	3,42	10,53	100,00
2002/03	33,64	19,96	2,24	24,86	5,43	3,31	10,57	100,00
2003/04	32,80	20,40	2,03	26,67	5,50	2,80	9,79	100,00
2004/05	31,47	20,18	2,11	27,65	5,26	3,63	9,70	100,00
2005/06	**30,29**	**20,92**	**2,94**	**27,40**	**4,77**	**4,39**	**9,28**	**100,00**

Figure 4.4: Breakdown of revenue collected

Year R millions	PIT	CIT	STC	VAT	Fuel Levy	Customs	Other	Total Tax Revenue	GDP	Total Tax as % of GDP
2001/02	90 976	42 979	7 163	61 057	14 923	8 632	26 568	252 298	1 047 992	24,1
2002/03	94 924	56 326	6 326	70 150	15 334	9 331	29 819	282 210	1 198 344	23,5
2003/04	99 220	61 712	6 133	80 682	16 652	8 479	29 630	302 508	1 281 438	23,6
2004/05	111 697	71 629	7 487	98 158	18 688	12 888	34 433	354 980	1 419 991	25,0
2005/06	**126 416**	**87 326**	**12 278**	**114 352**	**19 923**	**18 303**	**38 736**	**417 334**	**1 563 270**	**26,7**

OPTIMISING REVENUE COLLECTION

The benefits of these tax reforms have become tangible for taxpayers in the form of personal income tax relief of R78,95 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 R96,34 billion. Total tax revenue as a percentage of GDP increased from 22,9% in 1994/95 to 26,7% in 2005/06.

Personal income tax (PIT)

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

Figure 4.5

Year	PIT R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	90 976	4,6	36,1	8,7
2002/03	94 924	4,3	33,6	7,9
2003/04	99 220	4,5	32,8	7,7
2004/05	111 697	12,6	31,5	7,9
2005/06	**126 416**	**13,2**	**30,3**	**8,1**

Percentage of tax revenue

PIT contributions to total tax revenue declined from 36,1% in 2001/02 to a current low of 30,3%, an overall decrease of 5,8%, mainly due to substantial tax relief.

Year-on-year growth in collections

The year-on-year growth in collections has increased substantially from the 2004/05 year onwards mainly due to smaller relief being granted to individuals. Tax relief in the 2001/02 – 2002/03 period amounted to R36,59 billion while the relief in the 2004/05 and 2005/06 years amounted to R11,17 billion. As a percentage of revenue collected in the three-year period the relief amounted to 12,8%, while in the last two years it amounted to 4,7%.

Corporate income tax (CIT)

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

Figure 4.6

Year	CIT R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	42 979	43,5	17,0	4,1
2002/03	56 326	31,1	20,0	4,7
2003/04	61 712	9,6	20,4	4,8
2004/05	71 629	16,1	20,2	5,0
2005/06	**87 326**	**21,9**	**20,9**	**5,6**

From 2001/02 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-oriented companies and 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 insurance companies.

Following a decline in collections in 2003/04 as a result of slower economic growth, collections increased substantially from 2004/05 onwards as a result of strengthening economic growth, a stable exchange rate and prevailing low interest rates.

The rapid growth in CIT collections resulted in an increase in the CIT/GDP ratio to 5,6%, and a contribution of 20,9% to total tax collections in 2005/06 – the latter being considerably higher than the 17% recorded in 2001/02.

OPTIMISING REVENUE COLLECTION

Secondary tax on companies (STC)

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

Figure 4.7

Year	STC R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	7 163	77,7	2,8	0,7
2002/03	6 326	-11,7	2,2	0,5
2003/04	6 133	-3,0	2,0	0,5
2004/05	7 487	22,1	2,1	0,5
2005/06	**12 278**	**64,0**	**2,9**	**0,8**

STC collections declined from 2001/02 to 2003/04, mainly due to companies retaining earnings rather than declaring dividends. Subsequent to 2002/03, corporate profits increased significantly on the back of improved economic conditions resulting in companies revising dividend policies and increasing distribution of corporate earnings, especially in the resource and financial sectors.

STC contributed 2,9% to total tax revenue in 2005/06, increasing its contribution to GDP to 0,8% after the stable trend of 0,5% of GDP in the previous three years.

Value-added tax (VAT)

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

Figure 4.8

Year	VAT R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	61 057	12,1	24,2	5,8
2002/03	70 150	14,9	24,9	5,9
2003/04	80 682	15,0	26,7	6,3
2004/05	98 158	21,7	27,7	6,9
2005/06	**114 352**	**16,5**	**27,4**	**7,3**

VAT as a percentage of GDP increased from 5,8% in 2001/02 to 7,3% in 2005/06, driven mainly by a growth in household expenditure. An increased portion of VAT is also now being collected from imports.

Fuel levy

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

Figure 4.9

Year	Fuel Levy R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	14 923	3,0	5,9	1,4
2002/03	15 334	2,8	5,4	1,3
2003/04	16 652	8,6	5,5	1,3
2004/05	18 688	12,2	5,3	1,3
2005/06	**19 923**	**6,6**	**4,8**	**1,3**

Fuel Levy collections as a percentage of total tax revenue collections decreased steadily over the review period to 4,8%, while its ratio to GDP remained constant at 1,3%. Fuel levy collections exclude payments from the Road Accident Fund, which are disclosed separately in the financial statements.

Customs duty

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

Figure 4.10

Year	Customs R millions	Y/Y change %	% of tax revenue	% of GDP
2001/02	8 632	9,9	3,4	0,8
2002/03	9 331	8,1	3,3	0,8
2003/04	8 479	-9,1	2,8	0,7
2004/05	12 888	52,0	3,6	0,9
2005/06	**18 303**	**42,0**	**4,4**	**1,2**

After a steady decline over the period to 2003/04, customs duty as a percentage of tax revenue increased to 3,6% and then to 4,4% in the past two years. As a percentage of GDP, customs duty increased from 0,8% in 2001/02 to 1,2% in 2005/06.

OPTIMISING REVENUE COLLECTION

Conclusion and the way forward

SARS is acutely aware that its role in collecting revenue is of utmost importance to government's ability to fund its development goals. It will continue to further improve operational efficiencies and effectiveness to enable it to deliver consistently on revenue targets. It will continue to strive for optimal revenue collection by educating citizens about their tax obligations, promoting compliance through better service, and effective and fair enforcement measures.

5

OPERATIONS: ENHANCING EFFICIENCY

OPERATIONS: ENHANCING EFFICIENCY

Overview

In order to deliver cost-effective services that meet the expectations of our taxpayers, traders and other stakeholders, SARS has committed itself to maximising operational efficiencies. With an increasing taxpayer base (9,5% year-on-year) as well as greater cross-border trading volumes, we have to ensure that the service levels we offer our customers meet and even surpass our Service Charter commitments. We have endeavoured to meet this challenge by streamlining our procedures and processes to make it easier for taxpayers and traders to meet their tax obligations. We continue to transform our operations by shifting from manual to automated processes and we are ensuring that our people are appropriately skilled to improve performance and offer better service.

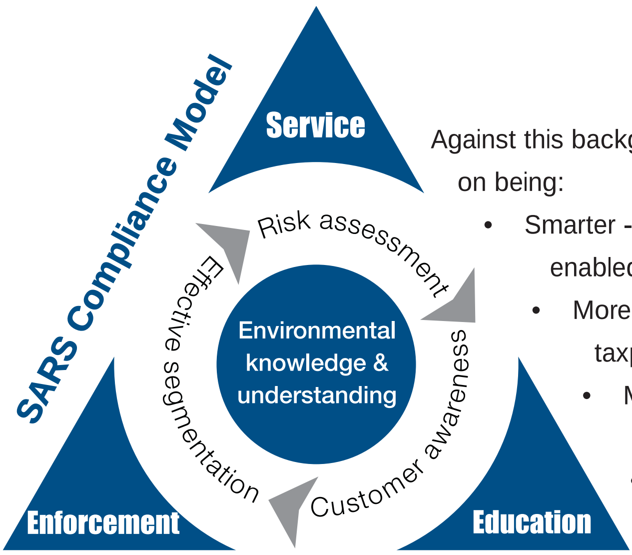
Highlights

- Growth in the tax register of 9,5% in 2005/06 and at an average of 11,1% over the last three years
- The number of tax submissions processed has increased at an average annual rate of 7,1%
- Value of assessments raised increased by 33%
- Average rand value per case assessed increased by 26%
- 95% of PAYE and 99% of VAT payments were processed within five days
- SARS collected R417,33 billion at a cost of 1,18 cent per rand
- Over 378 979 taxpayers are now registered for eFiling facilities

SARS business approach: The compliance model

SARS aims to optimise revenue collections in a way that instils confidence in the community that the tax system is working effectively. This helps improve compliance and in doing so contributes significantly to the funding of government's developmental agenda. Service, education and enforcement are the cornerstones of our compliance model. To optimise the use of our resources and to better understand the specific needs of the variety of taxpayers and traders, SARS has begun the process of analysing and segmenting the tax register. This will help us to align our services more closely to the needs of the different segments of taxpayers and it will also allow us to tailor our education and enforcement activities more appropriately.

SARS aspires to being an impartial, independent, consistent and fair administration. We aim to continuously improve the compliance culture while reducing the administrative burden and business cost to taxpayers/traders. In doing so, we are fully conscious of our obligation and duty to facilitate legitimate trade, protect the economy and heighten border security.



Against this background our business approach centres on being:

- Smarter - by being more efficient and electronically enabled
- More visible - by interacting with all types of taxpayers and deploying tax officers in the field
- More responsive – by enhancing our ability to swiftly detect and deter non-compliance
- More accessible - by optimising the channels our stakeholders can use to contact us.

INCREASED OPERATIONAL EFFICIENCY

SARS has achieved great operational efficiencies in a number of areas during the past year. Some of the key areas are outlined below.

Optimising throughput

The average net growth of the tax register in the past three years amounted to 11,1%. The largest contributors to this growth were VAT at 29% and Income Tax at 7,7%. On the other hand, PAYE recorded a negative net growth of 3%. This is attributable to the fact that the Skills Development Levy threshold was raised in 2003/04. This resulted in fewer employers registering for SDL. A number of employers were also removed from the register.

During the period under review the tax register grew by 9,5%. This can be ascribed to increased public awareness and a concomitant rise in compliance levels, as well as the positive approach and activities within taxpayer and enforcement centres regarding the broadening of the tax base. An increase in economic activity, a more proactive small business strategy and improved taxpayer awareness resulted in the VAT register growing by 10%.

Since 2000, the average increase in new registrations across the highest revenue contributing products has been between 4% and 8%.

Income tax returns received have grown by 9% from 4 516 472 to 4 920 167. The number of income tax returns processed in the year under review has also improved – from 4 496 622 to 4 870 238 – an improvement of 8%. This is a result of process improvements – especially efficiency gains in operations centres – improved motivational levels among staff as the Siyakha transformation process was finalised, and the completion of more returns during filing season.

OPERATIONS: ENHANCING EFFICIENCY

The 9% increase in PAYE returns processed and an 11% growth in VAT returns processed can in part be attributed to the increasing uptake of eFiling and the introduction of the Service Charter standards.

The growth in the tax register is as a result of:

- General economic growth
- Highly successful filing season campaigns
- High impact and visible compliance initiatives
- Targeted compliance initiatives focusing on specific segments of our tax base such as the small business initiatives, Large Business Centre, etc.
- A tax base broadening campaign.

More specifically, the following factors have contributed to the increase in the register:

- Advertising campaigns have made a big impression on the public. A major contributing factor has been our success in meeting and exceeding our revenue collection targets. The improvement in general compliance levels can be directly attributed to exposure in the media - the various media adverts, the filing season campaigns (comic strips, posters), articles on the Commissioner in financial magazines and on the awards achieved by the organisation in terms of effectiveness etc.
- More emphasis has been placed on ensuring that employers deduct the tax owed by employees at source; accordingly there has been a growth in PAYE registrations. This follows a slight decrease in the PAYE register in 2003/04 when the SDL threshold was raised
- Economic growth over the past number of years has had a positive impact on the register. New business ventures, positive tourism and other industries and the growth in the register of VAT vendors have all played a part. It is anticipated that there will be a further surge in VAT registrations as the 2010 Soccer World Cup in South Africa approaches as more businesses will be established due to a rise in economic activity in this period
- The Tax Clearance Certificate regime whereby State departments only award tenders to businesses who have a certificate (for tenders as well as good standing) also drives more people to register. As more tenders become available relating to 2010 initiatives this will become an even stronger driver for compliance.

There is also a visible increase in overall tax morality which has led to more registrations. The projected growth in the active register is estimated at between 8% and 10% per annum and poses a material challenge to the organisation’s existing capacity to both register and service the broadening tax base. With the general increase in economic growth, new entrants to the economic market, increasing employment and the announcement of a tax amnesty, these figures are set to increase, thereby placing an additional operational burden on SARS.

Processing performance

The percentage of outputs (transactions) delivered within throughput times:

- Income Tax – Against a set target of 42% of income tax returns to be processed within 60 days, we processed 41,25% within 40 days and 30,82% within 30 days
- PAYE - 79% processed within 21 days
- VAT - 76% processed within 21 days.

The output of work-streams, or "pipelines", processing income tax returns has increased from approximately 80 000 per week to 120 000 per week. An acceptable level of quality has been maintained even as the volume of returns processed has increased.

Enhanced quality

There has been a 4% reduction in revised income tax assessments, a 7% reduction in revised PAYE assessments and a 14% reduction in revised VAT assessments.

This is due to an increase in quality of work brought about by better systems training for staff and improved taxpayer education. Assistance with completion of returns during the filing season campaign also played a part, as has the introduction of eFiling. Other factors that have contributed to the improvement include the implementation of dedicated work-streams or pipelines as part of the Siyakha transformation at all centres, improved screening processes and procedures for incomplete returns,and the introduction of management performance contracts.

Accuracy of assessments:

- Total assessments raised: 4 870 238
- Revised assessments: 337 988
- Target 90%, achieved 93%.

Assessing has also seen an improvement in the reworking of returns, which was reduced by 9,3% from 721 679 in 2003/04 to 654 344 in 2004/05, as a result of Human Capacity and Process Improvement programmes. From April to September 2005, the target percentage of first-time correct assessments (90%) was exceeded on a national level. There was a 5% target for assessments reworked as a result of own error, and a rate of 3% was achieved.

OPERATIONS: ENHANCING EFFICIENCY

Benchmarks

There is an international trend towards single registration and the use of a unique taxpayer identification number (TIN). We are also seeing an emergence of one-stop government registration capabilities which has the effect of:

- Easing the burden on taxpayers and traders
- Reducing the compliance burden
- Allowing the revenue administration a single view of taxpayers and traders across all products and process.

Internationally the turnaround times in respect of registration averages around 100% within 5 working days for income tax, and 100% within 10 working days for VAT (Ireland).

The operational management system

In April 2005 an operations management system was implemented in all operational divisions of SARS. This included training in both the theoretical and practical applications of the following:

- Performance Management
- People Management and coaching
- Work segmentation and allocation
- Utilisation of direct reports
- Work loading.

These were linked to the concepts of a disciplined and regular meeting cycle where exception reporting would become the norm. This was designed to create an improved rhythm for the organisation that would regulate its activities.

To date all the processes have been embedded and are measured by a series of checklists and report templates. These show a 90% compliance rate (as compared to a planned rate of 75% at this stage of the process). This success prompted the introduction of the system to all support divisions with an implementation date of 1 October 2005. The focus in these divisions was mainly on the meeting cycles, reporting regime, performance management and people management (coaching).

The operational management system has proven to be a success in its first year. The process has been embedded, and the focus for the current year will be on the following:

- Consolidating the meeting cycles so as to maintain and build on the rhythm established
- Consolidating the reporting cycles and templates with emphasis placed on managers interrogating reports and creating value added and informative reports
- Enhancing the ability of the regional managers to collate, interrogate and analyse information so leading to a more proactive management of their regions through a better understanding of the business
- Creating a culture of accountability.

Measuring performance

In order to measure performance against the Service Charter, the management dashboard was developed and is being implemented throughout the business. The management dashboard is an extremely powerful executive engine which collates over 1 000 performance measures across all levels of SARS. This creates the basis for consistent and continuous review of key indicators, especially lead indicators, making it possible to predict results and facilitates continuous proactive planning, measurement, and fine-tuning, thus reducing re-work, lost time, and missed opportunities.

Optimising processes

In order to facilitate the processing of high volume input and to cater for anticipated further growth in the tax register, SARS operations has sought to optimise its processes in the five assessment centres, 40 branch offices, two call centres, eight enforcement centres, six customs offices and 28 border posts. The assessment centres deal with the bulk processing of documents across the different tax types. They are mainly in the major cities and deal with the processing volumes for the entire country. Branch offices mainly perform client facing service activities and referrals. There are two call centres servicing the entire country, based in the Western Cape and KwaZulu-Natal. These handle different types of enquiries from taxpayers and have the functionality to divert calls, thus ensuring optimal utilisation of their combined capacity. Enforcement centres carry out activities to improve the compliance culture in our society. These activities include, among others, the performance of audits and collections of taxes and returns outstanding. Our customs and border operations are focused on protecting our industries and facilitating trade. Their activities include ensuring that no illicit, contraband products come into the country with adverse consequences for our economy and that the correct duties are paid on goods moving in and out of the country.

OPERATIONS: ENHANCING EFFICIENCY

Call centre enhancements:

- Introduction of quality assurance to identify areas of improvement and provide the necessary training and development opportunities
- Continuous development and learning opportunities for call centre personnel
- Enhanced skills and broadened competencies, thereby improving service delivery and first-call resolution
- Fax service launched with call centres - 8 000 faxes received daily (KwaZulu-Natal and Western Cape)
- Increased capacity by appointing 131 new agents
- Taking over of calls from 10 new offices
- Migrated switchboard calls in some offices to the call centre. Migrated offices this year are: Alberton, Benoni, Bloemfontein, Boksburg, Brakpan, Krugersdorp, Germiston, Roodepoort, Springs, Kroonstad, Kimberley, Welkom, Port Elizabeth, Uitenhage, East London and Mthatha.

Call volumes at the national call centre have increased by 115%.

Figure 5.1: Call centre statistics

Calls answered	% calls abandoned	% calls answered within 20 seconds
3 295 908	4%	80%

Electronic enhancements

During the period under review SARS made significant new investments in client-facing technology systems – specifically eFiling. Businesses have rapidly adopted eFiling because of its convenience and the other benefits information technology offers corporate taxpayers. The SARS eFiling channel offers taxpayers the ability to submit and make associated payments in a secure environment for VAT, PAYE, SDL, UIF, trusts and provisional tax returns over the internet. The increasing value of electronic payments received reflects the confidence taxpayers are gaining in this online interface. In the reporting year, the eFiling interface was expanded to enable taxpayers to amend their personal records online. SARS also launched a new online transfer duty system for conveyancers to access and submit declaration forms and effect transfer duty payments.

Large business taxpayers were provided with the facility to lodge reportable arrangements, and tax practitioners can now register online. The benefits to SARS from these arrangements include greater operational efficiency and cost savings.

Processes within eFiling have been optimised and extended through greater call centre efficiency and enhancement of the core technologies. This has enabled eFiling to provide a secure mail facility for important taxpayer information and to make use of mobile technology to correspond with the taxpayer.

The focus has subsequently shifted to the individual taxpayer with the provision of functionality to submit personal income tax returns. This will make eFiling available to a new market segment and broader taxpayer base, and provide for an enhanced individual taxpayer experience.

A new service that SARS will be offering is the opportunity to apply for an advance tax ruling in respect of particular large business transactions. The eFiling system will provide a portal through which taxpayers will interact with SARS regarding the application and ongoing monitoring of the status of the advance tax ruling.

Electronic filing has a range of business benefits for SARS, including:

- Increased level of service provision and access to taxpayers through a basic web presence
- Significant reduction of operational costs with regard to postage, printing and labour
- Improved turnaround times and standards regarding queries and responses
- Consistency and accuracy of data with full audit trail and interaction details
- Seamless integration with SARS back-office systems, (e.g. SAP) and major banks
- Totally automated reconciliation process and security
- Improved return on investment and economic feasibility due to increasing volumes.

In recent years this service offering to the taxpayer has grown exponentially in both volumes of transactions processed and in registrations as illustrated by figure below.

Figure 5.2: eFiling registrations and transactions

	2002/03	2003/04	2004/05	2005/06	F/cast 2006/07	F/cast 2007/08	F/cast 2008/09	F/cast 2009/10
eFiling returns processed	51 396	122 219	522 574	-	-	-	-	-
eFiling taxpayers	40 352	127 531	287 335	378 979	568 469	852 703	1 279 054	1 918 581

OPERATIONS: ENHANCING EFFICIENCY

Process and information management

SARS recognises the strategic value of marrying the disciplines of process engineering and information management. As a result, SARS has established and developed a benchmark process and information management (PIM) division. In the space of two years PIM has made the following significant contributions to advancing the work of the organisation:

- A process-engineering methodology and process-modelling tool set have been introduced
- Nineteen process-optimisation projects were completed and a further nine were completed by April 2006
- The SARS quality management model was approved
- The enterprise data warehouse and operationalisation of data quality, data mining, data extracts and geographical information systems were successfully completed in April 2006
- The debt management process – Analysis of the previous debt process, coupled with the evaluation of local and international debt benchmarks, resulted in the re-engineering of the debt process. These improvements increased debt collections by R1,6 billion in the first year due to a 230% increase in taxpayer contacts in 23 separate enforcement locations. The next phase of this project will entail the automation of the debt process
- The front and back office customer query resolution process alignment project – This project investigated and resolved problems raised by business with respect to the lack of alignment between front and back office processes, no process standardisation, long queues and poor utilisation of technology. A new query resolution process was designed with quicker turnaround times, improved standardisation through predefined query types and quality checks, and use of a single system to track customer queries
- The business process management project – Business process management is the ability to have control over all parts of an end-to-end process. SARS has embarked on a journey that has seen business process management technology being introduced as a conceptual business case. The next step is to move to a small, focused proof of concept that will gradually be scaled up to become an effective enterprise-wide solution capable of catering to the modelling, simulation, execution, integration and monitoring of process performance. Some of the key benefits resulting from typical, benchmarked business process management initiatives include reduced costs, reduced cycle times, reduced risk, an improved quality/error rate and a reduction in the use of paper
- The Large Business Centre process project – Design of a process solution has enabled the Large Business Centre to optimise the utilisation of SARS's core system and render an efficient service to large business customers

- The human resources process project – This project successfully re-engineered the SARS recruitment, induction and exiting processes, significantly reducing process cycle times and associated costs
- The assessment process project – The processing of assessment returns is a key SARS function. During the year under review this process was redesigned. The new process was subjected to rigorous piloting and testing. The results of the pilot implementation formed the basis of the new processes implemented for the 2006 filing season.

Improved cost efficiency/value for money

These and other process efficiencies and operational enhancements are beginning to pay dividends – not just in terms of improved revenue collection as discussed in the previous chapter but in cost effectiveness of collection. The year in review saw an improvement in the cost:collection ratio further improving SARS's international competitiveness in this regard. SARS collected R417,33 billion at a cost of approximately 1cent per Rand collected (compared to last year's 1.2 cents per Rand collected).

Figure 5.3: Cost to net revenue calculation

			2005/06	**2004/05**
Net Revenue	A	Rb	409,934	353 794
% Increase Year on Year			15,9%	16,1%
Operational Cost including depreciation	B	Rb	4 925	4 312
% Increase Year on Year			14,2%	21,0%
Capex	C	Rb	0,156	0,237
Cost including capex	D	Rb	5 081	5 549
% Increase Year on Year			11,7%	15,2%
% Cost to Revenue	[B/A]		1,20%	1,22%
% Cost including capex to Revenue	[D/A]		1,24%	1,29%

OPERATIONS: ENHANCING EFFICIENCY

Conclusion and the way forward

SARS is committed to continuously improving operational efficiency to deliver on its mandate. It will continue to monitor its performance, optimise procedures and processes, and seek out appropriate technological solutions to ensure that it delivers the most cost effective service while offering taxpayers and traders an efficient, customer-friendly experience.

6

CUSTOMS:

IMPROVED TRADE ADMINISTRATION & BORDER SECURITY

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Overview

International trade is regarded as a key driver of economic development. Exports encourage domestic production, competitiveness and job creation. Imports help to satisfy local demand and enhance consumer welfare. South Africa is a trading economy and over 50% of GDP is related to trade. In 2005, South Africa imported and exported goods worth more than R680 billion.

In recent years a host of factors, national, regional and international, have changed the pattern of trade across the globe. The landscape in which Customs operates is becoming increasingly complex because of sharply increased trade volumes, the proliferation of trade agreements and the growth of more complex trade rules.

Hand-in-hand with increased trade goes increased risk, as crime syndicates and rogue traders exploit international trade supply chains to smuggle goods, trade in counterfeits, launder money and employ a range of dubious practices to evade duties and taxes. These activities undermine national economic security and distort the trade playing field.

As the government agency responsible for the administration of international trade, SARS is responding to the changed landscape. SARS Customs plays a key role in securing South Africa's international trade supply chains and in protecting the economy by controlling the movement of goods across our borders. It is our first line of control in protecting our society and the economy from harmful substances, illegal weapons, terrorist activities and economic fraud.

Customs has the task of administering South Africa's trade agreements and commitments to the World Trade Organisation (WTO). South Africa is also a signatory to numerous conventions of the World Customs Organisation (WCO), for example the revised Kyoto Convention, and Customs has to ensure that all parties involved comply with all relevant national, regional and international laws, conventions and agreements.

Through the application of new international Customs and trade rules, SARS is positioning South Africa as a responsible, safe and secure trading partner.

Highlights

- 8% growth in full containers Twenty Foot Equivalent Unit (TEU) landed at South African ports and a 5% growth in international travellers that passed through the international airports
- Documentation scrutinised for both imports and exports exceeded set targets resulting in import and export interventions being increased by 40% and 174% respectively
- Counterfeit seizures have increased by 156% with cigarette seizures increasing by 98%
- Implemented an automated single registration form for all client types
- Bilateral Customs agreements were finalised with Brazil, Malawi and Uganda

Protecting our borders

During the year under review SARS continued with its work of securing and protecting South Africa's 28 points of entry. This was particularly evident in people and bag searches, cargo rummages and seraches as well as patrols and other security activities.

Cargo Stop Rates

This measure is defined in the Customs National Scorecard as Imports/ Exports Interventions. This covers the percentage of declarations that are stopped for examination including physical examinations (tailboard, tunnel, full unpack) but does not include anti-smuggling activities (e.g. detention of the manifest).

The international norm for cargo stopped for examination is around 5%. The target set by SARS Customs was 6% for the financial year 2005/06. We achieved 4,3% for imports and 6,7% for exports.

Cargo Examination Success Rates

SARS's risk-based methodology aims at achieving a high standard thus prompting management to set a success rate target of 20%. The success rate is calculated as a percentage of physical examinations. A success would include contraventions of any nature that are detected due to the examination conducted.

We achieved a 17,2% success rate for imports and 2,9% for exports. The combined success rate achieved was 7,27%. To meet our targets we intend to further enhance our risk analysis capabilities as well as our assessment skills for export processing.

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Percentage success of anti-smuggling activities

The 55% compliance rate target is based on the anti-smuggling framework of operational standards. The target is measured against the monthly plan for the anti-smuggling team and cuts across all the anti-smuggling activities. When split, the 55% target is as follows:

- 5% "people and bag searches". This measure includes people interviews; baggage searches; pat-downs; strip searches and internal body searches
- 15%"rummages/searches". This measure include examination or searches conducted on ships/yachts; aircrafts; vehicles; cargo and parcels/mail and courier
- 35% "patrols and other activity". These are activities conducted by anti-smuggling teams such as searches of premises; patrols; and road-blocks. Joint ventures are also included in this measure and are defined as activities conducted with other government departments.

Although most teams operated according to this framework, many offices found it difficult to report against the set standard. This is a fairly new framework and teething problems were expected. Activities were also hampered through the lack of resources.

As a result, the performances of the anti-smuggling teams have been moderate. The success rate figures achieved were as follows:

- People and Bag Searches – 0,62%
- Rummages/ Searches – 10,2%
- Patrols and Other Activity – 31,8%.

Increased ability to detect illicit trade and enhanced anti-smuggling activity

The number of counterfeit seizures has increased substantially by 60% for the 2005/06 year, when compared to last year. The registering of trademarks by brand holders, as per the Counterfeit Goods Act, is one of the major contributors to the high seizure rate as it enables Customs to intervene in terms of Section 15 of the Counterfeit Goods Act.

There were 846 seizures of counterfeit goods for the 2005/06 year (excluding counterfeit cigarettes), valued at R450 million. In comparison, there were 331 seizures (R232 million) in 2004/05 and 444 seizures worth R343 million in 2003/04.

During this financial year, 1 056 seizures of cigarettes were made (totalling to 228,1 million sticks of cigarettes), amounting to R93,5 million in value. Of these seizures, 153 were contraband and the remaining 85,5% were counterfeit cigarettes.This compares to 533 seizures worth R63 million in 2004/05 and 88 seizures worth R35 million in 2003/04.

Figure 6.1: Drugs

	2003/04	2004/05	2005/06
Type of Drug	No. Seizures	No. Seizures	No. Seizures
Cannabis	38	87	25
Mandrax	1	4	2
Cocaine	12	29	86
Ecstasy	3	5	2
Other Drugs	2	-	12
Total	**56**	**125**	**127**

Figure 6.2: CITES

(Commodities that fall under the 'Convention on International Trade in Endangered Species')

	2003/04	2004/05	2005/06
No. Seizures	34	93	23

Figure 6.3: Post Clearance Inspections (PCI)

Activity	2003/04	2004/05	2005/06
No. Audits Conducted	6 217	2 051	4 459
No. Successful	1 362	1 278	1 224

Figure 6.4: Passenger Volumes

Traffic through Customs	2003/04	2004/05	2005/06
No. of Passengers	12 801 427	14 321 123	15 368 003
No. of Cars & Buses	2 422 365	2 543 129	2 589 807
No. of Trucks	543 787	545 827	566 665

Facilitating trade

Protecting South Africa's people and its economy cannot be at the expense of the swift movement of goods and people on which any modern economy relies for continued growth and international competitiveness. As such, an important balance must be found between protection and trade facilitation. During the year in review a number of initiatives were undertaken to enhance the smooth flow of goods into, out of and through South Africa.

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Turnaround times for trade processes

The Enterprise Data Interchange (EDI) continues to provide significant efficiency benefits for users with EDI entries requiring a turnaround time of four hours and manually processed entries a turnaround time of 24 hours.

- Imports

Number of Import entries processed via EDI within 4hrs – 93%

Number of Import entries manually processed within 24hrs – 92,3%

- Exports

Number of Export entries processed via EDI within 4hrs – 94,9%

Number of Export entries manually processed within 24hrs – 93,9%

Document coverage

Customs has adopted a 70/30 acceptable level of risk principle. At the time of entry, 30% of all declarations are subjected to further risk based analysis and assessment by Customs. The 70% that is released without scrutiny at the time of entry is subjected to subsequent post clearance scrutiny either in the form of transaction-risk-based or sector-risk-based inspection and audit. Risk at the time of entry is managed by a risk engine, comprised of a combination of national and regional risk indicators, which automatically selects declarations for further analysis at the time of entry.

We exceeded the target of 20% of documentation to be scrutinised for both imports (27%) and exports (90%).The target was based on the 80/20 principle, under which 80% of goods are released without scrutiny while 20% of goods are selected for scrutiny based on risk. A key factor in exceeding the targets was the high rate of compulsory stops. For imports, more than 90% of declarations are submitted electronically and therefore the percentage achieved is close to the target.

A pilot project is in progress with specific clients to enable full paperless submission for exporters. In the same vein accredited exporters by arrangement with the particular office, are authorised to submit periodically in order to fulfil Reserve Bank documentary requirements. Note that these exports are submitted within legal time requirements, electronically.

Registration/ Accreditation

This involved cleaning up the database and implementing an automated single registration form for all client types.

Manifest Control

Implementation of further functionality to the automated manifest acquittal system with attributes to accept electronic submission, to acquit real-time and to generate exception reports in terms of cargo discrepancies for anti-smuggling teams to act on. The remaining phase of this initiative is to legislate for the compulsory submission of the electronic manifest.

Improvement in infrastructure and equipment (border, warehouse and scanner)

In 2005 SARS embarked on a process to acquire container scanners for its ports of entry as part of investments to improve border protection and trade facilitation. The acquisition of scanners and scanner-related services aims to improve the capability of SARS's customs control responsibility and to secure trade into and out of South Africa and indeed Southern Africa. This process will be finalised during the coming financial year.

Implementation of the general annex to the revised Kyoto Convention

We have exceeded our target of 50%, and 90% of the general annex has been incorporated into the Customs legislative instruments (i.e. Customs Act, Rules and Policy). The target measures the compliance of SARS legislation, policy and procedures to the standards set out in the general annex.

The redrafting of Customs legislation establishes the Revised Kyoto Convention as the legislative foundation. However, there are a few principles of the general annex that have yet not been adopted as they are in conflict with current national legislation.

EXCISE

There have been a number of significant developments during the period under review:

Review of the Excise Rebates Schedule (Schedule 6 to the Customs and Excise Act)

During the year a major review was undertaken of Schedule 6 to the Act with the purpose of simplifying and making excise rebates more focused on and available to industry. The provisions of the new revised Schedule 6 took effect from 1 April 2006.

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Provision of new loss allowances for Licensed Spirits Warehouses

Section 75 of the Customs and Excise Act has been amended to provide for fixed loss allowances for losses incurred during the transport and storage of bulk spirits. Such allowances relieve licensees from payment of the excise duty on product unavoidably lost prior to delivery for consumption. These provisions took effect from 1 April 2006.

Collection of Road Accident Fund Levy

Following a decision by The Minister of Finance that SARS take responsibility for the collection of the Road Accident Fund Levy from 1 April 2006, administrative arrangements based on the “Duty at Source” principle applied to the collection of the Fuel Levy and the Excise duty on petroleum products have been developed and implemented.

A number of key initiatives were completed during the period under review. These were phase one of the restructuring of Excise, an Excise training and development programme and the publication of a number of excise procedure guides for industry.

INTERNATIONAL COOPERATION

South Africa’s integration into the global economy requires SARS to participate in the activities of international organisations focusing on the development of trade and Customs regulatory and cooperation instruments. It also requires SARS to establish and maintain close relationships with other administrations to both facilitate legitimate trade and combat fraud and evasion. SARS also contributes to the government’s foreign policy objective of supporting the development of Africa.

Participation in African programme

SARS played a key role in the establishment of the African Union (AU) Sub-Committee of Customs Directors-General by hosting the first All Africa Customs Conference. The Sub-Committee advises the AU Trade Ministers on international trade administration issues and is currently focusing on the impact of the proliferation of regional trade agreements on Customs.

At regional level, SARS participates in the activities of the:

- WCO East and Southern Africa region
- Southern African Development Community (SADC)
- Southern African Customs Union (SACU).

In the WCO East and Southern Africa region, SARS support the implementation of WCO instruments by Customs administrations as well as capacity building initiatives. A Memorandum of Understanding (MoU) was concluded between SARS and the WCO to establish a Regional Training Centre in South Africa and a number of training interventions have been hosted, including the WCO Customs Diagnostics Workshop in February 2006. SARS also supports the activities of the WCO Regional Capacity Building Centre that is located in Kenya and the Regional Intelligence Liaison Office.

Within SADC, SARS participates in the activities of the SADC Customs Sub-Committee and its eight advisory working groups. The objective of the SADC activities is to support the smooth implementation of the SADC Protocol on Trade that is aimed at creating a SADC Free Trade Area. The SADC activities are currently focused on the administration of rules of origin, the development of a SADC transit system, the establishment of harmonised SADC tariff nomenclature and systems connectivity.

The new SACU Agreement came into force in July 2004 and provides for the imposition of a common external tariff by the five SACU countries on goods imported from third countries and the free-of-customs-duty movement of goods between the territories of the SACU countries.

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

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

Other key developments and achievements in 2005/06 include:

- Pravin Gordhan, the SARS Commissioner, served his fifth term as Chairperson of the WCO Council
- The Hungarian Customs and Finance Guard awarded Mr Gordhan with a medal for his contribution to the international Customs community
- SARS officials were elected to serve, respectively, as Chairperson of the WCO’s Information Management Sub-Committee and Vice-Chairperson of the WCO Enforcement Committee
- High-level Customs discussions took place with the People’s Republic of China, Mozambique, Lesotho, India, the United States and the European Commission

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- A Memorandum of Cooperation on Capacity Building was concluded with the Lesotho Revenue Authority
- Phase 1 of the SARS / Swaziland Customs Systems Integration project was completed
- Bilateral Customs agreements were finalised with Brazil, Malawi and Uganda, signed with the Democratic Republic of the Congo and the agreement with Mozambique entered into force
- SARS successfully hosted 14 benchmarking and study visits for other African administrations
- Regional training interventions were hosted at the SARS Academy and four bilateral training sessions were completed
- SARS was invited and delivered a presentation on international risks and international connectedness at the Second Annual Customs Symposium of the New Zealand Customs Service
- SARS participated in discussions with the Customs administrations of Brazil and India within the framework of the IBSA Special Dialogue Forum.

Conclusion and the way forward

On 26 January 2006, World Customs Day, the Commissioner announced the launch of the Customs Modernisation Programme. The programme will include the setting up of a policy unit, managing the Green Paper process and the setting up of a Customs Border Control Unit.

In the coming year, the Minister of Finance will be releasing a Green Paper on Customs Modernisation for public comment with a view to finalising a White Paper and initiating the process of customs legislative reform. In essence, the Green Paper starts from the premise that the key challenge is to work smarter so that SARS Customs contributes to the expansion of trade while at the same time minimising breaches of economic security and risk. In other words, facilitation of trade without comprising controls.

In order to achieve that, SARS Customs will pursue significant shifts towards the more intelligent monitoring of the international trade supply chain, the simplification and harmonisation of procedures, a smarter and more assertive border management and enforcement approach and stronger international and regional partnerships.

As a parallel initiative to completing the Green Paper process, an increased operational impact will be sought by strengthening the Customs component through further recruitment and training of staff and improving the visibility of Customs operations through the deployment of dog units and new marked vehicles.

7

ENFORCEMENT:

IMPROVED COMPLIANCE AND RISK REDUCTION

ENFORCEMENT: IMPROVED COMPLIANCE AND RISK REDUCTION

Overview

SARS's drive to create a robust culture of compliance and good fiscal citizenship is informed by the SARS compliance model with its three legs: education, service and enforcement. Education is aimed at making citizens aware of their tax obligations and improvements in service at making it easier for them to comply. It is believed that the majority of taxpayers and traders prefer compliance over non-compliance. For those who fail to meet their tax obligations, however, either by omission or wilfully, SARS has a range of service and enforcement options to address non-compliance accordingly.

The Enforcement function of SARS comprises a variety of activities ranging from targeted campaigns and proactive enforcement checks to investigations, sanctions and ultimately prosecution. Enforcement is divided into four functional sections: audit, debt management (collection of money owed and management of the debt book), collection of outstanding returns and criminal investigations.

The grouping together of these functions in Enforcement centres across the country has enabled a more integrated view of taxpayers and resulted in sharpened enforcement skills and cross-functional synergy in administering revenue laws.

In addition, significant cases and industry campaigns are managed on a national level. Significant cases are high profile cases that have a strategic interest for SARS. Industry campaigns are conducted to raise levels of awareness among taxpayers, traders and tax practitioners to encourage a culture of compliance.

Highlights

- Collection of 1 161 272 outstanding returns which is an increase of 28%
- A 79% success rate in risk-based audits compared to last year's 46%
- Total audits conducted increased by 6%
- Total revenue assessed increased by 26%, totalling R14 908 737 819
- 1 181 criminal cases were finalised which is an increase of 82% against the previous year
- Successful prosecutions increased by 27%, resulting in a total of 382 convictions

Compliance Behaviour

The primary goal of SARS is to collect the taxes and duties payable in accordance with the law and doing this in a manner that will sustain confidence in the tax system and its administration. Instances of failure by citizens to comply with the law are however inevitable, whether due to ignorance, carelessness, recklessness, or deliberate evasion. Therefore, SARS has strategies and structures in place to ensure that non-compliance with tax laws is detected and deterred.

The obligations of taxpayers can be categorised into mainly four broad categories. These are:

- Registration in the system
- Timely filing or lodging of requisite taxation information
- Reporting of complete and accurate information (incorporating good record-keeping)
- Payment of tax obligations on time.

If taxpayers fail to meet any of the above obligations they may be considered to be non-compliant. However, there are clearly different degrees of non-compliance and these are addressed accordingly. Structured processes are followed to mitigate compliance risks. This involves the systematic identification, assessment, ranking, and treatment of tax compliance risks (e.g., failure to register, failure to properly report tax liabilities etc.). Such actions consist of assurance activities and enforcement activities.

Assurance activities are a form of quality assurance in respect of declarations and submissions made by taxpayers and traders. They typically take place after the fact, and consists of assurance audits, post-clearance inspections and examinations of goods at ports of entry. The aim of assurance actions is to verify and improve compliance in the known tax base. It aims to enhance compliance through increased visibility, increased taxpayer contact and increased coverage. Selection of assurance actions through an equitable case selection methodology ensures all taxpayer have an equal chance of being selected for relevant assurance actions.

Enforcement activities are responses which are aimed at deterring non-compliant behaviour through audit and investigations. These activities are intended to have punitive consequences and case selection has been substantially augmented by positive developments in the areas of intelligence and case management systems.

Visible successes to date have related to non-registration, non-filing and non-payment with the following results:

- A 9,5% increase in the tax register during 2005/06
- Improvement in debt management
- Outstanding returns reduced by 21%.

ENFORCEMENT:
IMPROVED COMPLIANCE AND RISK REDUCTION

DEBT MANAGEMENT

The Debt Management strategy to reduce the debt book was implemented during the 2003/04 financial year. The debt book was segmented and resources were dedicated to the various segments. The change in strategy and restructuring of resources into the focus areas may have contributed towards the non-achievement of targets (refer to the figure below).

Debt management focuses not only on the collection of debt but also on the management of the debt book. The implementation of the New Debt Management Process ensured that debt is recognised earlier which improved case finalisation and reduced waste in the core and support process. The process also allows for the profiling of the cases upfront where only value adding cases are allocated to collectors downstream. The process ensures a progressive increase in pressure on taxpayers if they do not make payment after the first contact.

Debt collection

The performance of Debt Collections for the current year is 12% below target, as indicated in the figure below.

The decrease of R1 408 157 312 (6%) in money collected compared to 2004/05 is attributed to the fact that in 2005/06 greater emphasis was placed on managing the debt book which included the writing off bad debt, case finalisation and debt claimed as collected was due debt. This was different from the previous approach where the focus was on the collection of cash.

Figure 7.1: Debt collection

	2003/04	2004/05	2005/06
Amounts collected	R17 256 645 029	R21 931 792 116	R20 523 634 804
Annual target	R20 338 710 195	R22 707 518 235	R23 291 029 363
VARIANCE %	-15%	-3%	-12%

Debt Reduction

The due debt as a percentage of revenue collected at 31 March 2006 amounts to 14.3% against a target of 16%. In the light of this fact it is evident that the debt book has stabilised as a result of the various strategies and processes implemented (see Figure 7.2).

At 31 March 2006 the debt book of R66,2 billion includes new debt not due yet that amounts to R6,4 billion. Including debt not due yet, the debt book increased by R213 million from 1 April 2005 to 31 March 2006. Excluding debt not due yet, the debt book decreased by R2,2 billion from 1 April 2005 to 31 March 2006.

Figure 7.2: Debt reduction

Debt	As at 31/03/05	As at 31/03/06
Debt book value (incl. debt not due)	R66 billion	R66, 2 billion
Debt–to-revenue ratio (incl. debt not due)	19%	15,8%
Debt book value (excl. debt not due)	R62, 1 billion	R59, 8 billion
Debt–to-revenue ratio (excl. debt not due)	18%	14,3%

A specific project focusing on cases older than 24 months, deregistered, address unknown and estate cases, and cases greater than R1 million was launched during the year. Dedicated resources were allocated to the inflow of new debt from Assessing as well as debt from Enforcement activities to ensure that debt is collected within 12 months. The results of the project are as follows:

Figure 7.3: Specific projects - debt collection

Revenue debt project	Value at 31/03/2005	Value at 31/03/2006	Variance
> R1 Million	R 31 969 905 108	R 16 073 842 646	R 15 896 062 462
Coded cases	R 3 567 289 375	R 804 551 328	R 2 762 738 047
Older than 24 months	R 3 710 835 791	R 1 192 588 190	R 2 518 247 601

These strategies and actions also addressed the weaknesses identified by the Auditor-General including incomplete and inaccurate debtors and long outstanding debt not properly followed up or written off. The outcome of the strategies resulted in the stabilisation of the debt book. Since 2001 the debt book significantly increased until 2005 – see figure 7.4 below. The increase experienced in the debt book has a direct correlation with the increase in the tax register. During the 2006 year, the debt book (excluding debt not due yet) was reduced from R62,1 billion to R59,8 billion.

Figure 7.4: Revenue debt book (excl debt not due yet)

Fin Year	Revenue Debt outstanding	Variance	% Variance
2001	R29 472 834 365		
2002	R39 232 813 282	R9 759 978 917	33%
2003	R55 980 654 270	R16 747 840 988	42,7%
2004	R56 235 913 120	R255 258 850	0,5%
2005	R62 104 077 020	R5 868 163 900	10,4%
2006	**R59 811 694 628**	**R-2 292 382 392**	**-3,69%**

ENFORCEMENT:
IMPROVED COMPLIANCE AND RISK REDUCTION

The debt book, inclusive of debt not yet due has been stabilised, again due to the various projects and strategies implemented. The debt book has increased significantly from 2001 to 2005 and the debt as at 31 March 2006 has shown a slight increase of R213 million from R66,0 billion to R66,2 billion.

Figure 7.5: Revenue debt book (incl debt not due yet)

Fin Year	Revenue Debt outstanding	Variance	% Variance
2001	R33 444 873 266		
2002	R43 107 499 941	R9 662 626 675	29%
2003	R62 094 577 434	R18 987 077 493	44%
2004	R64 755 789 946	R2 661 212 512	4,3%
2005	R66 023 581 712	R1 267 791 766	2,0%
2006	**R66 236 784 815**	**R213 203 103**	**0,32%**

AUDIT

It is Enforcement's aim to ensure that a SARS presence is maintained in all economic and geographic areas and that each enforcement response is appropriate to the risk posed to SARS. Audit comprises of enforcement audits and assurance audits.

Enforcement audits are intended to have punitive consequences and case selection has been substantially augmented by positive developments in the areas of intelligence and case management systems. Enforcement audits focuses on a risk-based approach and to prove or disprove an allegation of non-compliance by a taxpayer.

The aim of assurance audits is to verify and improve compliance in the known tax base. These audits mainly focused on transactional type audits and in the main refund and deregistration audits.

Audit Coverage

SARS aims to ensure a consistent audit presence among all tax and taxpayers types and across the different sectors of the economy to detect non-compliance and to deter those who are inclined to evade their tax obligations. The results of the audit coverage are as follows:

Figure 7.6: Comparative Audit Coverage

Audit coverage						
Audit coverage	**Register 2005/06**	**% Coverage Achieved 2004/05**	**% Coverage Target for 2005/06**	**% Coverage Actual 2005/06**	**% Variance Actual vs. Target**	**% Coverage Actual vs. Target 2005/06**
Personal Income Tax	3 920 000	0,58%	0,62%	0,63%	0,04%	0,05%
Companies	790 000	0,55%	1,15%	1,51%	0,36%	0,96%
VAT	530 000	4,43%	5,00%	4,46%	-0,54%	0,03%
PAYE	270 000	1,33%	1,25%	1,35%	0,10%	0,02%
Total	**5 510 000**	**0,95%**	**1,15%**	**1,16%**	**0,01%**	**0,21%**

Audit analysis for 2005/06

The figure below indicates the industries which are the main focus of Enforcement audits. In addition, the corresponding revenue results are reported on. The revenue results represent assessments, reduction in refunds and reduction in assessed losses.

Figure 7.7: Industry audit coverage

Industry	**Number of audits**	**Revenue assessed**
Financing, insurance, real estate, business services	10 611	R7 552 975 612
Individual taxpayers - PIT	24 692	R1 809 238 661
Food, drink and tobacco	3 688	R1 273 971 479
Other manufacturing industries	3 360	R817 348 991
Construction	2 540	R744 832 307
Government departments	3 569	R669 618 411
Computers/electronics	2 716	R240 783 887
Others	12 724	R1 799 968 471
Total	**63 900**	**R14 908 737 819**

The majority of the audits conducted in these industries were cases selected through a risk profiling process. This process assesses the risk of non-compliance of taxpayers or within certain industries based on a range of factors including intelligence, historical profiles etc. A more detailed report on the role of risk-profiling and intelligence is contained later in this chapter.

ENFORCEMENT:
IMPROVED COMPLIANCE AND RISK REDUCTION

The highest assessment yield was from the financial sector, where, although only 17% of the total number of audits conducted came from this industry, it yielded approximately 50% of the total revenue assessed.

The high number of audits conducted on individual taxpayers is mainly due to the fact that audit time is significantly shorter than the audit time for corporate audits. This segment, however, only contributed to 12% of the total revenue assessed.

From the audits conducted, the major of causes of non-compliance are outlined in the figure below:

Figure 7.8: Types of non-compliance

Industry	Findings of non-compliance
Financial, Insurance, Real Estate, Business Services	• PAYE assessments in the main where fringe benefits were not accurately taxed
Individual Taxpayers - Personal Income Tax	• Under declaration of income • Assessments issued relating to share incentive schemes • Over declaration of expenditure
Food, Drink and Tobacco	• Deductions claimed which are not allowable for business purposes: Section 11 of the Income Tax Act incorrectly applied • Under declaration of income in terms of gross income definition • Secondary tax on companies not declared
Other manufacturing industries	• Income tax assessments mainly related to foreign exchange transactions incorrectly treated • VAT assessments related to transactions on which VAT was not declared
Construction	• VAT assessments in the main where taxable supplies were under declared and refunds claimed were reduced
Government departments	• PAYE assessments where fringe benefits were incorrectly treated and issues regarding labour brokers were incorrectly dealt with • VAT assessments mainly related to reduced refunds and taxable supplies were under declared
Computers/Electronics	• Deductions claimed which is not allowable for business purposes: Section 11 of the Income Tax Act incorrectly applied • Secondary tax on companies not declared • VAT assessments in the main where taxable supplies were under declared and the apportionment method was incorrectly applied

Implementation of the audit assurance programme

The implementation of the assurance programme for Enforcement entailed the introduction of assurance audits, over and above the risk-based approach that was followed over the past years. During the financial year ending 31 March 2006, the audit resources were split between enforcement and assurance audits. The enforcement audits focused on a risk-based approach and to prove / disprove the allegation of non-compliance of a taxpayer. One of the key measures in the strategic plan was to achieve a 60% success rate in risk-based audits. The actual achievement for the year was a 79% success rate in risk-based audits.

Assurance audits mainly focused on transactional type audits and in the main refund and deregistration audits. The random case selection audits were limited to audits conducted as part of the filing season campaigns, where 5 248 individual taxpayers were randomly selected to verify travel allowances. The non-compliance relating to incorrect claims in the sample selected dropped to 10,7% from 18% non-compliance in the 2004/05 filing season campaign. Random audits will be extended in the 2006/07 financial year.

INDUSTRY CAMPAIGNS

Our assurance activities have become more focused over recent years, and campaigns targeted at specific industries have yielded positive results.

To reduce the risk of non-compliance SARS has significantly enhanced its business intelligence and increased its risk-profiling capability with among other things, the development of risk profiling tools. Enforcement has segmented the tax base by tax type for debt collection and audit purposes and by industry sectors for audit, education and compliance campaigns. This has resulted in an improved understanding of non-compliance in specific segments of the tax base and appropriate strategies have been developed to address the areas of non-compliance. Subsequently, a number of critical areas were identified that required a special enforcement focus. The 11 industries selected were treated as campaigns and the launch thereof was phased in, in order to maximise the utilisation of resources and to increase the impact.

Abalone campaign

This is an industry which has been fraught with the illegal harvesting of a protected commodity, rapidly decimating abalone stocks. There is evidence that abalone is being bartered for drugs and

ENFORCEMENT: IMPROVED COMPLIANCE AND RISK REDUCTION

that syndicates are involved. Interaction with regional law enforcement agencies ensured that syndicates were identified and an anti-smuggling team has been formed to address the main exit routes of smuggled abalone.

Currently 72 cases are in progress to ensure the registration as taxpayers, submission of returns and conducting of audits and/or investigations.

Alcohol campaign

High excise duty on alcohol and related products make smuggling very lucrative, with minimal risk. There is a small chance of detection, high returns for any risk incurred and a vast and ready market for cheap alcohol.

Enforcement conducted inspections on a range of retailers. In total 122 liquor retailers and wholesalers were visited in KZN and Gauteng. Three hundred (300) cases of white liquor were seized. Some of the alcohol was sent for analysis and was found to contain alcohol per volume that was less than the stipulated amount. The Department of Agriculture is looking into this matter. One liquor retailer provided a false declaration on the pricing model in use and is to be criminally prosecuted.

Government departments campaign

Government departments are important agents for SARS because of the vast amount of PAYE they collect on behalf of SARS. Municipal, provincial and national public entities collectively employ about 1 million officials and collect about R15 billion per annum in employee tax. In addition, significant amounts of VAT are paid to and claimed by government departments and related entities. SARS, as part of its mandate, aims to strengthen and embed fiscal citizenship across all sectors, public and private. Given the Government's policy to enhance investment through selective and strategic Public Private Partnerships where Government partners the private sector in commercial undertakings, new approaches to embedding sound public fiscal citizenship will become even more urgent.

There has been a notable increase of non-compliance with tax legislation by various government departments and related entities, particularly in relation to the Income Tax Act. SARS has and is continuing to conduct PAYE and/or VAT audits at 72 municipalities and 52 government departments and related entities. Audits revealed both generic and departmental-specific areas of non-compliance with the following results:

- Collected R254 million and R101 million in PAYE and VAT respectively from government departments and related entities
- Assessments of R73 million were raised for VAT in municipalities
- Collected R50 million in addition to the self assessed liability of government departments.

The new approach for government departments is to appoint designated tax managers that will assist in improving compliance. SARS will embark on a process of concluding detailed technical Memoranda of Understanding (MOU) with all government departments and related industries. It is envisaged that the MOUs will address a range of generic and departmental-specific matters such as the Departments' responsibility for the accurate collection and timely payment of taxes and SARS's role in educating and servicing taxpayers and employers.

SARS is proposing a help desk for government departments and related entities. The help desk will play a significant role in improved service delivery. The national help desk will focus on national government departments whilst regional help desks will focus on provincial government departments and municipalities.

Clothing, footwear and textile campaign

This is an industry fraught with under-valuation and smuggling throughout the value chain. There is also a crisis in terms of the management of the Duty Credit Certificates (DCC) administered by the Department of Trade and Industry (DTI). As a result of the massive volumes of Chinese imports which are brought in at very low values the impact on local manufacturers has been devastating, resulting in approximately 43 500 lost jobs since the beginning of 2003.

High profile interventions have taken place such as the visits to Dragon City in Johannesburg and to Newcastle. As a result of this intervention over 300 importers of Chinese products are in the tax net and are being monitored.

Confectionery campaign

The problem relates to confectionery imports from Brazil. The importers have chosen to declare these at values which, from evidence found on their premises, indicate the doctoring of invoices. This is often done in collusion with the manufacturer in Brazil.

ENFORCEMENT:
IMPROVED COMPLIANCE AND RISK REDUCTION

Several businesses were inspected and documentation and computers were seized. An analysis indicated that duplicate invoices were being produced and that SARS was being defrauded. Subsequent audits and Customs inspections confirmed this. This project is ongoing and is mainly at the assessment and collection phases.

A total number of 17 importers of confectionery from Brazil have been audited. The assessment figure currently stands at R100 million.

Due to the number of audits which have been conducted a number of the usual importers have ceased import activity and a range of newer importers have surfaced.

Tobacco Campaign

The smuggling of cigarettes is a major and growing concern to SARS because of the vast amounts of revenue evaded in each smuggling incident. The large increase in reported cases and the links to organised crime as well the scale of corruption involving government officials indicate that there is a serious problem. The losses to revenue manifests in customs and excise duties as well as the loss of indirect taxes, e.g. VAT.

During March 2006, 28 stores were inspected. The objective was to ascertain the quantity of goods which had not been dealt with correctly in terms of duty payable. Files from three clearing agents were impounded for audit purposes. The premises of three distribution agents were raided and documents were seized.

Joint actions with SAPS led to the arrest of 11 suspects. Smuggled goods to the value of R7,2 million were seized. Four containers of smuggled cigarettes to the value of R18 million were confiscated at one of the border posts and were subsequently destroyed.

Motor Industry Development Programme (MIDP)

The MIDP scheme is an initiative of the Department of Trade and Industry (DTI) with the objectives of creating jobs, producing cheaper cars for the local market and attracting foreign investment. However, from audits which have already been conducted, it is evident that the scheme is characterised by valuation inconsistencies. Audit findings indicate a level of deliberate non-compliance by some in the industry with regards to the declaration and calculation of foreign currency usage as well as the fraudulent use of rebates.

Property Industry

The property industry spans all taxpayers and industries. Problems in the property industry relate to non-payment of taxes when property is disposed of or the incorrect taxation of sales. This spans all tax types and includes transfer duty, VAT and Income Tax (revenue versus capital issues).

- Collection in outstanding taxes when property is transferred amounted to R77 million
- Debt was secured pro-actively and then collected by obtaining an undertaking by conveyancers to pay over the secured amounts on behalf of the taxpayer and resulted in taxes of R1,2 billion being collected
- During the 2006 financial year SARS has rolled out new documentation to be completed when a property is transferred. This documentation supplies important information on the seller, buyer and the property being transacted and will support the initiatives above
- Progress has been made in further testing legislation in the area of 'Schemes of Profit making'. The cases to be tested are mainly transactions between related entities where revenue profits are seemingly disguised as capital profits.

The achievements per campaign are depicted below:

Figure 7.9: Campaigns: Assessments / schedules raised vs. Revenue collected for 2005/06

Industry	**Revenue**		
	Schedule & Assessments raised	**Collected**	**Outstanding**
Abalone	R25 600 000	-	R25 600 000
Alcohol	R56 900 000	-	R56 900 000
Cellular Phones	R48 500 000	R32 300 000	R16 200 000
Clothing, footwear & textile	R76 000 000	R4 205 000	R71 795 000
Government Departments	R257 100 000	R257 100 000	-
High Net worth individuals	R1 300 000	-	R1 300 000
Importation of second hand motor vehicles	-	-	-
Property	-	-	-
Sweets & Confectionery	R91 214 000	-	R91 214 000
Tax Consultants	R380 600	-	R380 600
Tobacco	R15 900 000	R13 600 000	R2 300 000
Total	**R572 894 600**	**R307 205 000**	**R265 689 600**

ENFORCEMENT:
IMPROVED COMPLIANCE AND RISK REDUCTION

Figure 7.10: Breakdown of campaign activities

Campaigns: Breakdown of activities for 2005/06	
Activity	**Results**
Number of raids conducted	145
Number of inspections conducted	30
Number of audit conducted	414
Number of detentions	13
Number of seizures	6
Number of criminal cases	133

Figure 7.11: Campaigns Convictions

Successful convictions with regards to Campaigns		
Industry Sector	**% of total**	**Total**
Sweets, confectionery and tobacco	6%	22
Government departments (Contractors rendering services to)	14%	55
Property	1%	2
Drugs and other Customs	8%	29
Clothing, footwear and textile	10%	40
Total	**39%**	**148**

Inspection campaign 2005/06

In addition to the enforcement campaigns listed above, there was also an inspection campaign aimed at ensuring that small business complies with the relevant tax legislation. The inspections campaign was conducted nationally and the results and feedback will inform the way forward on inspections to be conducted in the new financial year.

The campaign in 2005/06 focused on four areas of non-compliance in the small business sector: Identifying non-registered small businesses; verifying registration information of small businesses; ensuring and improving compliance by existing businesses in terms of proper record keeping and updating the SARS database in respect of taxpayer registration details

The campaign’s main purpose was to increase SARS’s visibility through street walks and random selection of existing taxpayers. The outcome of the campaign is to identify small businesses who may be subjected to audit.

During the inspections campaign, 6 025 small businesses were visited. The non-compliance reported only relates to non-registration for a specific tax. The veracity / accuracy of declarations cannot yet be reported on as it is still work in progress.

The following figure indicates the non-registration per tax type for the businesses inspected:

Figure 7.12: Non-registration per tax type

National Statistics	Require registration – IT	Require registration - VAT	Require registration – PAYE
Percentage of businesses non-compliant	50%	38%	36%

The top four cities where a high prevalence of non-compliance of registration occurred were: Pretoria, Johannesburg, East London and Nelspruit.

KNOWING WHERE TO LOOK: THE ROLE OF INTELLIGENCE AND RISK-PROFILING

The intention of the Business Intelligence Unit (BIU) in SARS is both to detect tax evasion and to increase a taxpayer's risk of detection. SARS attaches great importance to drawing the attention of taxpayers and traders to the consequences of non compliance. Risk-based and random cases are used to determine the compliance of taxpayers. Random cases are used to assess compliance status whereas risk-based cases are used to change known non-compliant behaviour.

Sectoral risk analysis provides SARS with in-depth information about specific sectors of the industry. Active collaboration within legal frameworks amongst the police, prosecuting authority and other agencies increases the effectiveness of SARS's enforcement actions in these sectors. Enhanced collaboration with a number of professional bodies and tax practitioners is also instrumental in promoting increased compliance with tax provisions.

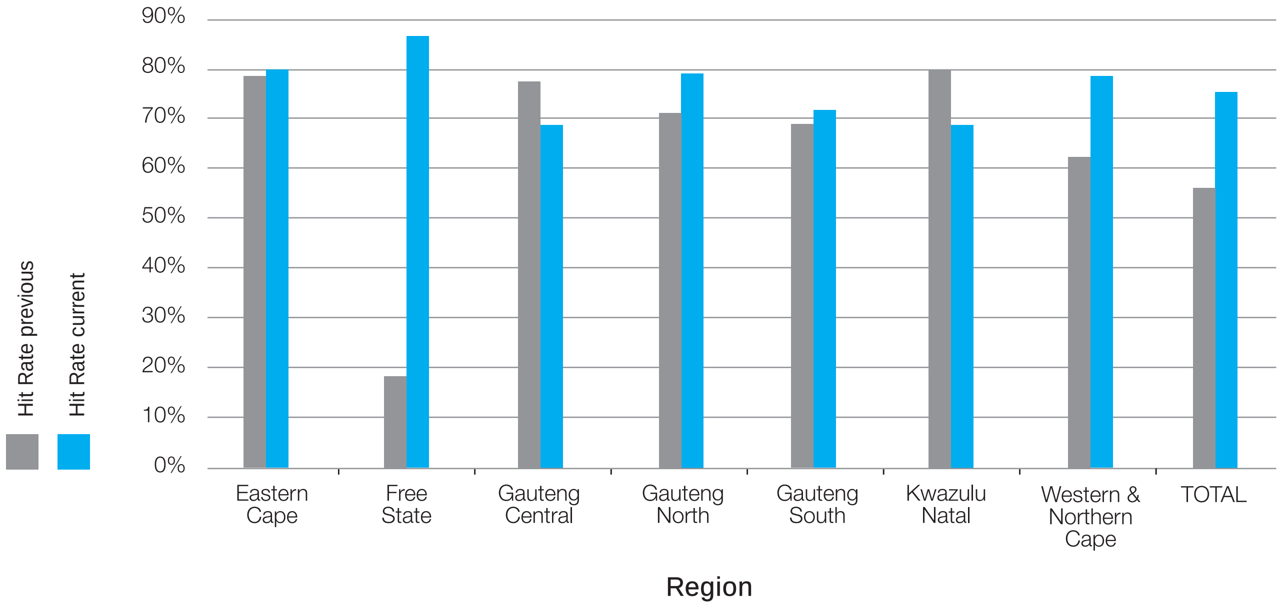
Client risk analysis supports SARS's business units by identifying and assessing the risk posed by individual entities. This allows it to better pinpoint risk and take the appropriate steps to mitigate risk, ensuring that the tax obligations of the entities are met. After compiling in-depth profiles of "risky clients", the cases are passed on to Enforcement for action. During the year under review the unit completed 4 156 profiles of clients. All these requests were finalised within the prescribed turnaround time. Intelligence gathering and sharing with other law enforcement agencies improved as well.

ENFORCEMENT:
IMPROVED COMPLIANCE AND RISK REDUCTION

A hit-rate of 77% was achieved on the cases referred, as compared to 66% of the previous period.

In the period under review the hit-rate on the cases referred to Enforcement is given in the figure below:

Figure 7.13 BIU Hit rate for GAP (risk based) cases referred to Audit (Enforcement) per region - year on year comparison



In order to further enhance the support the Business Intelligence Unit renders to the organisation and to optimise the potential for efficient data usage, various initiatives have been undertaken. The design, creation and utilisation of risk tools and the pursuit of a risk-based approach are a significant advances in improving organisational efficiency.

Intelligence Co-ordination

A sound working relationship has been established in accordance with chapters 71 and 73 of the Prevention of Organised Crime Act with the Asset Forfeiture Unit and the Financial Intelligence Centre. The premise of this relationship is that if an individual/company is being investigated, there is invariably non-compliance, tax evasion or tax avoidance implications.

By engaging with the Border Control Co-ordinating Committee SARS is able to address concerns the committee has. Other external clients Risk Management engages with are National Intelligence Co-ordinating Committee, Regional Intelligence Liaison Office, Eastern and Southern African Money Laundering Group as well as the South African Police Service, National Intelligence Agency and others.

Figure: 7.14: Intelligence requests from external agencies

Month	Profile/Information requests from SARS	Asset Forfeiture Unit (AFU) in 6 months of POCA	Financial Intelligence Centre (FIC) in 6 months of FICA
April	439	31	0
May	284	66	1 (5 Entities)
June	266	153	2 (8 Entities)
July	1 260	62	2 (3 Entities)
August	878	134	3 (6 Entities)
September	8 235	164	1 (6 Entities)
October		37	3 (17Entities)
November		117	4 (9 Entities
December		58	2 (5 Entities)
January		52	0
February		43	0
March		49	3 (3 Entities)

CRIMINAL INVESTIGATIONS

The number criminal cases finalised for 2005/06 exceeded the target by 311 cases (36%). Criminal Investigations completed increased by 532 (82%) compared to 2004/05. Successful prosecutions exceeded the target for 2005/06 by 19 cases (5%). Successful prosecutions have increased by 81 convictions against the 2004/05 year. This is an improvement of 27% in successful prosecutions from 2004/05. The results are highlighted in the figure below.

Figure 7.15: Criminal Investigation results

Criminal Investigations							
Area	Case number target 05/06	Number of cases attended to 05/06	Number Variance	% Variance	Number of cases attended to 04/05	Variance 05/06 vs. 04/05	% Variance
Criminal Cases completed	870	1 181	311	36%	649	532	82%
Criminal cases prosecuted	363	382	19	5%	301	81	27%

ENFORCEMENT:
IMPROVED COMPLIANCE AND RISK REDUCTION

The total jail sentences imposed for tax fraud for the year accumulated to 154 years whereas the total fines amounted to R20,9 million. A list, containing 347 convictions of individuals and businesses will be published in the national newspapers.

Figure 7.16: Criminal Prosecution results

Description	National totals 2005/06	National totals 2004/05
Actual fines	R20 975 100	R2 268 900
Imprisonment (years)	154 person years	62 person years
Suspended Sentences	1033 person years	380 person years
Correctional Supervision	240 person months	278 person months
Community Service	2 816 person hours	6 500 person hours
Total convictions	**347**	

The 347 convictions are broken down into the following regions:

Figure 7.17: Criminal convictions by region

Region	Number of Convictions
Free State	7 convictions
Eastern Cape	30 convictions
KZN	83 convictions
Western Cape	107 convictions
Gauteng	120 convictions

Relationship with the National Prosecuting Authority:

The Memorandum of Understanding (MoU), establishing the Specialised Tax Unit (STU) which would become responsible for prosecuting cases brought by Criminal Investigations, was signed during February 2003. The STU became fully functional in October 2004 and after 3 years it has now been possible to evaluate the functions of the STU.

One of the major findings was that working ratios that cover cases investigated and cases prosecuted did not exist and this was the main reason for the backlogs and non prosecution of cases (backlog 1 500 cases). Although a backlog on cases to be prosecuted exist, 81 (27%) more cases were prosecuted during 2005/06 compared to 2004/05.

The MoU was revisited over a period of one month by both parties and was found to be adequate. SARS initiated National Prosecuting Authority (NPA) training sessions where 48 prosecutors were trained by the SARS Academy on basic taxation aspects and the same 48 received further in depth training on areas of NPA concern e.g. Customs, Estates and Trusts.

OUTSTANDING TAX RETURNS

Enforcement has managed to reduce the growth in the outstanding return to acceptable levels. Comparing the financial years with each other, the growth in outstanding returns has decreased significantly as a result of dedicated teams focusing on updating taxpayer contact details in SARS's core systems, deregistering taxpayers who cannot be contacted, prosecuting taxpayers who fail to submit returns and adopting a risk-based approach in focusing on companies that ceased trading and still have outstanding returns.

Collection of outstanding returns

The figure below highlights the performance on collection of outstanding returns:

Figure 7:18 Outstanding returns collected

	Case number target 05/06	Number of cases attended to 05/06	Number Variance	% Variance	Number of cases attended to 04/05	Variance 05/06 vs. 04/05	% Variance
Outstanding Returns	4 100 000	5 357 622	1 257 622	31%	4 196 350	1 161 272	28%

Reduction in Outstanding Return Book

The actions taken to address outstanding returns was to ensure a specific focus on the cases where addresses were unknown, Trusts cases, Estates cases and cases with live debt. The strategy required operations to take account of available resources and manage the volume of work accordingly. In parallel to the above special focus areas the Call Centre focused on the specific categories of outstanding returns to ensure the further reduction thereof.

ENFORCEMENT:
IMPROVED COMPLIANCE AND RISK REDUCTION

Figure 7.19: Reduction in Outstanding Return Book

Outstanding Returns	As at 31/03/05	As at 31/03/06	Achieve	Target
Total outstanding returns	6 199 297	6 346 742	2,38%	
Outstanding returns *after the issue of final demand*	5 683 415	4 486 594	21%	30%

When comparing year-on-year from 2001 to 2006, the growth in outstanding returns has decreased significantly, as indicated in the figure below:

Figure 7.20: Outstanding return growth 2001 – 2006

Financial Year	April	March	Growth
2001/02	3 740 516	4 459 081	19%
2002/03	4 509 843	4 943 685	10%
2003/04	4 916 154	5 445 472	11%
2004/05	5 372 840	6 199 297	15%
2005/06	**6 094 890**	**6 346 742**	**4%**

CUSTOMS ENFORCEMENT

Customs play a key role in securing South Africa's international trade supply chains and in protecting the economy by controlling the movement of goods across our borders. Customs is our first line of control in protecting our society and economy from harmful substances, illegal weapons, terrorist activities and economic fraud by identifying and mitigating risks related with international trade and travel. A detailed report on the work of Enforcement within the Customs environment is contained in Chapter 6.

Operational enhancements within enforcement

To improve operational efficiencies, the following policies and procedures were released during the financial year:

- Policy on Objections and Appeals
- Policy on Disclosure to third parties
- Policy on the Suspension of debt (Write off's)
- Policy on Settlement offers
- Policy on Deferred arrangements
- Policy on Power to appoint agents
- Policy on Estimated agreed and revised assessments.

The following procedures were released:

- Procedure on waiving of interest and penalties
- Procedure on outstanding returns
- Audit procedures.

Conclusion and the way forward

Enforcement is one of the three key responses to improving compliance. It is that response which is aimed at deterring non-compliant behaviour through audit and investigations, and is intended to have punitive consequences in instances of non-compliance. Due to limited resources, audit and investigative actions are largely based on credible allegations or hypotheses of non-compliance. Risks pertaining to taxpayers or traders may be specific or general. Enforcement will extend its operations to consider Customs information and the impacts thereof on revenue elements. This will ensure the impact of customs elements on revenue will be addressed with the aim to increase compliance and deter non-compliance. The outcome will therefore be an improvement of compliance and the deterrence of non-compliance.

8

LEGAL & POLICY

LEGAL & POLICY

Overview

SARS's revenue collection and customs control activities are based on and governed by tax and customs laws. The Legal and Policy component of SARS plays an important role across the whole spectrum of this legislative framework as it influences the policy underpinning such legislation, drafts laws and amendments to laws, and ensures uniform interpretation and application of the law. The division is also responsible for instituting and defending litigation as part of SARS's enforcement actions.

Highlights

- Various amendments to promote small business
- Restructuring of medical deductions
- Enabling provisions to enable SARS to collect Road Accident Fund levy
- Restructuring from Law Administration to Legal and Policy
- Release of a Discussion Paper on Tax Avoidance
- Preparing for Advance Tax Rulings
- Knowledge sharing in the form of Guides/Notes etc (eg. CGT Guide)

Policy advisory role in terms of the SARS Act

In terms of the SARS Act, 1997, one of the functions of SARS is to advise:

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

SARS's Legal and Policy Division therefore works with National Treasury on legal issues and policy affecting taxation and related matters. It assists with the formulation of legislation, drafts new legislation where required and drafts amendments to existing legislation where appropriate. During the period under review, several pieces of legislation were drafted to give effect to the proposals announced by the Minister of Finance in his 2005 Budget Review. These were the Taxation Laws Amendment Act, 2005, the Taxation Laws Second Amendment Act, 2005, the Revenue Laws Amendment Act, 2005 and the Revenue Laws Second Amendments Act, 2005.

The changes effected under The Taxation Laws Amendment Act, 2005 deal, among others, with the adjustments to income tax rates and thresholds, the restructuring of transfer duty rates, the increase

LEGAL & POLICY

in air passenger tax, the exemption from skills levy where employers' annual payrolls are less than R500 000. The introduction of four-monthly VAT returns for small businesses was effected in the Taxation Laws Second Amendment Act, 2005.

Some of the key provisions under the Revenue Laws Amendment Act, 2005 include the introduction of part-taxation of public benefit organisations if their business operations exceed the allowable tax exempt thresholds, the extension of urban development zone incentives to include qualifying properties purchased from developers, changes to provisions relating to medical deductions and medical scheme fringe benefits provided by employers to encourage medical scheme membership, and the introduction of a withholding tax regime for foreign entertainers and sports persons.

Some of the amendments made to legislation for the period under review include:

Taxation Laws Amendment Act, 2005:

- Restructuring of the Transfer Duty rates
- Income Tax rate changes for 2005/06
- Increase in primary and secondary rebates
- Adjustment of the deemed method for calculating fixed business travel cost
- Increase in the interest exemption
- An accelerated depreciation allowance at a 50:30:20 per cent rate over a three-year period for depreciable assets of qualifying small businesses
- Increase in the air passenger tax
- Repeal of stamp duty on debit entries and instalment credit agreements
- Exemption from skills levy where employers' annual payrolls are less than R500 000.

Taxation Laws Second Amendment Act, 2005:

- Introduction of four-monthly VAT returns for small businesses
- Providing authority for SARS to collect interim mining royalties.

Revenue Laws Amendment Act, 2005:

- Provide that the Minister may reduce transaction taxes and duties which may take effect before the legislation giving effect thereto is promulgated
- Address a loophole to cover transactions where previously neither donations tax nor estate duty was payable

- Provide that voting rights must also be taken into account in determining whether a foreign company is a controlled foreign company
- Introduction of part-taxation of public benefit organisations if their business income exceeds the allowable threshold
- Provide for exemption from tax of government grants received or accrued that meet the criteria specified and are identified by the Minister of Finance in the Gazette
- Introduction of accelerated write-off for depreciable assets used in the manufacture of renewable energy
- Provisions to ensure that the learnership allowance provisions are not abused in the case of learnerships with a period of less than a year
- Extension of the urban development zone incentives to include qualifying properties purchased from developers
- Review of the provisions relating to medical deductions and medical scheme fringe benefits provided by employers to encourage medical scheme membership
- Introduction of provisions to ensure that unlawful payments made by a taxpayer are not deductible for tax purposes
- Review of the allowances granted in respect of film schemes
- Introduction of a withholding tax regime for foreign entertainers and sportspersons
- Introduction of an exclusion from the taxation of fringe benefits in respect of travel facilities granted to family members of an employee
- Exemption from stamp duty and uncertificated securities tax on the issue of marketable securities
- Exemption from stamp duty where the consideration payable in terms of a lease does not exceed R200 in 12 months
- Introduction of provisions for the collection of the Road Accident Fund Levy by SARS
- Various VAT amendments
- Clarification on the taxation of company share – buy backs.

Revenue Laws Second Amendment Act, 2005:

- Extension of the physical presence test for residence from three years to five years
- Re-introduction of the use of the spot rate in determining the average exchange rate
- Provision to ensure that the Commissioner may prescribe the form and manner (including electronic format) in which returns may be submitted
- Provisions to empower the Minister to prescribe circumstances in which the Commissioner may waive, write-off or compromise any tax debt.

LEGAL & POLICY

Customs and Excise Act Notices and Tariffs

A total of 94 Government Notices was published with regard to Customs and Excise matters during the period under review. This included 78 Tariff Notices of which 34 were requests from the International Trade Administration Commission (ITAC) and 44 were internal requests. The ITAC requests related mainly to anti-dumping provisions and to changes in the rates of duty on a number of products. The internal requests related to levies on fuel, plastic bags and the Road Accident Fund and provision for the preferential taxation of biodiesel.

The 16 Rule Notices in terms of the Customs and Excise Act relate to internal requests for new rules with regard to a number of Customs forms, the amendment of rules for State warehouse rent, the Single Administrative Document for Customs and the withdrawal of forms and documents amongst other things.

Tax Treaties

The Legal and Policy Division engages in maintaining and expanding the tax and Customs treaty network in bilateral negotiations with countries around the globe with a view to promoting trade and investment, protecting the tax base and facilitating information exchange. In the period under review negotiations for Double Taxation Agreements were finalised for Chile, Mozambique, Switzerland, United Arab Emirates and Morocco. An agreement was signed with Malaysia in July 2005.

Negotiations for Mutual Assistance Agreements with regards to Customs were finalised with Brazil and Uganda and an agreement was signed with Swaziland in September 2005.

Negotiations for Mutual Assistance Agreements with regards to VAT were finalised with Malawi and Zambia.

Meetings of the Committee on Fiscal Affairs of the Organisation for Economic Co-operation and Development have been attended on a regular basis as South Africa has the status of observer. Meetings of the Southern African Development Community (SADC) tax sub-committee have also been attended and a member of the division chairs the working group on tax treaties of the sub-committee.

A member of the division has been elected to the United Nations Committee of Experts on International Cooperation in Tax Matters and attended his first meeting of the Committee in 2005.

Interpretation

SARS's Legal and Policy Division facilitates, by means of interpretation notes, rulings and guides, the uniform and correct application of legislation and case law by stakeholders. It also builds expertise in the interpretation of the various tax laws.

In the period under review a number of interpretation notes were updated, new notes were issued and drafts mainly to do with VAT provisions were released for public comment.

The following Interpretation Notes were provided:

Updates of existing Notes

- No 4: Resident – definition in relation to a natural person – physical presence test (Issue 3)
- No 5: Employees' tax – Directors of private companies (Issue 2)
- No 8: Insolvent Estates (Issue 2)
- No 9: Small Business Corporations (Issue 3)
- No 19: Years of Assessment – accounts accepted to a date other than the last day of February (Issue 2)
- No 25: Resident – definition in relation to a natural person – application of the physical presence tests in the year of death or insolvency (Issue 2).

Drafts issued for public comment

- VAT – deemed supplies and zero-rated supplies
- VAT in the gambling industry
- VAT in the tourism industry
- VAT treatment of the supply of goods and or services to and from a Customs Controlled Industrial Development Zone
- Tax implications of bursaries and scholarships.

New Notes issued

- No 32: Public Benefit Organisations – prudent investments
- No 33: Assessed losses – companies, the trade and income requirement
- No 34: Exemption from income tax – remuneration derived by a person as an officer or crew member of a ship
- No 35: Employees' tax – Personal Service Companies and Trusts and labour brokers.

LEGAL & POLICY

Rulings

Business Tax Policy: 38 rulings issued

- Rulings mainly concerned International Tax-related issues and corporate restructuring in terms of the Corporate Rules.

Personal Tax Policy: 197 rulings issued

- Rulings mainly concerned issues such as share options, exemption from income tax, PAYE in respect of payments made to actors and models in the film industry, fringe benefits in terms of the new medical regime as well as retirement funds related queries.

Indirect Tax Policy: 112 rulings issued

- Rulings mainly concerned foreign donor funding, place of supply in respect of telecommunications and warranty payment transactions.

Advance Tax Rulings (ATR)

The ATR system is a new service to taxpayers that will permit requests for binding rulings in respect of the interpretation and application of certain tax laws in connection with proposed transactions. The major taxes involved are income tax and value added tax.

The enabling legislation for the ATR system was promulgated in January 2004. Since then, SARS has been engaged in the design of the system based upon extensive international research, the development and implementation of the necessary administrative infrastructure and the recruitment of highly skilled tax professionals to staff the unit. It is anticipated that the new system will be implemented in the third quarter of 2006, with the first ruling applications expected in October.

The litigation of suitable tax appeals is aimed at establishing jurisprudence/case law that enhances clarity and certainty of tax and customs laws.

Tax Shelters

The tax shelters sub-division actively monitors tax avoidance schemes through its relationships with other SARS business units and the reportable arrangements legislation. These schemes are analysed, research conducted into their effect, and assistance is provided in countering them. During the year under review two new schemes were identified. The analysis of five previously identified schemes was completed and assistance was provided in the audit and assessment of the taxpayers using them. The tax at stake in the seven schemes amounted to R465 million.

Reports were also received in respect of 38 reportable arrangements. The analysis of these reports revealed that most of the reported arrangements were uncontentious while other more aggressive arrangements known to be in the marketplace were not reported. The reportable arrangements legislation will, therefore, be reviewed to improve its effectiveness and align it with the developments discussed below.

Tax avoidance

In common with tax authorities worldwide, SARS has been confronted with the growing problem of increasingly complex and sophisticated forms of impermissible tax avoidance, particularly by certain corporate taxpayers. A review of section 103(1) of the Income Tax Act - South Africa's General Anti-Avoidance Rule (GAAR) - demonstrated that it had not kept pace with the times and that improvements were possible based on both domestic and international experience. Accordingly, SARS released a discussion paper on tax avoidance and section 103(1) of the Income Tax Act in November 2005. The release of the discussion paper prompted a healthy and constructive debate, with a wide variety of views on the issues raised by the discussion paper. In order to accommodate all of those who wished to participate in the process, the original three-month period for comment on the discussion paper was extended by an additional month.

In preparation for the Portfolio Committee on Finance hearings on the discussion paper in March 2006, SARS prepared an interim response to the comments that had been made. The interim response recognised the support that had been received; clarified misconceptions about the proposals made, and acknowledged many of the concerns that had been raised. The hearings provided a valuable opportunity for the further exchange of ideas and a revised set of proposals for a new GAAR will be prepared for public comment in 2006/07.

Knowledge Sharing

The Legal and Policy Division aims to develop and maintain a sound tax knowledge base by issuing tax guides and brochures for relevant stakeholders. This promotes the transfer of tax and customs information and relevant skills to various stakeholders. In the year under review, the division disseminated 15 guides on tax matters, and published a number of handbooks. Of particular

LEGAL & POLICY

importance are guides such as the Tax Guide for Small Business, the Tax Brochure for non-residents, Taxation in South Africa and the Draft Comprehensive CGT Guide. The 520-page guide on CGT has been highly acclaimed by leading tax practitioners and academics.

Litigation

SARS, in the interest of the fiscus and ultimately of the country and its economy, is obliged to ensure the durability and legal rationality of tax principles enunciated by the Tax and Higher Courts. If SARS is to manage these responsibilities strategically – and for the long-term benefit of the nation – it must ensure that the best legal resources available are utilised for this purpose and that the workforce of the section is appropriately knowledgeable and skilled.

A success rate of 64,6% was maintained in the litigation of appeals in the Tax and other courts. The figures below give a breakdown of the cases in respect of revenue and customs litigation.

Figure 8.1: Revenue Litigation

Courts	Cases					
	Conceded	Lost	Won	Withdrawn	Settled against SARS	Settled in favour of SARS
Tax Court	31	12	14	37	12	48
High Court & Supreme Court of Appeal	1	1	5			
Total	**32**	**13**	**19**	**37**	**12**	**48**

Figure 8.2: Customs Litigation

Courts	Cases				
	Abide by Courts' Decision*	Conceded	Won	Settled in Favour	Lost
Magistrate Court		1	72	5	
High Court & Supreme Court of Appeal	31	9	66	25	4
Constitutional Court			2		
Total	**31**	**10**	**140**	**30**	**4**

* Abiding by the court's decision entails filing a notice to abide by the decision of the court as we have no grounds to oppose the relief sought by an applicant.

Training assistance

The Legal and Policy Division offers training assistance to domestic and international stakeholders. Domestically, a number of training workshops were held for SARS staff, mainly focusing on tax treaties and transfer pricing. Its international training assistance is mainly rendered to African countries. In the period under review a number of workshops on tax treaties with the Malawi and Lesotho Revenue Authorities and the Southern African Tax Institute grouping of African countries. Workshops on the audit of multinational enterprises were hosted in Kenya and in Kempton Park for SADC countries.

Conclusion and the way forward

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

9

SERVICE:
BETTER TAXPAYER & TRADER EXPERIENCE

SERVICE:
BETTER TAXPAYER & TRADER EXPERIENCE

Overview

Providing taxpayers and traders with a positive experience at all points of interaction is a key strategic objective for SARS. Excellent service benchmarks are outlined in the Service Standards of the SARS Service Charter and progress has been made towards attaining them.

As part of its quest to better serve the diverse categories and segments of taxpayers and traders that it interacts with, SARS has begun to tailor its services to meet their specific needs. An example of this approach is the Large Business Centre, a one-stop service for all taxes paid by large corporate taxpayers, high net worth individuals, and the Small Business Unit which aims to understand and meet the tax needs of this important sector.

SARS takes a proactive approach to informing taxpayers and traders about the tax system and their obligations and has implemented a range of taxpayer communication and education initiatives, the most significant of which is the annual Filing Season campaign. It also regularly engages with stakeholders in special forums in order to foster a better understanding of each other's needs.

Highlights

- Service Charter Standards launched
- Accredited clients have increased by 28%
- Electronically submitted clearances have increased by 26%
- Clearances subjected to risk assessment analysis have increased by 40% for imports and 174% for exports
- Processing efficiency of EDI import submissions have improved by 10%
- 2,3 million call centre queries handled
- 4,2 million visitors to SARS branch offices
- Self-service filing kiosks implemented at a number of branches
- Roll-out and launch of the KwaZulu-Natal and Western Cape LBC offices
- Launch of Khanyi Khumalo, SARS's taxpayer educator
- Set up 18 small business help desks in offices

SERVICE:
BETTER TAXPAYER & TRADER EXPERIENCE

TARGETED COMMUNICATION, TAXPAYER EDUCATION AND EXPECTATION MANAGEMENT

Service Charter

The implementation of the SARS Service Charter is an initiative to establish standards of performance and service between SARS and its clients. The Service Charter principles and standards were launched internally in July 2005, and externally between July and September 2005, culminating in an official launch on 19 October 2005.

The Service Charter, and its accompanying service standards, holds SARS to clear, precise and measurable standards of service including turnaround times for processing and a host of other service targets which we will strive to attain by the end of the 2006/07 fiscal year.

In order to measure performance against the Service Charter, the management dashboard was developed and is being implemented throughout the business. The management dashboard is an powerful executive engine which collates over 1 000 performance measures across all levels of SARS.

Taxpayer Education

SARS is committed to taxpayer education and promoting a culture of fiscal citizenship. Its taxpayer educational initiatives have grown from being “ad hoc and reactive” to becoming more proactive and focused. Most regions now offer educational services and there is more uniformity across regions in the level of planning, coordination and delivery of taxpayer education.

SARS’s regional educational coordinators deliver workshops on site as well as at SARS offices to targeted audiences. Community tax helpers have conducted door-to-door education and SARS officials went on 109 walk-about campaigns throughout the country.

A successful project has been the launch of the “Khanyi comic” in booklet form in April 2005. This medium has proved to be a good choice to deliver difficult content in a story form. Khanyi assumed her responsibility as taxpayer educator immediately after her launch and has spread a high level of awareness over the last year through the production and distribution of a range of taxpayer education products. The Khanyi comic book is now available in English, Afrikaans, Xhosa, Setswana and isiZulu. There are plans to extend it to other South African languages.

While the current educational output is significant, research has pointed to important and critical future challenges. The GCIS Tracker Research Survey indicates, amongst other issues, that while about a quarter of taxpayers are well informed and knowledgeable about their responsibilities, significant numbers of the population remain unsure about their responsibility and can use further information.

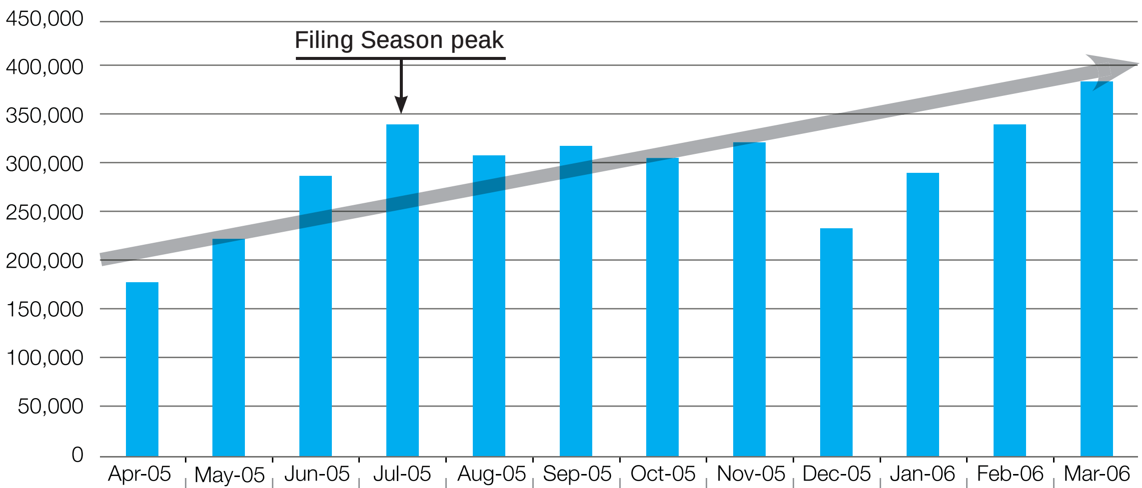
Enhanced service processes and responses to queries

Call Centre

The National Call Centre is fast becoming one of the preferred means of interaction with SARS. The 2005/06 financial year saw the call centre receiving 3 510 849 calls, a formidable 115 % increase in call volumes from an average of 179 596 calls to 386 965 per month year ending March 2006.

The call centre has not only managed to answer 94% or 3 295 908 of the calls received, but has answered 80% of these calls within 20 seconds of the customer phoning the SARS National Call Centre.

Figure 9.1: Call centre volumes 2005/06



	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06
Call Volumes	179 596	223 282	959 113	343 601	308 241	312 664	301 153	317 437	229 435	286 156	339 529	386 965

2005 - 2006

SARS achieved 93% on the customer satisfaction survey index, exceeding its target for 2005/06 by 8% and the year-on-year percentage reduction in number of complaints also showed an improvement. A target of a 12% reduction in the number of complaints was set and 14% was achieved.

SERVICE:
BETTER TAXPAYER & TRADER EXPERIENCE

Effective, easily available and efficient channels

Providing additional channels of interaction with taxpayers and traders, and enhancing those channels already in existence, is a key component of making compliance as easy and convenient as possible. During the period in review a number of improvements were made to enhance the ability of taxpayers and traders to quickly and conveniently interact with SARS.

Creation of kiosks for self-service filing: In August 2005 a number of branch offices were identified where the public can access the SARS eFiling website via a self-service terminal. These terminals, clearly branded, allow members of the public to register for the eFiling service. Dedicated staff members in the branches were also enlisted to assist taxpayers. The eFiling and payment (i.e. internet banking) websites can be accessed from these terminals. To date, 25 kiosks have been installed at branches throughout the country.

Small-business help desks: Help desks dedicated to assisting small businesses in understanding and meeting their obligations have been set up in SARS's larger offices. To date, 18 small business desks are operational, with additional desks planned.

Community tax helpers: 62 community tax helpers have been appointed in Mpumalanga, Limpopo and North West Province. Staff function as mobile "ambassadors of service" and visit communities to help taxpayers.

Additional payment channels: Negotiations with the four major banks resulted in the expansion of channels for payment to SARS via banks' electronic and over-the-counter services. This has allowed taxpayers and traders to settle the payments to SARS via any of the major banks.

Efficient dispute resolution

In dealing with disputes with taxpayers and traders, SARS's adheres to effective and efficient litigation in the interests of the establishment of correct legal principles and cost savings for taxpayers and traders. SARS has achieved this by:

- Developing and implementing an alternative dispute resolution (ADR) process which contributes immensely towards the resolution of tax disputes outside of the courts
- Developing and implementing a system to identify "test cases" so as to simultaneously resolve several disputes that are pending on the same issue
- Utilising the periods of notice for instituting legal proceedings against the state to finalise matters capable of finalisation outside the court process.

SARS also seeks to provide taxpayers and traders with a fair and consistent dispute resolution process that respects their rights to redress in all their dealings with the organisation, as follows:

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

Figure 9.2: Appeals dealt with by ADR

Withdrawn	16
Conceded	74
Settled in favour of SARS	27
Settled against SARS	81
Referred to Tax Board	2
Referred to Tax Court	102
Referred back to branches	11
Total cases finalised	**313**
Annual Target	240
Total cases received	**550**
Total cases pending as at 31 March 2006	**237**

Service Monitoring Office

The SARS Service Monitoring Office (SSMO) provides an independent channel for customers to lodge complaints of a procedural nature if they have difficulty in resolving their complaints at branch office level. It serves as a final complaints office and aims to advise clients and promote and protect their rights. It also serves as a report-back channel to help SARS improve its service.

A total of 5 824 complaints were received in the review period, compared with 3 305 the previous year. Although the number of complaints increased by 76%, 82% were resolved within the service level agreement. The rise in complaints dealt with by the SSMO can be ascribed to the fact that more taxpayers are now aware of the SSMO and the service it offers.

SERVICE:
BETTER TAXPAYER & TRADER EXPERIENCE

LARGE BUSINESS CENTRE

The Large Business Centre was launched on 1 September 2004 to promote optimal voluntary compliance at the lowest cost to SARS and the corporate taxpayer through:

- Developing enhanced relationships with our corporate taxpayers based on intimate knowledge derived from industry sector specialisation
- Ensuring a highly effective tax administration service through professional and competent staff with expert knowledge of all tax types
- Providing world-class operational excellence with a one-stop, single point of entry for all tax types, along with effective administration.

Highlights for the period under review are:

- The launch and roll-out of the KwaZulu-Natal and Western Cape Large Business Centre offices in Durban and Cape Town respectively
- The appointment of the majority of sector taxpayer relationship managers, who perform a similar role to that of account managers
- Exceeding the initial revenue target in the three main tax types
- The establishment of the high net worth individual sector
- Ongoing collaboration and relationship building with overseas tax administrations in order to develop benchmarks to measure the LBC against international best practice
- The implementation of a risk engine for income tax
- An increase in appointments, from 150 personnel to 369 personnel.

High Net Worth Individual sector

In addition to the industry sectors already established at the LBC, a High Net Worth Individual Sector commenced operation during January 2006. An initial batch of 50 taxpayers were transferred to the sector and a further 60 taxpayers have been earmarked for transfer shortly. Certain trends of non-compliance have already been identified and a full risk identification and taxpayer profiling project is currently underway. The sector is expected to become fully operational during 2006/07.

SMALL BUSINESS UNIT

SARS recognises that small business plays a valuable role in stimulating economic activity, creating jobs, alleviating poverty and broadening development. To cater for the specific needs of this important economic sector the Small Business Unit was set up in 2003. One of the unit’s main aims has been to understand, identify and address the barriers to compliance among small business. Its approach has been two-pronged. Firstly, it aims to make it easier for small business to meet its tax obligations. To this end, the unit has been working on an accountancy package to assist small businesses with record-keeping. Secondly, it has engaged with small business to spread awareness about taxation and the benefits of becoming tax compliant.

In the period under review a number of legislative changes were announced in the February 2006 Budget to improve the economic environment for small business. Among the measures that came into effect was a special graduated corporate tax regime for small corporations with an annual turnover of up to R14 million and the announcement of the small business tax amnesty to be administered by SARS.

SARS has begun the legislative and organisational work to prepare for the amnesty which opens on 1 August 2006 and will close in May 2007.

Conclusion and the way forward

SARS is constantly searching for ways to deal with the taxpayers and traders in a quicker, cheaper and more efficient manner. It aims to provide taxpayers and traders with assistance and information to make it as easy as possible for them to comply with their tax obligations. SARS is committed to a listening campaign to canvass the views of taxpayers, traders and other stakeholders. It will continue to search for innovative ways of working smarter and becoming more accessible in its drive to spread a culture of fiscal citizenship.

10


PEOPLE: ENHANCING HUMAN CAPACITY

PEOPLE:
ENHANCING HUMAN CAPACITY

Overview

SARS recognises that its main asset is an appropriately skilled workforce that is committed to the organisation's core values and enthusiastic about its vision. It has therefore developed and enhanced implementation of an integrated, progressive, innovative people strategy aimed at building and maintaining a high performance, diverse, learning organisation.

SARS continues to be passionate about growing its people, both professionally and personally, through targeted training initiatives and study opportunities such as the Training Outside Public Practice (TOPP) and Graduate Recruitment Programme. The SARS Academy plays a key role in ensuring that the appropriate skills training is provided for staff across all divisions. SARS also aims to provide its employees with a caring, supportive environment through the wellness programme.

The policies and practices are designed to ensure compliance with prevailing labour legislation, develop and maintain good relationships with unions, and comply with both the letter and spirit of employment equity legislation with regard to gender, race and disability.

Highlights

- Adopted an integrated people development strategy
- Formed a range of training partnerships
- Received accreditation from the South African Institute of Chartered Accountants for the Training Outside Public Practice programme
- Exceeded training targets
- Conducted a national employment equity audit

SARS currently employs 13 979 people in its permanent establishment, comprising the categories as illustrated in the following figure:

PEOPLE:
ENHANCING HUMAN CAPACITY

Figure 10.1: Workforce Profile

Occupational levels	**Number of staff**
Unskilled	415
Semi-skilled	4 307
Skilled & Junior Management	7 269
Professional & Mid-Management	1 358
Senior management	615
Top management	15
GRAND TOTAL	**13 979***

Grade	**01**	**02**	**03A**	**03B**	**04A**	**04B**	**05A**	**05B**	**06**	**07**	**08**	**09**	**10**	**Total**
No	415	192	2 614	1 547	3 587	1 526	1 235	872	1 351	479	136	14	1	13 979

*This total refers only to SARS's permanent establishment and does not include temporary staff.

PEOPLE DEVELOPMENT

SARS has implemented an integrated people development strategy to ensure alignment between organisational needs and the skills and competencies of its workforce. One element of this strategy is to ensure the appropriately skilled people are attracted to the organisation. Another is to ensure all staff continue with their personal and professional development while in the organisation. SARS commitment is realised through the creation of a high performance tax and customs administration work place where individuals and teams are employed and rewarded for exemplary performance, sharing knowledge, being team players and living SARS core values.

The objective is to enhance people development and HR practices by increasing employee engagement and focusing on the growth, retention and performance of staff.

Educational profile of staff

The table below provides a summary of the current educational profile of SARS staff.

Figure 10.2: Staff educational profile

Education Level	Total	%
Doctorate	2	0.01%
Masters Degree	116	0.83%
Chartered Accountant/MTA	36	0.26%
Honours Degree	44	0.31%
Degree	1 819	13.01%
Higher Diploma/BTECH	268	1.92%
Diploma	1 534	10.98%
Senior Certificate	6 784	48.54%
Junior Certificate	197	1.41%
Less than Junior Certificate	89	0.64%
Not Indicated	3 090	22.10%
Grand Total	**13 979**	**100%**

Career development programme

SARS's career development programme forms part of an integrated people development strategy. The key objectives of the programme are to:

- Focus employee performance and behaviour to achieve sustainable improvements in operational ability and to achieve organisational goals
- Address the personal development needs of staff and align this development to SARS's immediate, medium and long-term business needs
- Attract and retain talent by providing meaningful development and progression opportunities for employees within critical job families
- Encourage and reward good performance, and manage and improve on poor performance
- Address the chronic skills shortage at all levels by developing employees internally
- Develop constructive and open relationships between managers and employees.

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SARS Academy

The SARS Academy was established to enhance business efficiency by improving both the functional/ technical skill of staff in key SARS-related business areas such as tax and customs, as well as enhancing general business and leadership knowledge and ability. The academy consists of four schools – the School of Leadership and Management, Customs, Assessment and Service, and Enforcement. All training initiatives and budgets are managed and run by the academy. A variety of programmes were undertaken during the period in review:

Workplace skills plan

The academy ensured that an effective learning needs analysis was conducted to confirm training needs as dictated by SARS business requirements, and business-aligned training principles were subsequently developed to inform the National Workplace Skills Plan.

Leadership and management development

Several programmes have been initiated for management at various levels, across all business areas to build a cadre of appropriately skilled leaders who can provide the leadership and strategic direction to deliver on SARS mandates.

SARS has enlisted top South African business schools to conduct management development programmes for managers at all levels. At present, 25 senior managers are enrolled with the Gordon Institute of Business Sciences (GIBS), and two programmes are being run by the business schools of UNISA and Stellenbosch University, with 15 middle managers participating in each of the latter two. UNISA and Stellenbosch business schools are also running management development programmes for 30 managers at a junior level, and provision has been made for 15 executive managers to attend a GIBS programme. The training and development programme “Fundamentals of Management” was presented to Team Leaders to enhance their skills.

The award-winning 11th Annual Luminary Series “Leading to Greatness: Building True Success Wherever You Live and Work” was hosted via satellite broadcast in Gauteng, Cape Town and Durban. A total of 380 employees attended this event. The “Leadership for Results” workshop was attended by 14 senior and executive managers, and 80 managers attended a programme on Strategy, Budgeting and Reporting for SARS. To further facilitate management development, an advisory committee has been established for the leadership development programme. A coaching programme was developed and 15 internal coaches were accredited and are currently rolling out coaching classes countrywide. It is estimated that an overall 19% improvement in management capability has been achieved as a result of these initiatives.

Improving Customs knowledge and skill

To improve operational efficiencies, the School of Customs offered several key programmes. These programmes included valuation, tariff, export, post clearance inspection, risk management, excise, border control enforcement, trade agreement the anti-smuggling and programmes to administer the application of international conventions such as, Customs Convention, Istanbul Convention and the Admission Temporaire - Temporary Admission (ATA) Convention. The needs-aligned programmes were offered predominately to staff in customs and on a lesser scale to employees in revenue. These programmes have provided employees with a deeper knowledge and understanding of key interventions to facilitate security and border control.

Enhancing assessment and service

The School of Assessment and Service offered the following programmes including courses on Farming and Retirements Tax, RBT, CGT, Income Tax and Trusts. These programmes have enhanced the delivery of services to taxpayers.

Improving Enforcement

The School of Enforcement offered programmes in audit at a basic and intermediate level, criminal risk identification at a basic and advanced level, electronic evidence, law interpretation, introduction to collections and financial statements, tax updates and trusts. The programmes have enhanced competencies, which has resulted in more efficient and effective operations.

Training partnerships

SARS has in place a Memorandum of Cooperation with the Lesotho Revenue Authority (LRA), that details how the capacity building interventions provided to the LRA by SARS are managed to ensure its sustainability and effectiveness. A project plan is in place which highlights the capacity building initiatives for LRA.

SARS is in the process of finalising similar memoranda with Rwanda, DRC, and Malawi. Within the SACU context SARS is providing training assistance to Botswana, Namibia and Swaziland.

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Regional training centre

SARS concluded a Memorandum of Understanding with the World Customs Organisation (WCO) for the establishment of the East and Southern African Regional Training Centre (RTC) to co-ordinate capacity building within the region. The SARS Academy has developed a comprehensive three-year plan for the RTC: South Africa. The RTC: South Africa will be coordinated in consultation with the RTC: Kenya and the WCO Regional Capacity Building Centre to maximise the use of resources within the East and Southern African region. In February 2006 a WCO Diagnostic Workshop was conducted as part of the comprehensive RTC plan.

Partnerships

The SARS Academy has also established partnerships with tertiary institutions and service providers to ensure that the training they offer is relevant to SARS business needs. In 2005 SARS registered six Customs officials with the University of Canberra so that they can widen their knowledge of international Customs matters.

Training delivery

Training delivery interventions and implementation are aligned to business needs. Details of the training interventions for the occupational categories by race and gender are contained in the figures below.

Figure 10.3: Training delivery: Gender

Occupational categories (as per Department of Labour)	Female	Male	Total
Legislator, senior officials and managers	125	252	377
Professionals	938	1 066	2 004
Technicians and associate professionals	4 870	2 722	7 592
Clerks	10 665	3 342	14 007
Labourers & elementary	155	108	263
Other (temps & contracts)	1 881	1 023	2 904
Totals	**18 634**	**8 513**	**27 147**

Figure 10.4: Training delivery: Race

Occupational categories	African	Coloured	Indian	White	Total
Legislator, senior officials and managers	132	40	54	151	377
Professionals	624	213	300	867	2 004
Technicians and associate professionals	2 459	904	706	3 523	7 592
Clerks	6 072	1 999	826	5 110	14 007
Labourers & elementary	141	41	4	77	263
Other (temps & contracts)	1 757	585	178	384	2 904
Totals	**11 185**	**3 782**	**2 068**	**10 112**	**27 147**

The academy delivered various training initiatives in the period under review. A total of 27 147 staff underwent training through the academy.

In terms of employment equity training targets, the set target of 60% was exceeded by 3% for race and the gender target of 40% was exceeded by 29%.

Investment in training

The figure below reflects the investment in training and development for the period under review.

Figure 10.5: Analysis of training costs

Training costs 2005/06	R'000	%
Direct costs	52 731	55,21
Indirect costs	30 126	31,54
Overheads	2 487	2,60
Development costs	10 169	10,65
Total	**95 513**	**100,00**

Training Chartered Accountants

SARS has been accredited by the South African Institute of Chartered Accountants (SAICA) as an approved training organisation and is authorised to present the Training Outside Public Practice (TOPP) programme under the auspices of the SARS academy.

The TOPP programme focuses on training in financial management and taxation. The programme environment promotes the highest standards of professional development and consists of a blend of practical experience, simulations and other interventions, in conformance with SAICA requirements.

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SARS, as a committed SAICA partner, upholds the intent and spirit of the TOPP programme to transform the accountancy profession by recruiting and developing trainees from previously disadvantaged backgrounds. The TOPP strategy is based on retaining all trainees within SARS. The first four trainees will be admitted to the TOPP programme in July 2006.

Performance management system

A key element for the achievement of business and operational strategy is the requirement to monitor both organisational and individual performance. With this in mind, a two-pronged incentive system is currently operational:

- The senior management reward system - operating at executive/senior manager level performance appraising managers on an individual basis against the outcomes of their respective business objectives
- The interim performance management system appraising the balance of staff on either a team- or individual level.

Towards the end of the financial year a revised Performance Management System was developed. This entails a structured process through which individual deliverables are defined, taking into account the business strategy. The process has been entrenched for executive and senior management and will be implemented throughout the rest of the organisation over the next 18 months replacing the current interim performance management system. An integral element of both these systems is to link individual and team performance to reward. Any incentive payable is determined by the remuneration sub-committee in consultation with the Commissioner and with the approval of the Minister.

Attracting and retaining staff

Rewards and Remuneration

SARS operates the Hay Job Grading and Remuneration System to create flexibility to pay employees according to their experience, specific skills and demonstrated capabilities.

The comparison of the relative “value” of jobs as defined by the Hay Grading System on a universally applied evaluation system enables SARS also to make comparisons of remuneration attached to jobs in the general labour market or in the specific sector of the economy in which SARS is classified. The comparison of remuneration levels is done on a regular basis to ensure that the organisation offers competitive remuneration in order to attract its share of available human resources. Currently, SARS pay for entry level jobs is higher than the market average and it pays lower than the market average at the top end. Through various processes and over a period of time it is envisaged that SARS remuneration will be brought in line with market norms.

During the 2005/06 financial year SARS rewarded its staff for achieving set strategic objectives and defined thresholds. The rewards are facilitated by the SARS senior management reward system and the interim performance management system. These link individual or team performance/contributions to reward.

Any incentive payable is linked to the achievements of SARS's strategic objectives and recommended by the Remuneration Sub-Committee in consultation with the Commissioner and with the approval of the Minister.

All employees have the potential to earn up to 25% of their total remuneration package in an incentive bonus, which is determined by taking into consideration individual contribution and output as specified in the performance agreements.

An employer (SARS) funded group life and disability insurance at twice annual remuneration is also provided for all employees.

The success of SARS's labour retention strategies is evidenced by the labour turnover rate for the current financial year of 5,74%. Any organisation has some level of staff turnover for the year through natural attrition and termination. During the period under review a total of 868 employees left the organisation. The figure below reflects a breakdown of staff turnover for the period under review.

Figure 10.6: Staff turnover

Headcount	Appointments	Terminations	Natural Attrition	Total Terminations	% Turnover
13 979	1 671	783	85	868	5,74%

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Details for attrition for 2005/06 are illustrated in the figure below:

Figure 10.7: Attrition

Reason	No	%
Dismissal - Incapacity	6	1%
Dismissal - Misconduct	48	6%
Non Renewal of Contract	22	3%
Other	122	14%
Resignation	670	77%

Recruitment

A total of 1 671 employees were appointed for the year ending March 2006. The figure below provides details of the actual appointments for the period under review.

Figure 10.8: Recruitment

Hires	
Permanent	1 122
Contract	452
Trainees	50
Re-hires	
Permanent	22
Contract	24
Temporary	1
Grand Total	**1 671**

In filling these vacancies SARS seeks to ensure the requisite skills are introduced to the organisation to further enhance the pursuit of its mandate. SARS is supported in its endeavour to attract the best talent by remaining a highly sought-after employer. A total of 2 830 positions were advertised, of which 1 919 were only advertised internally and 911 were advertised internally and externally. The vacancies arose as a result of normal attrition (figure 10.7) as well as the need to recruit specialist skills that were not previously required.

Graduate Recruitment Programme

The graduate recruitment programme has expanded since its inception in 2003 and continues to receive priority. The aim of the programme is to help alleviate the critical shortage of suitably qualified staff, to contribute towards a representative workforce and to reinforce SARS's commitment to social responsibility.

Graduates are awarded a trainee contract for a period of 1 to 3 years, depending on business needs. They are given the opportunity to apply for full-time positions at SARS at the end of their training contract.

The programme has successfully placed over 120 graduates within the organisation. In 2005/06, 20 graduates were appointed to various business units.

EMPLOYMENT EQUITY AND WORKPLACE DIVERSITY

SARS places a high priority on employment equity as part of its transformation agenda, and is continuously striving to meet its equity targets in terms of race, gender and disability. SARS has achieved 97% of its target for black representation.

SARS has also met the target of 1, 5% it had set for disability. Women have historically made up a higher percentage of SARS staff than minimum standards require, and SARS has therefore exceeded its gender target of 40% female representation. However, gender equity remains a challenge at the senior and top management levels.

Overall workforce profile

The table below indicates the total number of employees (including employees with disabilities) in each of the designated occupational levels: (Note: A=Africans, C=Coloureds, I=Indians and W=Whites)

Figure 10.9: Workforce Profile

Occupational levels	Designated*							Non-designated			Total
	Male			Female				White male	Foreign nationals		
	A	C	I	A	C	I	W	W	M	F	
Top management	4	1	3	1	0	0	1	5	-	-	15
Senior management	144	22	54	53	8	29	112	193	-	-	615
Professional	271	74	94	185	37	77	288	332	-	-	1 358
Skilled and junior	1 305	278	190	1 739	471	277	2 308	701	-	-	7 269
Semi-skilled	720	139	51	1 391	369	119	1 366	152	-	-	4 307
Unskilled	119	30	0	219	27	0	1	19	-	-	415
TOTAL PERMANENT	**2 563**	**544**	**392**	**3 588**	**912**	**502**	**4 076**	**1 402**	**-**	**-**	**13 979**
GRAND TOTAL	**2 563**	**544**	**392**	**3 588**	**912**	**502**	**4 076**	**1 402**	**-**	**-**	**13 979**

*Designated refers to those groups deemed to have been previously disadvantaged.

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Note: Statistics for non-permanent employees are not recorded as this definition does not apply to SARS as the employer, as the SARS Employment Policy does not provide for the employment of such persons.

Workforce profile: black representation

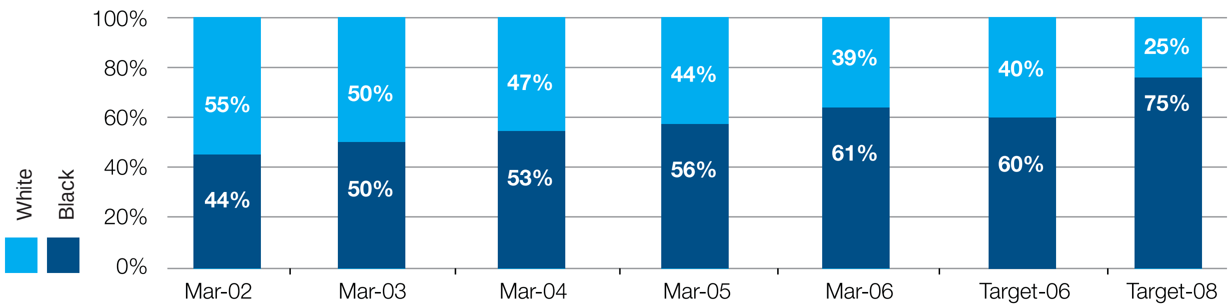
Since March 2002 black representation has increased from 44% to 61%. White representation has decreased by 17% for the same period. For the period under review 94% of new appointments were black, of whom the majority were African (76%). Reflected below are the employment equity profiles for the past 5 years.

Figure 10.10: Black representation 2002-2006

Category	March-02	March-03	March-04	March-05	March-06
White	6 192	6 179	6 162	5 779	5 478
Black	4 818	6 086	6 973	7 435	8 501
Total	**11 010**	**12 265**	**13 135**	**13 214**	**13 979**

The figure below provides the percentages of the employment equity targets.

Figure 10.11: Black representation versus the 2006 and 2008 targets



The figure below provides further details of the black workforce profiles.

Figure 10.12: Black Workforce Profile

Organisational/ Staff Occ level	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Target-06	Deviation	Target-08
Management Staff	39%	44%	47%	51%	53%	60%	-7%	75%
Supervisory Staff	26%	36%	44%	48%	57%	60%	-3%	75%
General Staff	45%	51%	55%	58%	62%	60%	2%	75%
All Staff	**44%**	**50%**	**53%**	**56%**	**61%**	**60%**	**1%**	**75%**

Figure 10.12 illustrates a 14% increase in black management staff representation, a 31% increase in black supervisory staff representation and a 17% in black general staff since March 2002.

The overall achievement towards the EE targets was 97%. The shortfall of 3% is primarily in the management and supervisory staff organisational levels where targets remain the hardest to reach. This shortfall is mainly due to the high turnover rates (11% at management and 10% at supervisory levels) due to the marketability of SARS employees in general but of Black management employees in particular.

Workforce profile: gender representation

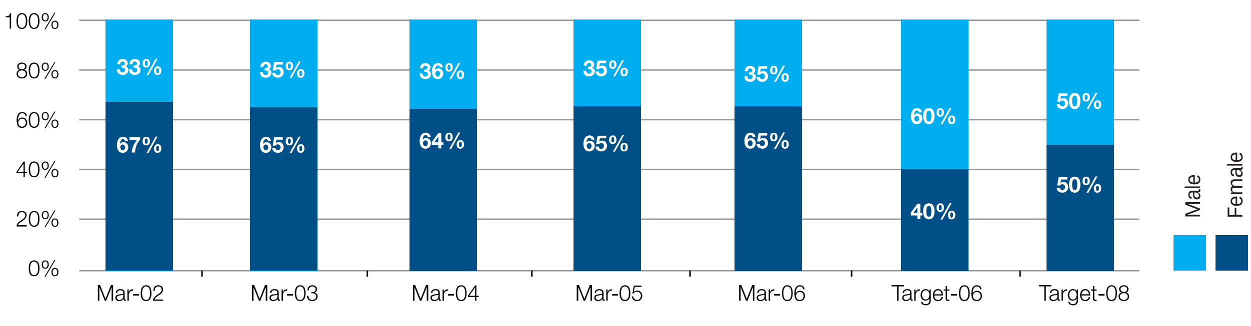
Historically, women have made up the majority of the SARS staff. Since March 2002, black female representation increased from 36% to 55%. At the executive and senior management levels of the organisation specific efforts and strategies are being put in place to achieve gender equity. Of the 1 671 appointments made in 2005/6, 61% were female.

The figure below provides the female representation for the past 5 years.

Figure 10.13: Female representation 2002-2006

Gender	March-02	March-03	March-04	March-05	March-06
Female	7 385	7 984	8 465	8 544	9 078
Male	3 625	4 281	4 670	4 670	4 901
Total	11 010	12 265	13 135	13 214	13 979

Figure 10.14: Female representation versus the 2006 and 2008 targets



Workforce profile: disability representation

For the period under review, people with disabilities accounted for 1,6% (222) of the total workforce, which is in line with the targets set.

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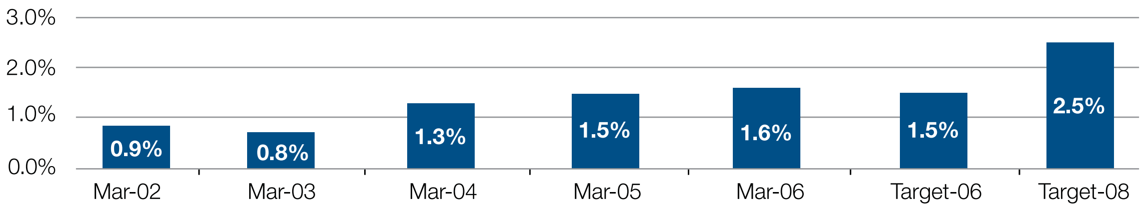
The figure below provides the representation of people with disabilities for the past 5 years.

Figure 10.15: Representation of people with disabilities 2002-2006

Group	March-02	March-03	March-04	March-05	March-06
People with disabilities	97	98	174	199	222

The figure below provides the percentages of the employment equity targets for people with disabilities.

Figure: 10.16: Representation of people with disabilities versus 2006-2008 targets



Employment equity and skills development structures

The Employment Equity Act (55 of 1998) obliges SARS as an employer to consult with its employees or their nominated constituencies on various issues related to the implementation of employment equity in the organisation. To this end, the National Employment Equity and Skills Development Committee were established during August 2004. Sub-committees were established during July 2005 to facilitate consultation at the local level. The sub-committees support the work of the national committee in overseeing and influencing all employment equity and skills development matters in SARS.

Employment Equity Audit

An employment equity audit was conducted in terms of section 19 (1) of the Employment Equity Act. The aim of the audit was to gain a deeper understanding of the challenges SARS faces in addressing employment equity, and to develop an understanding of staff perceptions and experiences on a range of organisational issues that affect culture, staff satisfaction, employee performance and talent retention at SARS.

Forty two percent of the staff participated in the climate survey; 60% of the respondents were black and 69% were female. The results of the survey have provided SARS with information that will guide future employment equity initiatives, and the manner in which staff needs and the organisational climate are addressed.

Communication

Several initiatives were undertaken to increase the awareness of employment equity and diversity issues. A summary of the SARS 2005 Employment Equity Report was published in the SARS 2005 Annual Report, and also in booklets distributed to all SARS offices. A summary of the Employment Equity Act is displayed in all SARS buildings as required in terms of the Act. Employment equity activities were also communicated to the workforce via newsflashes.

EMPLOYEE WELLNESS: KULANI NO HLAYISA

By the end of March 2006 the SARS employee wellness programme had completed its first cycle of operations as an integrated health and wellness management programme. Work has begun in all components of the programme. Trends are beginning to emerge and these will enable the wellness programme to target its interventions where they are most needed in terms of the physical, psychological and socio-economic profile of employees.

The holistic programme offers services that include counselling, e-care, financial wellness, stress management, medical support, clinical management and executive health care. Fact-finding sessions were held across the organisation to gain an understanding of the health and wellness issues and needs of employees, which are being addressed through targeted programmes and initiatives.

EMPLOYEE RELATIONS

SARS recognises the importance of worker representative bodies and the benefits of engaging them in a constructive dialogue on issues of mutual interest. The value of this approach was illustrated in the consultative process on the career development programme, which now has the full backing of the two unions at SARS. Lines of communication will remain open and SARS remains committed to improving employee relations and strengthening its relationship with organised labour. The collective bargaining process for 2005/06 was successfully concluded and the parties agreed to a 6,7% across-the-board increase for employees in the bargaining unit. Adjustments for senior management were also within this range.

HUMAN RESOURCE ADMINISTRATIVE SYSTEM

The human resources system was upgraded to improve the recording and approval processes with regard to overtime, public holidays, leave without pay deductions and medical arrears. These benefits resulted in improved turnaround times and 100% accuracy in the processing and calculations of these transactions.

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System changes were effected to accommodate the new taxation dispensation on medical aids, legislative changes with respect to the Government Employee Pension Fund and detailed reporting on fatality rates. An electronic interface was established with the Department of Labour to ensure correct reporting on Unemployment Insurance Fund contributions. The roll-out of the new sick leave and incapacity management system will implemented in 2006/07 after due consultation with all stakeholders.

Conclusion and the way forward

The human resources policies and practices of SARS are aimed at attracting and retaining core and key employees, raising their skill levels and addressing their personal development needs. It aims to set specific performance targets and measures, and to provide staff with regular, clear and constructive feedback, encouraging innovation and growth. It recognises that a motivated, skilled workforce that is remunerated fairly enhances organisational efficiency and effectiveness – and this is vital for the achievement of SARS goals. To this end, SARS has created the platform and environment to facilitate the delivery of best-practice human resources policy and interventions within the framework of legislation and its business strategy.

11

SUPPORT SERVICES

SUPPORT SERVICES

11.1 TECHNOLOGY

Overview

The technology mandate is to ensure that all business processes, technology applications and technology infrastructure function optimally and appropriately, in support of business delivery.

During the period under review, the division had the following areas of focus:

- Ensuring a stable and reliable technical environment
- Improving existing solution- and service offerings
- Implementing new solutions
- Positioning future solutions in support of business strategy.

Highlights

- Implementation of additional eFiling capabilities – including preparation for the expansion of eFiling to individual taxpayers scheduled for 2006
- Maintaining a stable and reliable technical environment whilst implementing numerous changes to the existing environment
- The upgrading of the SAP system capabilities
- The implementation of an Enterprise Data Warehouse

Achievements

The division made significant strides in providing a stable and proficient set of systems and technology infrastructure. Some of the achievements included the following:

- The core systems and infrastructure remained stable and performed adequately during the reporting period, in concert with numerous changes being made to the existing environment

- Information exchange between the Customs offices of South Africa and Swaziland has been significantly improved with the installation of secure encrypted network links

- Implementation of new, more efficient data storage devices to increase data storage capacity of SARS, resulting in savings of some R1,4 million per annum

- An Enterprise Data Warehouse solution has been implemented, which enables improved access to large and diverse sources of information

- The workstation environment, mainly consisting of personal computers and notebooks, has been upgraded with the implementation of a more secure, stable and managed distributed computing infrastructure. As a result, the turnaround time for change requests to the desktop environment has been improved by 90%

- The SAP solution was improved by implementing a number of enhancements, to cater for the increase in payment volumes and improved reporting and analytics. The banking payment channel was also improved to allow for payments to be made to SARS, at any of the four major commercial banks, with new validation rules to ensure accurate and automated allocation of payments

- A robust Systems Development Life Cycle methodology was implemented in the Applications Development and Maintenance realm. The main objectives of this methodology are to ensure that a high level of quality is maintained in respect of the development and enhancements of systems and that any risks associated with the development of systems are appropriately identified and managed

- A Service Management department was established with the objective to implement a comprehensive and consistent set of best practices to manage Information and Communications Technology as a service in support of respective SARS divisions and lines of business

- The following additional capabilities were introduced through the SARS eFiling platform:
    - Large companies can submit their secondary tax on companies returns and the accompanying payments through eFiling
    - Trusts can submit their IT12TR (returns for Trusts) returns via eFiling
    - Taxpayers can request their Tax Clearance Certificates electronically
    - Tax practitioners can register electronically
    - Air Passenger Tax can be paid electronically
    - VAT returns and payments can be submitted electronically.

SUPPORT SERVICES

In addition, system development and testing began to expand the eFiling platform to individual taxpayers scheduled for introduction during Filing Season 2006. When introduced, the system will allow about 2,7 million taxpayers the opportunity to file their returns through the internet. Further enhancements are planned for the next financial year to expand eFiling to other categories of registered individual taxpayers.

Challenges

SARS administers large volumes of sensitive information and as such, requires a strong focus on Information Security, which includes the integrity, confidentiality and availability of information.

Although SARS has made remarkable progress to address certain shortcomings within the underlying infrastructure and applications, it acknowledges that certain issues as pointed out by the Auditor General still need to be addressed.

Conclusion and the way forward

Although progress is evident, more effort will be required to meet the expectations from a technology perspective going into the future.

SARS has shown a sustained growth in the volumes it processes and is in the process of moving towards an operation which demands an environment that offers uninterrupted and extended hours of service. In addition, SARS has to respond to its business environment within the context of its dynamic risk patterns on the one hand, and the parameters of Service Charter expectations on the other.

Attention will be placed on providing an infrastructure that can handle projected volumes and extended business hours. Exploiting the opportunities for further automation and technology offerings that enables efficiency improvement will play a significant role during the forthcoming review period.

11.2 FACILITIES

Overview

Property and facilities management entails the provision and maintenance of facilities to best serve the needs of taxpayers, traders and SARS staff, and which enable the achievement of SARS's strategic goals and objectives. Being at the right location with the right infrastructure and facilities has a direct influence on SARS's ability to improve accessibility, convenience and service as well as improving border and customs control and facilitating trade. The strategic intent from a property and facilities perspective is to ensure, in partnership with business, that all current and future property and facilities requirements are provided for and that they are maintained at the desired standard.

Property Management

SARS's requirements range from major facilities in key revenue and business and taxpayer locations to smaller facilities in lower density areas. Furthermore, a SARS presence at all land, rail and sea ports of entry is an essential element for trade facilitation and customs control.

SARS's approach to property management is evolving from an internal transformation perspective to an outward focus that is linked to revenue generation, taxpayer education and awareness. This requires a higher degree of flexibility in positioning future sites and in developing the capability to respond to the ongoing business changes.

Key elements of the SARS strategic intent relating to property are:

- All property acquisitions will be determined by operational needs. The identification of the most appropriate location/building will be identified by property management for decision by executive/operations management
- Property will not be purchased other then where the business imperative requires this
- Facilities will be leased from either government property entities (e.g. PIC) or designated property management/rental agencies
- Greenfield/Brownfield sites developed for major points of presence (e.g. Pretoria, PE etc.) will be undertaken by SARS with specific funding/financing arrangements with the chosen property management agency. All transactions in whatever form must specifically comply with all relevant legislation, including PFMA

SUPPORT SERVICES

- To develop a grading differentiation that will enable maintenance factored into lease agreements
- The relevant management structures will be established to ensure timeous decision making, compliance with governance and responding swiftly to business requirements and demands.

The appropriate technology platforms will be implemented to facilitate the most efficient and cost effective management of properties.

Facilities management

The ongoing maintenance of all SARS properties is an essential element that ensures that the delivery of the SARS mandate is enhanced and not unduly disrupted. This requires the provision of the best properties and facilities management system in the most cost effective manner. Where necessary, this will be facilitated by a technology platform.

A structured approach to facilities management has only recently been established, and still requires the people resources to effect delivery.

Key elements of the facilities strategic intent are:

- All SARS occupied properties and facilities at a level that maximises the reliability of the assets
- The necessary planned maintenance activities, that includes preventative condition based, statutory and project maintenance, are undertaken within agreed and approved cycles
- The delivery of maintenance will be achieved through a combination of in-house and outsourced resources
- Maintenance will be undertaken in the most efficient and cost effective manner
- The appropriate contingency arrangement will be established to manage unplanned maintenance, and includes routine, breakdown and incident maintenance
- The necessary maintenance rating and classification system will underpin SARS's delivery.

Property Portfolio 2005/06:

SARS's Property Portfolio consists of a combination of commercial, residential and border facilities comprising of:

- Total of 294 buildings
- Total of 139 commercial buildings
- Total of 155 residential houses

- Total of 52 state-owned buildings
- Total of 19 commercial border posts
- Total of 3 non-commercial border posts (Alexander Bay, Pafuri and Kosi Bay).

Building infrastructure

The following initiatives and projects were executed in the financial year or are in the process of being completed:

Albany House – Phase 1

The Albany House Phase 1 Project was a major fit-out to relocate Customs and Enforcement business units to Albany House in Durban. The main purpose of the project was to locate staff in the same building so as to provide:
- Improved process flows
- Cost consolidation in terms of facilities management
- Better taxpayer interface
- Improved working conditions for staff.

Large Business Centre: KZN and Western Cape (WC)

New offices in KZN and the WC were refurbished for the Large Business Centre Operations to provide a comprehensive tax service for large businesses in the regions. This is part of the business strategy already set in place by the Large Business Centre for the opening of regional offices.

Gauteng South Campus: Alberton

This major project involved the construction of approximately 28 000 m² of office space to enable SARS to consolidate operations in the Gauteng South area. The main benefits intended are:
- Operational consolidation
- Location of staff in the same building
- Improvement of efficiencies
- Efficient facilities management
- Improved customer service and interface
- Improved working conditions for staff.

The major portion of the programme has been contracted and it is envisaged that the initial occupation of the facility by the enforcement component will take place in June 2006.

SUPPORT SERVICES

Land Ports of Entry

The Border Control Implementation Programme aims to improve the working environment at border posts and to facilitate initiatives to increase compliance with border control measures. The National Department of Public Works (NDPW), SARS and other stakeholder departments developed a roadmap to identify the shortfalls that needed to be addressed, under the auspices of the Border Control Operations Coordinating Committee (BCOCC).

The following initiatives were undertaken at our Land Ports of Entry:

- Construction of toilets at Nakop
- Construction of residential accommodation (18 single rooms) at Nakop
- Construction of 6 additional offices at Vioolsdrift
- Installation of a security fence at the residential area at Vioolsdrift
- Installation of TVs and Vivid System at Skilpadshek
- Installation of generators at Oshoek and Groblersbridge
- Upgrading of the Cash Office at Oshoek
- Review the current construction work at Mananga
- Maintenance at Golela including electrical work, plumbing and painting
- Purchase of furniture at Jeppes Reef.

The above initiatives will greatly improve the health and safety of staff and visitors to these ports of entry, and also help to improve customer service.

Refurbishment

The refurbishment of a number of offices was undertaken to improve working environments for employees and to deliver a better service to clients. It also supported new process developments by business.

The following offices were refurbished:

Witbank Branch Office

Client Service Area refurbished to the new SARS standards. This is aligned with the SARS strategy to improve the taxpayer experience and enhance service delivery.

Infotech Enforcement

The building was refurbished for SARS Enforcement to create capacity and improve efficiencies.

Cherry Lane Customs

The Customs Commercial Services was moved from the SARS head office complex to a new centre at Cherry Lane in Brooklyn, Pretoria. The aim is to improve accessibility and to improve client service.

Khanyisa Technology and Process Division

A Technology Centre was established to ensure that all business processes technology applications and technology infrastructure functions appropriately to support business delivery.

Maintenance programme

Various preventative and reactive maintenance programmes were undertaken to improve working conditions and to ensure that the SARS property portfolio complied with specified standards. Maintenance works to the value of R 10,9 million were carried out in the period under review.

11.3 FINANCE

Introduction

Finance is a strategic operational support division that provides financial and management accounting (own accounts and administered revenue) and procurement services to SARS. It ensures sound financial management based on legislative requirements, best practice and the principles of good governance. Through the work of the finance division, unqualified audit opinions have been sustained over the past few years.

Improving financial analysis and reporting

Accurate and timely collections reporting are critical to SARS operations, particularly at financial year end. A collections reporting system was introduced during the 2005/06 financial year to enable a 24-hour reporting turnaround on collections performance. The system is currently being adapted to enable a forecasting and analysis capability that includes drill-down to taxpayer level. The introduction of the system to branch office level will commence in September 2006.

Significant success has also been achieved in improving Customs financial reporting with the introduction a financial analytics and reporting solution at office level. The reporting solution, which cuts reporting turnaround times from more than two weeks to less than 48 hours, went live in November 2005 and enables greater analysis of import declarations, improved performance management, and a more stable platform to assist SARS in its continued migration to Generally Recognised Accounting Practice (GRAP).

SUPPORT SERVICES

Upgrading SAP systems capabilities

The SAP investment continues to be improved and tuned to ensure maximum business advantage and opportunity. This included implementing a number of systems enhancements such as the migration to a Linux platform (August 2005) and a systems upgrade to the latest SAP versions of ECC6 and BI7 (completed in May and June 2006 respectively).

The new platform architecture will drive existing and new business initiatives. The upgrade introduces SAP Netweaver 64bit architecture that not only enhances current functionality but is also a prerequisite for ongoing and future developments. It also provides a more secure platform offering business seamless integration into other SAP applications thereby ensuring greater use of the product suite's full capability.

The introduction of a faster/scalable platform will translate into additional productivity. Additional and enhanced features will be available to SARS to drive optimization of new and existing business practices and processes as well as the capability to handle increased payment volumes and improved Customs financial reporting and analytics.

Accounting transformation – Generally Recognised Accounting Practice (GRAP)

The Public Finance Management Act aims to improve the components of financial management and financial administration in Government by giving recognition to the need to improve the value for money that the public sectors provide to the citizens of South Africa.

The accrual basis provides information about such matters as the resources controlled by the entity and the actual cost of its operations. The use of the accrual basis is essential if financial reporting is to provide information useful in evaluating performance in terms of service costs, efficiency, and accomplishments. It can assist users by providing better information for decision making and accountability and by changing the way in which managers think and operate.

The GRAP Migration Project strives to ensure the application of appropriate policies and procedures that ensure the safeguarding of revenue and assets; most notably the taxpayer/trader account which translates into future cash flows to Government.

The plan for achieving accrual accounting has been designed in order to balance the requirements of the Accounting Standards Board and National Treasury, the capabilities of SARS, and the provisions contained in the ED 29, the International Federation of Accountants exposure draft on the subject.

The intention is to implement progressive accrual accounting through the inclusion of supplementary schedules not forming part of the audited financial statements, which remains on the cash basis and on which an audit opinion is expressed. Once completed, SARS will then convert to full accrual in terms of GRAP.

Training and development – SARS TOPP programme

The establishment of a key focus area of financial management and auditing through the Training Outside Public Practice (TOPP) programme, forms an integral part of bringing about financial transformation in SARS. It addresses not only the need to create a sustainable and continuous professional development environment, but also attempts to address current issues facing SARS in attracting, developing, and retaining professionals in the fields of financial management, accounting, and auditing.

The project team continued with the implementation of the project with the planned appointment of an implementation partner to assist the team with the development of a course curriculum. Significant interest has already been shown in the programme with the first intake of candidates commencing in July 2006 with a second intake planned for January 2007. SARS currently has accreditation for an intake of 12 candidates per year.

Several other SARS initiatives are dependant on the progress of the TOPP programme, the main one being the Continued Professional Development of all chartered accountants in SARS. The new South African Institute of Chartered Accountant' regulation requires all CA(SA)s to show commitment to their own development in order to stay abreast with new accounting, tax and auditing standards and regulations, as well as the development of their professional skills.

The effort invested in the TOPP programme is currently paving the way for these initiatives. The planned Taxation degree, in conjunction with the University of the North West, also has the potential to link to certain of the initiatives of the TOPP programme.

Procurement

The supply chain management principles of National Treasury which have been adopted focus on strategic sourcing and procuring of goods and services with value for money being at the core of this approach. Adoption of the principles has resulted in a more simplified procurement policy.

SUPPORT SERVICES

SARS has also redesigned the technical aspects of its procurement procedures. Suppliers can now participate in tendering processes by downloading all the tender documents and other supporting documents online using the SARS website.

In May 2005, SARS commissioned a new procurement portal. The intranet-based portal will be the central information and transaction platform for procurement in the future. It will allow SARS employees and suppliers to access all relevant information.

SARS also continues to support programmes which aim to contribute positively towards the development of black empowerment enterprises and small, medium and micro enterprises (SMMEs). The SARS BEE Policy, which was implemented in June 2004, reflects a long-term commitment to support BEE through procurement. SARS's overall BEE spend for the year to March 2006 was 69% of its total procurement spend (40,6% for the prior financial year). The number of empowered suppliers conducting business with SARS has increased by 62,6% from 430 to 699. The empowered suppliers comprise 307 Black enterprises, 228 black-women owned enterprises and 164 black empowered enterprises.

The procurement strategy for the coming year includes contributing to the growth of the number of youth owned businesses and businesses owned by people living with disabilities.

11.4 COMMUNICATIONS & CORPORATE RELATIONS

Overview

The Communications and Corporate Relations division plays a key role in spreading awareness about tax and the need for taxpayers and traders to meet their obligations. It aims to inculcate a culture of fiscal citizenship in our society and to highlight the benefits of tax compliance for our country. In line with SARS's compliance model, it engages in activities to boost taxpayer education, works with operations in their quest to offer better service and supports enforcement in their efforts to improve compliance.

The division disseminates relevant information about SARS internally among its staff and externally to stakeholders and the public at large. It caters for the communication needs of SARS's business areas by producing a wide range of products such as flyers, brochures, booklets, posters and banners. The division also spearheads national campaigns for SARS, organises events, liaises with the media and is responsible for the the marketing of SARS's corporate image.

Highlights

- High levels of awareness created through marketing and media coverage of primary SARS publicity campaigns, including the annual filing season campaign, an anti-smuggling enforcement campaign, an eFiling campaign and Budget 2006
- A renewed focus on internal communications to inform, educate and motivate employees concerning key SARS objectives, particularly revenue collection, broadening the tax base, enhancing tax compliance and the introduction of the Service Charter
- Continued progress in enhancing taxpayers' perceptions of tax morality and compliance, government expenditure and SARS.

Communication: a vital tool in compliance

SARS communications, which includes education, media relations, marketing and advertising, is a key tool in advancing the compliance model in pursuit of enhanced tax morality and good fiscal citizenship by:

- Informing and educating taxpayers and traders about their tax obligations and how to meet them, and explaining the SARS services available to them
- Enhancing the reputation of SARS as a firm but fair enforcer by raising awareness of enforcement actions and successes
- Monitoring and responding to the changes in taxpayer and trader perceptions and beliefs that drive their behaviour.

Informing taxpayers and traders

There are three key steps to guiding behaviour: information (making sure people know what they have to do), understanding (making sure they know how do to it) and acceptance (convincing them to act). The first step in any communications strategy is providing the necessary information – for example, that the tax return deadline is 8 July 2005, that it is illegal to buy or sell smuggled goods, or that small retailers can apply for a simpler VAT management package.

During the year under review, SARS continued to advance its communication of key messages to taxpayers and traders. Some of these are perennial messages (such as general tax and customs information, and enforcement messages). Others are seasonal (filing season messages, budget information). Others are operational and are communicated when the need arises (for example, SARS discontinues use of IRP (3) form).

SUPPORT SERVICES

One of the primary means of communicating information and educating taxpayers and traders about their obligations is through the publication and distribution of booklets, guides, brochures, flyers and other pamphlets containing key tax and customs information.

Among the publications, advertising material and other communication products developed, printed and distributed between 1 April 2005 and 31 March 2006 were:

- More than 3,4 million booklets, guides and educational publications, including the Khanyi Khumalo comics
- Nearly 1,7 million copies of newsletters, flyers, leaflets and letters
- 12 000 posters
- 15 000 desk pads.

The above does not include material distributed to taxpayers in their annual tax returns (including a letter from the Minister of Finance and the Commissioner of SARS and a Khanyi comic book, which helps taxpayers to complete their tax returns).

Specific Communication Campaigns

Budget 2005/06

Each year, SARS partners with National Treasury to inform the public about the contents and implications of the national budget. The 2005/06 Budget campaign included:

- Printing and distributing three budget-related publications (What's in the Budget for Individuals, What's in the Budget for Businesses, Budget Tax Proposals 2005/06). The first publication was distributed to a large number of taxpayers via its insertion into all major daily newspapers the day after presentation of the Budget
- Extensive media engagement (including radio, television and press interviews)
- A special web page on the 2005/06 Budget on the SARS website.

Filing season 2005

This is a major campaign in the SARS business calendar. Communications, as a support service, is tasked with managing the media, communications and marketing aspects of the filing season campaign.

The 2005 campaign message centred on the public gains that South Africa has made through its tax money since 1994. More specifically, national successes like the reduction of the fiscal deficit, the number of people now receiving fresh water, number of children at school, the number of primary health clinics built and a few others were given prominence in the campaign's above the line messages. The campaign tagline was "Invest in a brighter future".

This central message ran as a thread through all the communication output: to inspire staff to greater public service; in all the advertising material as well as through media engagement.

Market research conducted the previous year found television to be the most cost effective medium in reaching taxpayers. The 2005 campaign therefore used the television medium more extensively than before. A TV advertisement highlighting the delivery of public services was produced and aired. In addition, a number of advertisements reminding taxpayers of the deadline were broadcast. Radio and print advertising was used also to highlight government delivery through tax money and to provide useful information to taxpayers.

The integrated marketing campaign was supported by an extensive media relations campaign, with SARS extending the outreach campaign to include media workplaces and eliciting media coverage of the outreach activities of various offices.

Total print coverage for the duration of the campaign was 117 published articles, with an average of 11,7 articles per week. The total broadcast coverage for the same period was 364 broadcast clips, with on average, 23,8 clips per week over 10 weeks of the campaign.

Market research commissioned by SARS last year showed:

- A marked increase in awareness among taxpayers that filing season is the time to submit tax returns – 43% (37,9% in 2004) of metropolitan respondents and 40% (22% in 2004) of rural respondents
- A high rating (an average of 7,3 out of 10 for metro and 6,6 out of 10 for rural) for SARS messages, especially for the message "When paying your income tax, you're helping government provide services to more South Africans" (a 7,5 and 7,0 rating).

Anti-smuggling campaign

This campaign, run in conjunction with the Consumer Goods Council of South Africa, sought to raise awareness of the socio-economic problems associated with the smuggling of certain goods. The products/industries targeted by the campaign were:

- Tobacco
- Alcohol
- Textiles
- Cellphones
- Confectionery and sweets.

The campaign included an extensive print-advertising campaign run in major newspapers and periodicals, and a complementary media relations campaign based on increased enforcement activities to raise the profile of this problem.

Service Charter

To create public awareness of the Service Charter, an awareness campaign was undertaken including announcing the release of the Charter via the media and advertising, the display of the Service Charter in permanent poster frames in all offices and the publication and distribution of a booklet outlining the Service Charter and standards.

Internally, the Charter and standards were promoted among staff via a comprehensive communication campaign which included a special internal website, posters, newsflashes and a Service Charter "toolkit" for each staff member containing a copy of the Charter, a Khanyi comic explaining why the Charter is important and how it works, and a service pledge for each member of staff to sign.

CORPORATE RELATIONS

The Corporate Relations Office's main mandate is to enhance SARS's corporate image amongst its key stakeholder groups. To achieve this objective, it seeks to facilitate credible relationships and initiate meaningful, two-way communication with stakeholders. It also aims to position SARS as a caring contributor to social and economic upliftment.

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

These meetings help to establish clarity on tax administration and policy as well as the correct interpretation of tax legislation. They also help to ensure good service from SARS and the organisations concerned.

SARS also develops relations with specific organisations, such as law firms and industry groups, to work through tax administration issues and service channels.

SARS stakeholders have been defined according to primary and secondary groups. The primary groups of stakeholders involve mainly practitioners, such as the South African Institute of Chartered

Accountants, who play an important and direct role in both the technical and operational issues affecting SARS. SARS gains a lot by building strong ties with such bodies as the use of professional intermediaries lessens the number of errors it receives, for example in filing accurate tax returns, thus reducing the time spent by SARS officials in assessing returns. It learns a lot from getting direct feedback from all the professional bodies, enabling SARS to improve its services to clients.

SARS also engages with several secondary stakeholders such as the South African Chamber of Commerce. We have ensured wherever possible that SARS makes presentations to their forums, such as national conferences. As a result of these direct engagements we are in a better position to understand some of the challenges that are facing business in the country.

Corporate relations also facilitates internal guidelines in significant areas of the operations of the organisation. There are two specific developments worthy of mention:

- Establishing a corporate social investment policy and subsequent work done in this area
- The stakeholder survey, which was completed in August 2005.

The main corporate social investment initiative for the period under review was the donation of redundant computers to provincial education departments for distribution to rural schools. The computers were refurbished and the necessary software and software licences were donated to schools in a number of regions.

In total, SARS has donated 4 401 computers to schools in all nine provinces. This initiative is ongoing and SARS will continue to work with the Department of Education on this project.

The internal stakeholder survey results once again emphasised the need for a coordinated approach to stakeholder engagement at SARS. Based on the survey results, work has begun on drafting policy guidelines for stakeholder relations.

12

TRANSFORMATION

TRANSFORMATION

Overview

SARS's Siyakha transformation programme was launched in 2000 to address historic inefficiencies within the organisation. It aimed to improve, modernise and standardise operational processes and procedures to increase efficiencies and service levels throughout the organisation. The existing inward looking, bureaucratic organisational culture was to be replaced by an outward looking, client orientated ethos that strove for continual improvement and excellence.

Another goal was to effect change in SARS's workforce profile to better reflect South Africa's demographics. The overarching aim of the Siyakha programme was to reshape SARS so that it could rise to the many challenges it faces in the 21st century and is able to efficiently and effectively fulfil its mandate and responsibilities.

Highlights

- Key service centres now offer end-to-end processes
- Increase in employment equity with regard to race improved from 44% to 51%
- Increase in employment equity with regard to gender rose from 36% to 55%
- Better working environments for staff and clients
- Better skilled, more motivated staff
- Improvement is service levels

Implementation of Siyakha

After the successful roll-out of the programme in KwaZulu-Natal (2001), the Western Cape (2003) and a large part of Gauteng in 2004, Siyakha was rolled out to the remainder of Gauteng, Free State, Eastern Cape, North West Province and Limpopo during the period under review.

In Gauteng, the most significant infrastructural changes were the opening of SARS's Megawatt Park offices and the relocation of the Alberton branch to bigger and better premises. For the rest, the emphasis was on upgrading and redesigning existing premises to provide a better working environment for staff and clients.

TRANSFORMATION

Enforcement, Assessment and Service Centres were implemented in:

- Free State – Welkom, Kroonstad and Bloemfontein
- Eastern Cape – Mthatha, Uitenhage, East London and Port Elizabeth
- Limpopo – Polokwane, Lebogomo, Sibasa and Giyani
- North-West – Mmbatho and Rustenburg.

The main thrust of the programme was on re-engineering work processes and realigning jobs to achieve the following results:

- Increase operational efficiency through standardising business processes
- Introduce a more appropriate organisational structures
- Establish a better working environment
- Create multi-functional teams
- Enhance service
- Provide a stable platform on which future changes can be built.

Introduced during the roll-out were a number of other initiatives such as the small business desks and community tax helpers. This meant that the need to relocate staff was smaller and many were able to stay at their preferred workplaces. The staff who were relocated were happy to move.

A key element in the Siyakha process is training. SARS has developed training manuals for all revised areas of operations and these manuals are available to staff through the SARS intranet. Other training offered include:

- “Train the trainer” programmes
- Contract training, including “The Seven Habits”, team member, team leader and specialist courses
- On-the-job training.

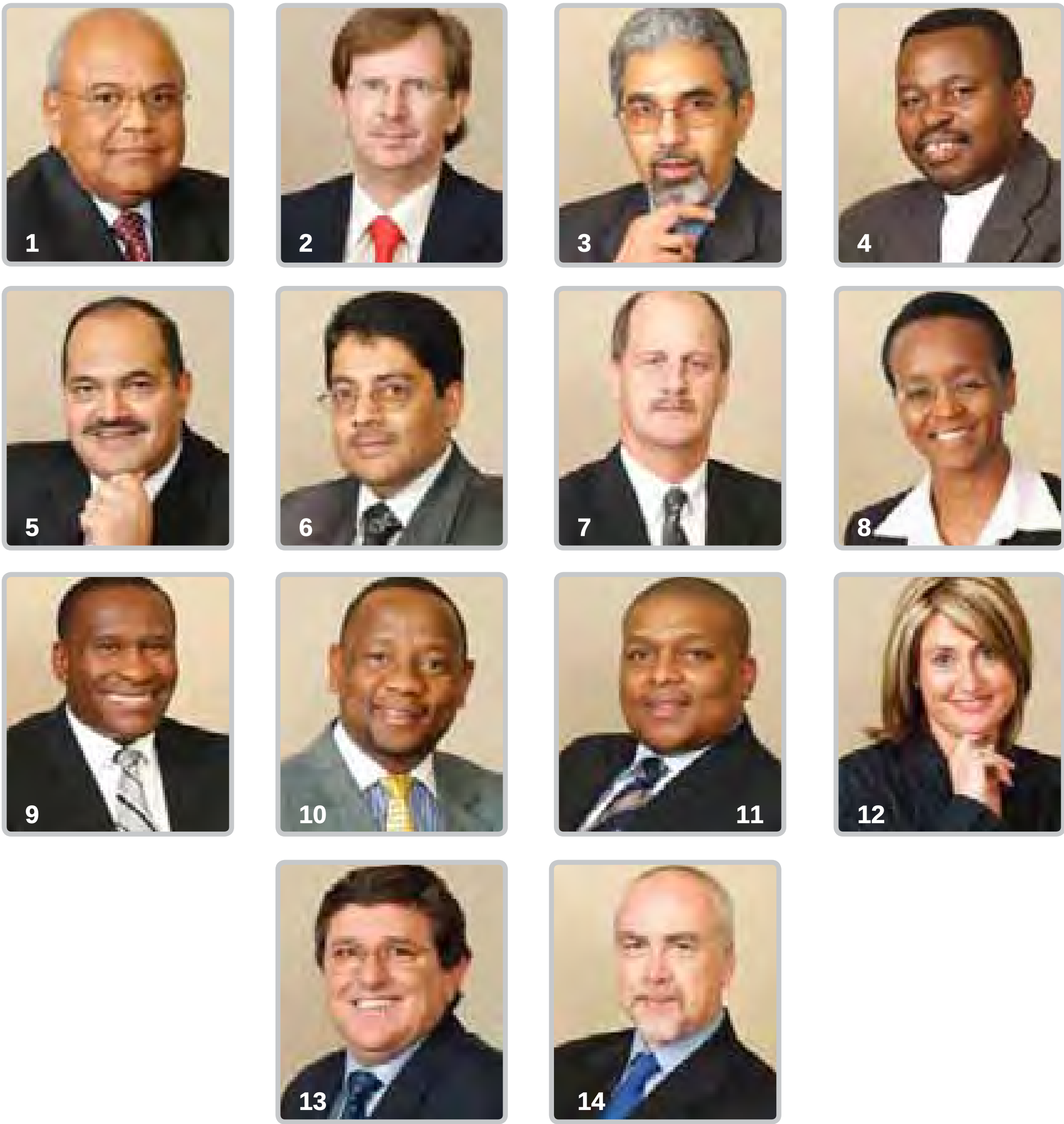
Conclusion and the way forward

The implementation of the Siyakha programme has yielded a wide range of benefits for SARS and has positioned it so that it is able to build on a solid foundation as it embarks on the next phase of its modernisation. It has helped inculcate a culture of service in staff and firmly embedded the drive for sustainable efficiencies as an operational principle across the organisation.

13

PROMOTING GOOD GOVERNANCE

PROMOTING GOOD GOVERNANCE: EXECUTIVE COMMITTEE



1. Pravin Gordhan, *Commissioner* | **2. Kosie Louw,** *GM: Law Admin* | **3. Ivan Pillay,** *Enforcement* **4. Vuso Shabalala,** *Operations: Zone 1*

5. Edward Kieswetter, *Large Business Centre* | **6. Prakash Mangrey,** *Finance* | **7. Thinus Marx,** *Operations: Zone 2*

8. Thandi Mabaso. *Operations: Zone 3* | **9. Leonard Radebe,** *GM: Support Service* | **10. Mbongeni Manqele,** *Director of Transformation*

11. Itumeleng Matsheka, *GM: Communications & Corporate Relations* | **12. Brenda Hore,** *GM: Process Information Management*

13. Ken Jarvis, *Chief Information officer* **14. Peter Richer,** *GM: Risk Management*

PROMOTING GOOD GOVERNANCE

Overview

SARS is a public sector entity falling in the ambit of the Public Finance Management Act (1 of 1999) (PFMA) and the South African Revenue Service Act (34 of 1997), the SARS Act. SARS recognises the significance of good governance in the public sector, 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), where possible within the parameters of public sector legislation.

Highlights

- Implementation of the internal governance committees
- The declaration of interest policy was rolled-out to all levels of the organisation – a 300% increase in declarations occurred in 2005/06
- All senior managers have submitted their declarations of interest
- A new SARS gift policy has been implemented resulting in increased awareness and a decrease in the acceptance of gifts
- The internal audit unit completed a total of 73 planned audits, 21 ad hoc audits and 16 consulting assignments

Governance structures

SARS was founded as an organ of state within the public administration, but as an institution outside the public service. The SARS Act, the PFMA, National Treasury regulations and the King II report inform the SARS governance structures and processes.

Management

The Minister of Finance, Trevor Manuel, is the executive authority for SARS, performing a non-executive oversight role over the operations of SARS and providing the policy direction for the organisation.

The SARS Commissioner, who is its Chief Executive Officer and accounting authority [PFMA 49(2); SARS Act 9(1) (d)], Pravin Gordhan was appointed to serve a second five-year term by President Thabo Mbeki in July 2004. The Commissioner is assisted in the executive management of SARS by an extended executive committee (Exco), which consists of all the general managers. The extended Exco is in turn supported by two other committees namely an Operational Committee (Opsco) and a Procurement Committee.

PROMOTING GOOD GOVERNANCE

The extended Exco is chaired by the Commissioner and is accountable for the performance and management of SARS. 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 members of SARS senior management regularly.

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

- Pravin Gordhan (Chief Executive Officer and accounting authority)
- Kosie Louw
- Ken Jarvis (left SARS with effect 31 March 2006)
- Ivan Pillay
- Vuso Shabalala
- Edward Kieswetter
- Thinus Marx
- Thandi Mabaso
- Leonard Radebe
- Shirley Zinn (left SARS with effect 15 July 2005)
- Mbongeni Manqele
- Itumeleng Matsheka (left SARS with effect 28 February 2006)
- Brenda Hore
- Prakash Mangrey
- Peter Richer
- Mukhtar Mohomed (Acting GM: HR 16 June 2005 – 15 January 2006).

- Oupa Magashula joined SARS as the Head of Corporate Services on 16 January 2006.

The Opsco and Procurement Committee have the following functions:

- The Opsco meets weekly, monthly and quarterly to manage the development of SARS's operational policies and the execution of operational plans.

- The Procurement Committee meets monthly and has been constituted to assist the Commissioner in executing his PFMA responsibility of ensuring that SARS has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

There are also several other sub-committees such as an Enterprise Wide Risk Committee, a Strategic Property Portfolio Committee, a Legislative Committee, a Wellness Committee and a Job Grading Committee which provide strategic line function support.

Delegation of authority

SARS has a policy for the orderly delegation of authority. Given the evolving nature of the business, this policy document is in the process of being revised and updated. A task team comprising the governance unit, corporate legal services, internal audit, procurement and finance was formed to deal with the review and update of the delegation of authority document. A new delegation framework will be instated during the coming financial year.

EXTERNAL 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 and in particular requires the establishment of a Human Resource Advisory Committee. The PFMA also requires the establishment of an audit committee to assist the accounting officer in discharging his responsibilities relative to the PFMA.

The following external committees have accordingly been constituted in line with this legislative mandate:

- Audit Committee
- Human Resource Specialist Committee and its Remuneration Sub-committee
- SARS is in the process of reconstituting an IT Advisory 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 with establishing an audit committee as a subcommittee of the accounting authority.

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

PROMOTING GOOD GOVERNANCE

Membership and record of attendance at audit committee meetings

In accordance with Treasury regulations 27.1.3 and 27.1.4, the audit committee has been so constituted as to ensure its independence, with an external chairperson and three additional external (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.

Mr SE Nxasana resigned as both chairperson and member of the SARS audit committee effective from 21 October 2005. Mr Bongani Nqwababa was appointed as the new chairperson of the SARS audit committee and chaired his first meeting on 7 April 2006.

Figure 13.1: Members and record of their attendance of Audit Committee meetings

Member	**15 April 2005**	**19 Aug 2005**	**21 Oct 2005**	**07 April 2006**
Sizwe Nxasana (chairperson until 21 October 2005) *B Compt (Hons); CA (SA);* *Chief Executive Officer, Telco SA Ltd*	✔	✔	✔	Resigned
Bongani Nqwababa (chairperson from 7 April 2006) *B.Acc, CA, MBA(Zim)* *Finance Director at Eskom Holdings Limited*	-	-	-	✔
Dillip Garach *M Com; CA (SA); CFP;* *Professor in Accountancy at University of KwaZulu-Natal; Partner: Garach & Garach Financial Advisory Services*	✔	✔	✔	✔
Mustaq Brey *B Compt Hons; CA (SA);* *CEO Brimstone Investment Corporation Ltd*	✔	✔	✔	✔
Berenice Lue-Marais *MBA International Finance;* *Head: CSIR Business Development & Key Stakeholder Management*	x	✔	✔	✔

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

- The effectiveness of SARS internal control systems
- The effectiveness of SARS internal audit functions as well as its activities including its annual work programme; coordination with the Auditor-General; reports of significant investigations and the responses of management to specific recommendations
- Any accounting and auditing concerns identified as a result of internal and external audits
- SARS Risk Management plans.

The audit committee also approved the rolling three-year strategic internal audit plan based on an assessment of key areas of risk for SARS, and an internal audit plan for the first year of the rolling plan.

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

The HRC has also established a remuneration sub-committee which advises the Minister/ Commissioner on matters relating to remuneration and employee benefits. Recommendations made by the remuneration sub-committee must be submitted to the Human Resources Committee for ratification before they are communicated to the Minister/Commissioner.

The HRC comprises five external (non-executive) members, of which two members and a member of the audit committee also comprise its remuneration sub-committee.

During the period 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

PROMOTING GOOD GOVERNANCE

- The code of ethics policies, which include policies on gifts and conflict of interests
- The committee's report to the Minister of Finance on human resources issues
- The 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.

Figure 13.2: Members and record of their attendance of human resources specialist committee meetings

Member	22.April 2005	1.July 2005	20.Oct 2005	24.Feb 2006
Judy Parfitt (chairperson) BJourn, HDE (Rhodes); BA (Hons); MA (PE); MA (Warwick) Managing director of Resolve Workplace Solutions, and director of the Resolve Group	✔	✔	✔	✔
Mike Olivier * M.Sc. Nuclear Physics (Wits); MBA (California) Remuneration and Human Resources Consulting	✔	✔	✔	✔
Liz Thebe * Group executive – Human Resources: SA Post Office	✔	✔	✔	✔
Adolf Maphutha Manager, Gas & Electricity Regulation: SASOL Gas	X	✔	✔	X
Lionel Human MD : Prima Personnel	✔	✔	X	✔

* The members of the remuneration sub-committee are Mike Olivier, Dillip Garach and Liz Thebe. Dillip Garach is also an audit committee member.

RISK MANAGEMENT

The risk management division was established during the 2003/04 financial year to promote a culture of risk management in the organisation and facilitates the promotion, identification and assessment of internal and external risks. It also undertakes some degree of risk mitigation. Several committees were created with the purpose of assisting the extended Exco and SARS management, to discharge their risk management responsibilities (refer to the Governance section for further detail).

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. Ongoing risk management processes will highlight areas where more or less control is needed. Risk management is now a regular agenda item at audit committee meetings. The enterprise-wide risk framework has obtained first-level approval from the risk committee. Divisional risk management coordinators have been appointed in all business units to coordinate risk management activities.

Risk management requires special software to facilitate the reporting and monitoring of risks throughout the organisation. 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. This will embed risk management as an integral part of day-to-day operational management.

IT governance is growing in importance. SARS has taken steps to ensure good governance across the organisation by endorsing the COBIT framework for information technology and systems, and by launching an IT governance implementation project. The specific aim of IT risk management is to identify and assess risks that could affect the availability, confidentiality and/or integrity of information within core tax systems and the supporting infrastructure.

PROMOTING GOOD GOVERNANCE

As a result, SARS has:

- Upgraded the first-generation firewalls to third-generation firewalls to provide for high availability, redundancy and improved analysis of all network traffic entering and leaving the SARS network
- Moved to a proactive detection solution in terms of network traffic to prevent attacks from happening, as opposed to reacting when attacks occur. Since the implementation, 70 high-level attacks have been prevented
- Ensured that required patches are deployed to servers/workstations within four days of completing testing – a remarkable improvement on the previous time of two months
- Ensured that anti-virus, spam and content filtering solutions are kept up to date to provide adequate protection. During the reporting period 37 149 spam mails, 39 646 viruses and 56 545 mails with inappropriate content were blocked
- Increased end-user awareness of information security, focusing specifically on complex passwords and social engineering – the driving force behind phishing attacks
- Ensured 100% compliance with the acceptable usage policy, as required by the Electronic Communications and Transaction Act
- Acquired a more advanced internet website filtering solution to ensure that the internet is used as a business tool to further assist in preventing spoofed IP-addressed and email addresses, which might assist with phishing attacks, but also to limit exposure to inappropriate content and material
- Embarked on a process that will ensure that individuals only have the access that they require to perform their functions. This will assist in preventing unauthorised access to confidential information
- Received 392 reports of non-compliance in terms of the acceptable usage policy
- Assisted the Business Intelligence Unit with 117 investigations from a technical perspective.

These efforts are paying off, as the information security posture of SARS was shown to have increased substantially during a bi-annual assessment done as part of our membership of the Information Security Forum. In 2003, SARS was ranked 27th out of 98 companies. In 2005, SARS was ranked 14th out of 80 companies and obtained benchmark status in three areas.

ETHICS

SARS aims to entrench and enforce ethical and moral behaviour throughout the organisation and to build a corporate culture on a foundation of integrity.

SARS established the SARS ethics office in 2004/05. The three components – an integrity unit, an ethics awareness component and an internal corruption investigation unit – play a functional role in stabilising the internal environment by creating awareness regarding ethical and moral behaviour, as well as by investigating cases of internal corruption.

The integrity unit is responsible for:

- Pre-employment screening of potential staff members. The unit screened 453 individuals on average per month
- Security clearance investigations (vetting) of employees who have access to sensitive information/assets. The vetting of SARS's senior management, their support staff and other selected individuals has been undertaken
- Vendor vetting was performed on an ad hoc basis, as well as the screening of tender evaluation committee members in the case of large tenders (this is now a prerequisite)
- The ethics awareness unit is responsible for embedding ethical behaviour in the organisation through a comprehensive education and awareness campaign. The campaign includes workshops, printed material (posters, brochures, etc) as well as observing certain days such as international anti-corruption day.

The ethics awareness campaign aims to:

- Satisfy the SARS strategic goals of enhancing human capability and embedding good governance
- Create awareness of the SARS ethics policies and procedures and values
- Ensure that SARS senior management and employees are empowered with ethical decision-making tools
- Ensure that all new employees are inducted accordingly.

An ethics advice service portal and website were implemented during the reporting year to provide a mechanism for employees to raise their concerns and receive advice on ethical dilemmas and decision-making.

PROMOTING GOOD GOVERNANCE

The declaration of interest policy, approved in 2004, was rolled-out to all levels of the organisation. A 300% increase in declarations occurred in 2005/06. This included senior management, demonstrating SARS's commitment to serving the public interest with unyielding integrity and excellence.

A SARS gift policy was approved and implemented during 2005/06. This resulted in increased awareness and a decrease in the acceptance of gifts. These policies were explained during workshops and at other forums, ensuring that employees understand the rationale behind certain limitations, thereby increasing compliance.

This ethics office also conducted an ethics assessment in May and June to establish the ethical climate in the organisation. The results were used to enhance SARS's capacity to assess and change its corporate culture. The assessment was also part of an initiative to entrench and enforce ethical and moral behaviour within the organisation. It further provided an opportunity for staff to gain an insight into dysfunctional aspects of their culture and patterns of behaviour, as well as problems causing employee dissatisfaction.

The internal corruption investigations unit focuses on investigations of internal fraud and corruption. The reporting of fraud and corruption is facilitated through the SARS hotline as well as through the completion of suspicious activity reports. Systems and procedures are in place to discipline unethical behaviour. During the year under review, the unit finalised 366 cases, reported 50 to the South African Police Service for criminal investigation and had 105 prosecuted. Thirty-nine employees were dismissed as a result of fraud or corruption.

INTERNAL AUDIT

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.

Operations

The division's audit plan for the 2006/07 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 73 planned audits, 21 ad hoc audits and 16 consulting assignments during the year under review. Although the majority of audits indicated a satisfactory control environment, those areas that needed attention are in the process of being addressed by management. The revised control environment is evaluated through follow-up audits. During the planning phase of the external audit, the Auditor-General planned to place reliance on the work by internal audit. The Auditor-General was able to rely on the work of the internal audit unit in those identified areas. 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.

The division continued its focus on the internal audit quality control process. During the period under review, Internal Audit conducted an Internal Quality Assessment (QA) and was subjected to a full independent External Quality Assessment. The Quality Assessments were done as required by the standards of the Institute of Internal Auditors (IIA) and directed by the Treasury Regulations. Internal Audit was evaluated and rated as Generally Conforms (GC) which means that the internal activity has a charter and policies and procedures that are judged to be in accordance with the Standards. Internal Audit will also continue to build its operational efficiencies through the ongoing training of its staff. In the year under review, Internal Audit fulfilled all requirements in terms of its responsibilities and functions as detailed in the PFMA and Treasury Regulations.

14

SARS FINANCIAL STATEMENTS

AUDIT COMMITTEE REPORT

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2006 in terms of Treasury Regulations 3.1.1.9 and 10. whereby the Audit Committee is required to report amongst others on the effectiveness of the internal controls, the quality of in-year management and monthly reports submitted in terms of the Division of Revenue Act as well as its own evaluation of the annual financial statements.

Audit Committee Members and Attendance

The Audit Committee consisted of four external members listed hereunder and held three meetings for the financial year under review. Mr SE Nxasana has resigned as both chairperson and member of the SARS Audit Committee effective from 21 October 2005. Mr Bongani Nqwababa was appointed as the new chairperson of the SARS Audit Committee and chaired his first meeting on 7 April 2006.

Name of member	Attended	Apologies	Total
Mr Sizwe Nxasana (chairperson)	3	0	3
Mr Mustaq Brey	3	0	3
Ms Berenice LueMarais	2	1	3
Prof Dillip Garach	3	0	3

Audit Committee responsibility

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

The effectiveness of internal control

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

In line with the PFMA and the King II Report on Corporate Governance, the Internal Audit function provided the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. Accordingly, the committee reports that the systems of internal controls for the period under review were effective and efficient.

AUDIT COMMITTEE REPORT (continued)

Evaluation of Financial Statements

The Audit Committee has:

a) Reviewed and discussed the audited Annual Financial Statements to be included in the annual report with the Auditor-General and the Accounting Officer;

b) Reviewed the Auditor-General's management letters and management's responses thereto;

c) Reviewed accounting policies; and

d) Reviewed significant adjustments resulting from the audit.

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

Bongani Nqwababa

31 July 2006

ADMINISTERED REVENUE
31 March 2006

CONTENTS

The attached annual financial statements were approved and signed by:

Pravin Gordhan

P Gordhan

Commissioner

31 July 2006

AUDIT REPORT ON ADMINISTERED REVENUE
for the year ended 31 March 2006

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 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 140 to 156, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 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 are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 544 of 2006*, issued in *Government Gazette* no. 28723 of 10 April 2006 and *General Notice 808 of 2006*, issued in *Government Gazette* no. 28954 of 23 June 2006. 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
- evaluating the overall financial statement presentation

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

3. BASIS OF ACCOUNTING

The entity's policy is to prepare the financial statements on the basis of accounting described in note 1 to the financial statements.

4. 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 2006 and the results of its operations and cash flows for the year then ended, in accordance with the basis of accounting described in note 1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

AUDIT REPORT ON ADMINISTERED REVENUE (continued)
for the year ended 31 March 2006

AUDITOR-GENERAL

5. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters which do not affect the financial statements:

5.1 Operating receivables and payables

The financial statements were prepared on the basis of accounting described in note 1 to the financial statements.

In terms of this basis of accounting, 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 from the accountant-general to not disclose operating receivables and payables as part of the annual financial statements for 2005-06. 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 150 to 154 of the annual report.

5.2 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.

6. APPRECIATION

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

Shauket Fakie

Auditor-General

Pretoria

31 July 2006

AUDITOR-GENERAL

STATEMENT OF FINANCIAL POSITION
as at 31 March 2006

	Notes	2006 R'000	2005 R'000
ASSETS			
Accumulated administered assets		**1 112 249**	**318 968**
Current assets			
Cash and cash equivalents	**2**	**10 483**	7 358
Other assets	**3**	**5 951**	6 922
Total assets		**1 128 683**	**333 248**
LIABILITIES			
Current liabilities			
Bank	**4**	**1 128 625**	333 016
Other liabilities	**5**	**58**	232
Total liabilities		**1 128 683**	**333 248**

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2006

	Notes	2006 R'000	2005 R'000
Taxation		**423 848 643**	**360 622 755**
Income tax	**6**	**230 803 550**	195 219 114
Value-added tax		**114 351 638**	98 157 875
Fuel levy		**20 695 652**	19 350 474
Customs duties		**18 303 465**	12 888 364
Excise duties		**15 703 806**	14 081 837
Other taxes	**7**	**11 930 318**	10 177 482
Unemployment insurance fund		**6 715 583**	5 911 015
Skills development levy		**4 872 040**	4 443 296
Road accident fund		**583 585**	502 879
Air passenger tax		**458 158**	412 176
Universal service fund		**142 034**	99 848
Plastic bag levy		**61 385**	41 214
Ordinary levy		**-**	103
Diesel refunds		**(772 571)**	(662 922)
Non-taxation		**230 391**	**6 498 996**
Non-tax revenue	**8**	**167 220**	(14 447)
Mining leases and ownership		**138 816**	2 226
Provincial administration receipts	**9**	**26 475**	51 057
Departmental receipts		**(4)**	6 062 933
Customs miscellaneous revenue	**10**	**(102 116)**	397 227
TOTAL REVENUE		**424 079 034**	**367 121 751**
Less: South African Customs Union Agreement			
Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	**11**	**14 144 921**	13 327 791
NET REVENUE FOR THE YEAR		**409 934 113**	**353 793 960**

STATEMENT OF CHANGE IN NET ASSETS
for the year ended 31 March 2006

	R'000
ADMINISTERED ASSETS	
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**
Net gains and losses not recognised in the statement of financial performance	**793 281**
Net revenue for the year	**(409 934 113)**
Transfer to the National Revenue Fund	**410 727 394**
Balance at 31 March 2006	**1 112 249**

CASH FLOW STATEMENT

for the year ended 31 March 2006

	Notes	2006 R'000	2005 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from operating activities	**12**	**424 079 831**	**367 123 121**
Taxation		**423 849 440**	360 624 125
Non - taxation		**230 391**	6 498 996
Cash transferred		**(424 872 315)**	**(367 026 794)**
Payments in respect of Customs Union Agreement		**(14 144 921)**	(13 327 791)
Cash to National Revenue Fund		**(410 727 394)**	(353 699 003)
Net cash (transferred)/retained from operations		**(792 484)**	**96 327**
Cash and cash equivalents at beginning of period		**(325 658)**	**(421 985)**
Cash and cash equivalents at end of period	**13**	**(1 118 142)**	**(325 658)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 March 2006

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.

By virtue of the powers vested in the Minister of Finance by section 91(1) (b) of the PFMA the Minister prescribed the standards of generally recognised accounting practice as set by National Treasury in terms of section 89(1) (a) (ii), read with section 93(3) of that Act, for the annual financial statements of national public entities, in respect of taxes, duties, levies, fees and other monies collected by such entities which must be deposited into a Revenue Fund as defined in that Act. This was promulgated in government notice number R. 1095 dated 30 October 2001. Further approval to apply these standards was obtained from the Minister on 21 July 2004.

In terms of this basis of accounting, the following policies are applied.

1.2 Revenue recognition

1.2.1 Definition of revenue

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

1.2.2 Recognition of revenue

Revenue is represented by gross collections net of refunds. Refunds are represented by cheques raised (issued) or the raising of electronic refunds.

Revenue is recognised on the cash basis when payments are allocated. This recognition of revenue has been extended to include all monies collected by the South African Post Office Limited which 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.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

31 March 2006

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.

1.5 Other assets

Un-cashed 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.

Other assets include all monies collected by the South African Post Office Limited which has not yet been paid over to SARS.

1.6 Bank

The bank balance primarily comprises cheques issued but not yet presented for payment, net reconciling items not allocated to revenue and bank account balances on 31 March not swept to the National Revenue Fund by the banks.

1.7 Administered assets

Administered assets reflect the cumulative difference between the transfer of revenue to the National Revenue Fund and revenue recorded per the Statement of Financial Performance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

31 March 2006

	2006 R'000	2005 R'000
2. Cash and cash equivalents	**10 483**	**7 358**
Receiver of Revenue (cash on hand)	**8 047**	6 940
Main control account - regional offices	**2 436**	418
3. Other assets	**5 951**	**6 922**
South African Post Office Limited (VAT)	**4 311**	3 918
South African Post Office Limited	**702**	2 384
Provincial administration	**540**	581
Accounts receivable	**398**	39

The provincial debtor of R540 342 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 R806 404 864 (R516 497 654 - 2004/05). The remaining amount of R322 219 839 (R183 481 644 - 2004/05) relates to net reconciling items.

	2006 R'000	2005 R'000
5. Other liabilities	**58**	**232**
Accounts payable	**58**	232
6. Income tax	**230 803 550**	**195 219 114**
Pay as you earn	**121 025 144**	106 719 196
Persons, individuals and companies	**92 717 674**	76 606 724
Secondary tax on companies	**12 277 625**	7 487 073
Tax on retirement fund industry	**4 783 107**	4 406 121
7. Other taxes	**11 930 318**	**10 177 482**
Transfer duties	**8 510 038**	7 114 629
Marketable securities tax	**1 973 373**	1 365 902
Stamp duty	**765 889**	1 138 602
Estate duty	**624 654**	506 914
Donations tax	**29 459**	25 189
Master fees	**26 953**	29 053
Levy on financial services	**(48)**	(2 807)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

31 March 2006

	2006 R'000	2005 R'000
8. Non-tax revenue	**167 220**	**(14 447)**
State miscellaneous revenue	**164 234**	(130 927)
State fines and forfeitures	**2 917**	115 482
State licences	**69**	998

During the 2005/06 financial year, stale cheques to the value of R162 720 648 was transferred to state miscellaneous revenue according to the National Treasury's regulations in this regard.

	2006 R'000	2005 R'000
9. Provincial administration receipts	**26 475**	**51 057**
Provincial administration consolidated account	**26 475**	51 057

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.

	2006 R'000	2005 R'000
10. Customs miscellaneous revenue	**(102 116)**	**397 227**
Revenue in respect of other departments	**288**	6 692
Customs miscellaneous revenue	**(102 404)**	390 535

11. Payments in terms of Customs Union Agreement

	2006 R'000	2005 R'000
Contributions to the Common Customs Pool	**34 007 271**	**26 970 202**
Namibia	**195 892**	186 493
Botswana	**192 063**	162 531
Lesotho	**87 437**	98 459
Swaziland	**30 596**	28 940
Sub-total	**505 988**	**476 423**
South Africa	**33 501 283**	26 493 779
Received from the Common Customs Pool	**34 007 271**	**26 970 202**
Botswana	**4 772 563**	4 336 711
Namibia	**3 891 882**	4 206 768
Swaziland	**3 136 236**	2 771 908
Lesotho	**2 306 022**	2 012 404
Secretariat	**38 218**	-
Sub-total	**14 144 921**	**13 327 791**
South Africa	**19 862 350**	13 642 411

The Minister of Finance approved the transfer payment of R38 218 400 to the Secretariat for the 2005/06 financial year in accordance with the SACU Agreement and the relevant internal procedures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

31 March 2006

	2006 R'000	2005 R'000
12. Reconciliation of net revenue for the year to total cash received		
Net revenue for the year		
Adjusted for:	**409 934 113**	353 793 960
Payments in terms of Customs Union Agreement	**14 144 921**	13 327 791
(Increase) / Decrease in other assets	**971**	1 138
Increase / (Decrease) in other liabilities	**(174)**	232
Total cash received	**424 079 831**	**367 123 121**
13. Cash and cash equivalents in respect of cash flow statement	**(1 118 142)**	**(325 658)**
Cash and cash equivalents	**10 483**	7 358
Bank	**(1 128 625)**	(333 016)

14. Sureties

(i) Lien - Sanlam shares

2 244 675 (3 233 818 - 2005) Sanlam shares with a market value of R37 037 138 (R39 258 551 - 2005) are held in respect of amounts owing by 4 159 (4 813 - 2005) taxpayers at 31 March 2006.

(ii) Lien - Old Mutual shares

2 677 000 (2 282 600 - 2005) Old Mutual shares with a market value of R57 475 190 (R35 836 820 - 2005) are held in respect of amounts owing by 3 953 (2 988 - 2005) taxpayers at 31 March 2006.

(iii) Guarantees

Guarantees issued in favour of SARS amounting to R134 951 097 (R85 212 184 - 2005) are held as security for various taxes payable.

Guarantees issued by financial institutions in favour of SARS amounting to R3 834 676 271 (R3 455 501 982 - 2005) are held as security for various duties payable.

15. Write-off of irrecoverable debt

Irrecoverable debt in respect of administered taxes to the amount of R9 450 999 543 (R2 290 920 227 - 2005) has been written off on or prior to 31 March 2006. 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 R261 456 861 (R71 367 125 - 2005) has been written off on or prior to 31 March 2006. Amounts still awaiting approval for write-off do not form part of actual write-offs.

ANNEXURE

OPERATIONAL RECEIVABLES & PAYABLES (2005/06 and 2004/05)

TAXES

OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2006

2005/06	1 - 3 Months Rands	4 - 6 Months Rands	7 - 8 Months Rands	9 Months > Rands	Interest Rands	Total Rands	New Debt Rands	Total Debt Rands
Income Tax	1 694 711 143	1 606 762 315	751 231 529	17 136 842 944	9 576 679 329	30 766 227 260	5 585 614 564	36 351 841 824
Individuals	872 688 518	450 146 038	286 501 053	7 944 029 308	4 030 619 002	13 583 983 919	1 781 911 582	15 365 895 501
Trusts	55 041 154	9 124 713	12 236 173	213 629 983	138 194 075	428 226 098	215 387 463	643 613 561
Companies	766 981 471	1 147 491 564	452 494 303	8 979 183 653	5 407 866 252	16 754 017 243	3 588 315 519	20 342 332 762
PAYE	444 454 577	452 551 125	276 847 714	8 773 675 559	-	9 947 528 975	429 611 868	10 377 140 843
VAT	461 143,390	516 213 370	317 801 046	17 802 780 585	-	19 097 938 391	409 863 755	19 507 802 146
STC	296 226 940	88 646 991	37 378 758	1 699 286 077	539 447 461	2 660 986 227	33 802 268	2 694 788 495
Sub-Total	**2 896 536 050**	**2 664 173 801**	**1 383 259 047**	**45 412 585 165**	**10 116 126 790**	**62 472 680 853**	**6 458 892 455**	**68 931 573 308**
Diesel	-	-	-	-	-	1 786 405	-	1 786 405
SDL	-	-	-	-	-	612 529 890	-	612 529 890
UIF	-	-	-	-	-	791 553 115	-	791 553 115
Total	**2 896 536 050**	**2 664 173 801**	**1 383 259 047**	**45 412 585 165**	**10 116 126 790**	**63 878 550 263**	**6 458 892 455**	**70 337 442 718**

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 Rands	New Debt Rands	Total Debt 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**

ANNEXURE (continued)

OUTSTANDING CREDITS (PAYABLES) AS AT 31 MARCH 2006

2005/06	**Total Credits Rands**
Assessed Tax	-5 686 447 743
Provisional Tax	-
Income Tax	**-5 686 447 743**
PAYE	-19 264 178 525
Returns not received	9 967 509 563
PAYE	**-9 296 668 962**
VAT	-12 976 940 722
Returns not received	6 085 853 637
VAT	**-6 891 087 085**
Sub-Total	**-21 874 203 790**
Diesel	-122 655 434
UIF	-1 085 684 551
SDL	-990 492 685
STC	-820 531 379
Total	**-24 893 567 839**

ANNEXURE (continued)

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	**-26 063 955 605**

DUTIES

OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2006

2005/06	Debt Rands	Interest Rands	Total Rands	Current Not Due Rands	Total Debt Rands
Customs duty	410 396 401	149 803 741	560 200 142	1 568 004	561 768 146
Value-added tax	239 934 426	77 991 885	317 926 311	3 804 531	321 730 842
Surcharge	5 567 345	4 222 610	9 789 955	-	9 789 955
Fuel levy	18 508 034	16 741 434	35 249 468	-	35 249 468
P2A -					
Excise duty	50 789 914	23 176 141	73 966 055	57 990	74 024 045
P2B -					
Ad valorem	45 949 381	15 122 965	61 072 346	2 797	61 075 143
Penalties	62 299 725	-	62 299 725	341 545	62 641 270
Forfeiture	602 631 319	-	602 631 319	22 455	602 653 774
Unallocated	-6 539 346	-	-6 539 346	-353 018	-6 892 364
Total	**1 429 537 199**	**287 058 776**	**1 716 595 975**	**5 444 304**	**1 722 040 279**

ANNEXURE (continued)

OUTSTANDING DEBT (RECEIVABLES) AS AT 31 MARCH 2005

2004/05	Debt Rands	Interest Rands	Total Rands	Current Not Due Rands	Total Debt 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**

Note

1. 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.

2. No provision for doubtful debts has been raised as the annual financial statements are prepared on the cash basis of accounting.

ANNEXURE (continued)

WRITE-OFF'S

	2005/06 Rands	2004/05 Rands
PAYE	524 220 787	131 242 009
Penalty	37 006 675	9 460 203
Interest	252 209 822	37 115 380
Total PAYE	**813 437 284**	**177 817 592**
UIF	3 278 658	567 287
Penalty	283 111	48 011
Interest	546 499	55 248
Total UIF	**4 108 268**	**670 546**
SDL	8 191 366	1 257 643
Penalty	721 251	107 737
Interest	1 631 961	194 289
Total SDL	**10 544 578**	**1 559 669**
VAT	2 648 059 632	604 299 929
Add VAT	949 530 650	319 255 585
Penalty	184 293 151	72 712 422
Interest	2 204 318 022	422 031 295
Total VAT	**5 986 201 455**	**1 418 299 231**

ANNEXURE (continued)

	2005/06 Rands	2004/05 Rands
Income Tax	1 560 663 841	477 476 067
Penalty	4 858 837	214 680 724
Interest	1 071 185 280	416 398
Total Income Tax	**2 636 707 958**	**692 573 189**
Customs	261 456 861	71 367 125
Total Customs	**261 456 861**	**71 367 125**
Total PAYE	813 437 284	177 817 592
Total UIF	4 108 268	670 546
Total SDL	10 544 578	1 559 669
Total VAT	5 986 201 455	1 418 299 231
Total Income Tax	2 636 707 958	692 573 189
Total Taxes	**9 450 999 543**	**2 290 920 227**
Total Customs	**261 456 861**	**71 367 125**
Grand Total	**9 712 456 404**	**2 362 287 352**

OWN ACCOUNTS
31 March 2006

CONTENTS

The attached annual financial statements were approved and signed by:

Pravin Gordhan

P Gordhan

Commissioner

31 July 2006

AUDIT REPORT ON OWN ACCOUNTS

for the year ended 31 March 2006

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 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 160 to 194 for the year ended 31 March 2006 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 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 Act, 1997 (Act No 34 of 1997). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette no. 28954 of 23 June 2006. 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
- evaluating the overall financial statement presentation.

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

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 2.2 to the financial statements.

AUDITOR-GENERAL

4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the South African Revenue Service – Own Accounts at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 2.2 to the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

5. APPRECIATION

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

Shauket Fakie

Auditor-General

Pretoria

31/07/2006

AUDITOR-GENERAL

REPORT BY THE SARS ACCOUNTING AUTHORITY
for the year ended 31 March 2006

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 2006. 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)
- Kosie Louw
- Ken Jarvis (resigned from SARS with effect 31 March 2006)
- Ivan Pillay
- Vuso Shabalala
- Edward Kieswetter
- Thinus Marx
- Thandi Mabaso
- Leonard Radebe
- Shirley Zinn (resigned from SARS with effect 15 July 2005)
- Mbongeni Manqele
- Itumeleng Matsheka (resigned from SARS with effect 28 February 2006)
- Brenda Hore
- Prakash Mangrey
- Peter Richer
- Mukhtar Mohomed (Acting GM: HR 16 June 2005 – 15 January 2006).

Oupa Magashula joined SARS as the Head of Corporate Services on 16 January 2006.

Logan Wort joined SARS as GM: Communications and Corporate Relations on 1 May 2006.

3. Organisational Structure

The organisational structure of SARS is reviewed as and when the need arises to enable it to fulfil its obligations towards Parliament and the Constitution.

Refer to the official organogram in the Annual Report page 195.

4. Principal activities

The SARS Act, 1997, gives the entity the mandate to perform the following tasks:

- Collect all revenues that are due
- Ensure maximum compliance with legislation it administers
- Provide a Customs service that will maximize revenue collection, protect our borders as well as facilitate trade.

5. Review of operations and results (amounts disclosed in R' 000)

Own Accounts

SARS was deregistered by law for VAT purposes since 1 April 2005. Current results include the VAT portion as part of the cost to the entity.

During the period under review Own Accounts has converted its Annual Financial statements from GAAP (Generally accepted accounting practice) to GRAP (Generally recognised accounting practice). This change was made in accordance with the prescriptions of the ASB (Accounting Standards Board) and National Treasury. The restatement of results on a GRAP basis compared to GAAP has had no impact on the results or position of the entity.

The Revenue for the year was made up as follows:

	% change	2006	2005
Revenue	5,4	**4 494 315**	4 263 599
- Grant	5,4	**4 254 302**	4 037 289
- Interest	(25,6)	**57 963**	77 866
- Other Operating revenue	18,8	**176 286**	148 444
- Other Non-operating revenue	-	**5 764**	-

REPORT BY THE SARS ACCOUNTING AUTHORITY (continued)
for the year ended 31 March 2006

The Grant from National Treasury increased in line with the approvals obtained through the Medium Term Expenditure Framework (MTEF). Interest earned fluctuated in line with interest rates and funds temporarily available for investment.

Other operating revenue consists mainly of commissions earned from acting as the agent for the Department of Labour in collecting Unemployment Insurance Fund (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. Other non-operating revenue relates to contractual savings from the Alberton South project.

The net (loss) for the year for the entity was as follows:

	% change	2006	2005
Balance Accumulated surplus on 1 April		**993 117**	1 039 295
Net (loss) for the year	(833, 03)	**(430 855)**	(46 178)
Balance Accumulated Surplus at 31 March		**562 262**	993 117

Losses incurred by the entity are funded out of cash reserves resulting from prior period timing differences on projects.

Administered Revenue

The net revenue for the year was R 409 934 113 (R 353 793 960: 2005). 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 taxes, levies, duties fees and other monies collected for the year. The net revenue is the amount collected after deduction of payments made by the National Treasury to the South African Customs Union. The operating expenditure for Administered Revenue is provided for in the Own Accounts budget.

	% change	2006	2005
Total revenue	15,5	**424 079 034**	367 121 751
SA Customs Union Agreement	6,1	**14 144 921**	13 327 791
Net revenue	15,8	**409 934 113**	353 793 960

Revenue collected is a function of the prevailing economic conditions, their effect on the South African economy and the level of compliance.

REPORT BY THE SARS ACCOUNTING AUTHORITY (continued)
for the year ended 31 March 2006

6. Judicial proceedings

SARS has been mandated by the provisions of the SARS Act to perform legal acts, or institute or defend any legal action in its own name. By virtue of its mandate SARS is involved in litigation on a continuous basis.

7. Review of the financial position (Amounts disclosed in R' 000)

Reserves and accumulated surplus

Reserves and surpluses consist mainly of the initial capital reserve on establishment of SARS and the reserve created on initial valuation of its assets. For the period under review an amount of R535k was transferred to the reserves.

The accumulated surplus will change in line with the operational results for the year.

Assets

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

The entity entered into an agreement to acquire land and build an office for the Alberton South offices of SARS. This asset is financed by way of a financial lease and the approval from the Executive Authority was granted for this transaction in accordance with the requirements of the Public Finance and Management Act and Treasury regulations.

8. Public/private partnerships

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

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

In March 2005, SARS issued a request for tender for the supply of container and cargo scanners and related services, to be rendered as a Public Private Partnership (PPP).

On 31 May 2005, SARS received five responses and after the first round evaluation and independent external review of the evaluation process, three bidders were short-listed and invited to enter into a Best-and-Final Offer phase (BAFO).

REPORT BY THE SARS ACCOUNTING AUTHORITY (continued)

for the year ended 31 March 2006

During March 2006, SARS concluded the final evaluation as well as another external independent review of its BAFO evaluation process.

The Bid Selection Committee completed its deliberations on the recommendations of the Tender Evaluation Committee on 5 July 2006.

The final recommendation, not to award the tender by way of a PPP as a result of Value for Money and Risk Transfer considerations, was confirmed by the SARS Exco on 21 July 2006. An alternative procurement approach for the urgent acquisition of scanners in-line with national priorities is currently underway. SARS expects to deploy the first of these scanners during the second quarter of 2007.

9. Events subsequent to the balance sheet date

SARS has entered into agreements with two suppliers of information technology, whereby it took assignment of certain licences and rights to services for certain software products. In consideration of the assignment SARS has undertaken to pay an amount of approximately R 262 million (excl VAT) over four years. SARS is presently in communication with the suppliers to renegotiate these agreements. These communications are not sufficiently advanced to predict the outcome of the negotiations thereof. In the event that the negotiations fail, actions by these companies and SARS may arise.

In accordance with prevailing accounting standards this fact has been disclosed in the Annual Financial Statements under Post Balance Sheet Events.

10. Stakeholder relations

For the period under review the South African Revenue Service has continued its endeavour 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 centered on facilitating credible relationships and initiate meaningful, two-way communication with stakeholders. An important aspect of this work is holding regular meetings with key stakeholder bodies and providing a framework for stakeholder interaction and relationship management between SARS and other organisations.

SARS will be developing 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

The main corporate social investment initiative for the period under review was the donation of redundant computers to provincial education departments for distribution to rural schools. The computers were refurbished and the necessary software and software licences were donated to schools in a number of regions.

In total, SARS has donated 4 401 computers to schools in all nine provinces. This initiative is ongoing and SARS will continue to work with the Department of Education on this project.

12. Addresses

The entity's business, postal and registered addresses are:

Business address	Postal address	Registered address
299 Bronkhorst Street	Private bag X923	299 Bronkhorst Street
Nieuw Muckleneuk	Pretoria	Nieuw Muckleneuk
0181	0001	0181

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

STATEMENT OF FINANCIAL POSITION

as at 31 March 2006

	NOTES	2006 R'000	2005 R'000
ASSETS			
Current assets		**803 470**	**1 167 964**
Trade and other receivables	3	**56 109**	35 057
Cash and cash equivalents	4	**747 361**	1 132 907
Non-current assets		**598 748**	**510 421**
Infrastructure, plant and equipment	5.1	**421 740**	510 056
Fixed property	5.2	**177 008**	365
Total assets		**1 402 218**	**1 678 385**
LIABILITIES			
Current liabilities		**607 177**	**604 602**
Payables	6	**240 360**	397 623
Current portion of borrowings	7.1, 7.2	**10 574**	-
Provisions	8	**356 243**	206 979
Non-Current Liabilities		**151 578**	**-**
Interest bearing borrowings	7.1, 7.2	**151 578**	-
Total liabilities		**758 755**	**604 602**
Net assets		**643 463**	**1 073 783**
NET ASSETS			
Reserves	9, 10	**81 201**	80 666
Accumulated surplus		**562 262**	993 117
		643 463	1 073 783
Total net assets		**643 463**	**1 073 783**

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2006

	NOTES	2006 R'000	2005 R'000
REVENUE			
Transfers from other government entities		**4 254 302**	4 037 289
Other operating revenue		**234 249**	226 310
Other non operating revenue		**5 764**	-
Total revenue	11	**4 494 315**	**4 263 599**
EXPENSES			
Administrative expenses		**1 051 655**	874 300
Depreciation	5.1	**239 132**	226 462
Miscellaneous expenses		**7 870**	9 642
Personnel expenses		**2 917 424**	2 504 892
Finance cost	12	**2 463**	7
Professional and special services		**706 723**	696 358
Total expenses		**4 925 267**	**4 311 661**
Gains on sale of property, plant and equipment		**97**	1 884
Deficit for the period	13	**(430 855)**	**(46 178)**

STATEMENT OF CHANGE IN NET ASSETS

for the year ended 31 March 2006

	Asset revaluation reserve R'000	Capital reserve on establishment R'000	Accumulated surpluses/ (deficits) R'000	Total R'000
Balance at 1 April 2004	**48 302**	**32 364**	**1 039 295**	**1 119 961**
Deficit for the period	-	-	(46 178)	(46 178)
Balance at 31 March 2005	**48 302**	**32 364**	**993 117**	**1 073 783**
Surplus in revaluation of property	535	-	-	535
Deficit for the period	-	-	(430 855)	(430 855)
Balance at 31 March 2006	**48 837**	**32 364**	**562 262**	**643 463**

CASH FLOW STATEMENT

for the year ended 31 March 2006

	NOTES	2006 R'000	2005 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		**4 473 263**	**4 275 671**
Grants		**4 254 302**	4 037 289
Interest received		**57 963**	77 866
Other receipts		**160 998**	160 516
Payments		**4 678 956**	854 301
Employee costs		**2 768 160**	2 459 599
Suppliers		**1 908 333**	1 394 695
Interest paid		**2 463**	7
Net cash flows from operating activities	4.4	**(205 693)**	**421 370**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of infrastructure, plant and equipment	5.1	**(155 527)**	(237 497)
Purchase of fixed property	5.2	**(176 108)**	-
Proceeds from sale of plant and equipment		**204**	2 037
Net cash flows from investing activities		**(331 431)**	**(235 460)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in borrowings		**151 712**	-
Repayment of borrowings		**(134)**	-
Net cash flows from financing activities		**151 578**	-
(Decrease)/increase in cash and cash equivalents		**(385 546)**	**185 910**
Cash and cash equivalents at beginning of year		**1 132 907**	**946 997**
Cash and cash equivalents at end of year	4.1	**747 361**	**1 132 907**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

1. Background

SARS was established as an organ of State on 1 October 1997 in terms of section 2 of the South African Revenue Service Act (the Act), (Act No. 34 of 1997). SARS's objective is the efficient and effective collection of revenue on behalf of the State. In the Act revenue is defined as: "income derived from taxes, duties, levies, fees, charges, additional tax and any other monies imposed in terms of legislation, including penalties and interest in connection with such monies". In terms of section 7(2) and (3) of Schedule 2 to the Act, SARS took ownership of all movable assets of the State used by it, immediately before the effective date, together with contractual rights, obligations and liabilities. Any surplus of assets over liabilities was treated as capital.

2. Statement Of Accounting Policies

2.1 Reporting entity

These financial statements are for the South African Revenue Service - Own Accounts. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Management Act, Act No. 1 of 1999). This comprises of National Treasury.

2.2 Basis of preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP		Replaced Statement of GAAP	
GRAP 1:	Presentation of financial statements	AC101:	Presentation of financial statements
GRAP 2:	Cash flow statements	AC118:	Cash flow statements
GRAP 3:	Accounting policies, changes in accounting estimates and errors	AC103:	Accounting policies, changes in accounting estimates and errors

2. Statement Of Accounting Policies **(continued)**

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following significant changes in the presentation of the financial statements:

Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends
Reporting date	Balance sheet date

The cash flow statement can only be prepared in accordance with the direct method.

Specific information such as:

(a) receivables from non-exchange transactions, including taxes and transfers

(b) taxes and transfers payable

(c) trade and other payables from non-exchange transactions; must be presented separately on the statement of financial position.

The amount and nature of any restrictions on cash balances is required to be disclosed.

Paragraph 11 – 15 of GRAP 1 has not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

2. Statement Of Accounting Policies **(continued)**

2.3 Going concern

The financial statements have been prepared on a going concern basis under the historical cost basis. The accounting polices are consistent with those adopted in the previous year and have been applied consistently throughout the period.

2.4 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.

2.5 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 17.

2.6 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.

2.7 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. Statement Of Accounting Policies (continued)

2.8 Infrastructure, plant and equipment

2.8.1 Infrastructure, plant and equipment was revalued on 1 April 2000. Subsequent additions to infrastructure, plant and equipment have been capitalised at cost.

2.8.2 Depreciation is provided on all infrastucture, 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 (main frame)	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 (main frame)	3 years
Software (personal computers)	3 years
Vehicles	5 years

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

Fixed property is recognised at its initial cost and 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 statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

2. Statement Of Accounting Policies (continued)

2.8.4 Leased assets

Fixed property leased in terms of finance leases are capitalised at their estimated present value.

Finance charges are amortised over the duration of the lease according to theeffective interest rate method.

2.9 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.

2.10 Foreign exchange transactions

Foreign exchange transactions are translated at the spot rate ruling at the date of transaction. At balance sheet date monetary items are translated at rates then ruling. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Such balances are translated at year-end exchange rates.

2.11 Operating leases

Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

2. Statement Of Accounting Policies (continued)

2.12 Finance leases

Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment consists of a capital and an interest element; the capital portion is allocated to the liability and the interest element is charged to the statement of financial performance. The corresponding rental obligations, net of finance charge are included as part of liabilities.

	2006 R'000	**2005 R'000**
3. Trade And Other Receivables		
Staff accounts receivable	**7 555**	8 725
Less: provision for doubtful debts	**6 328**	7 012
	1 227	1 713
Government departments	**27 592**	27 976
Refundable deposits	**2 805**	2 860
Other receivables	**8 437**	2 508
Prepayments	**16 048**	-
Total	**56 109**	**35 057**

Refer to note 4 for reclassification of balances and restated comparative figures.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

4. Notes To The Cash Flow Statement

4.1 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 statement of amounts indicating financial position:

	2006 R'000	2005 R'000
Balances with banks	**747 016**	1 132 583
Cash on hand	**345**	324
	747 361	**1 132 907**

The comparative figure for balances with banks has been restated to reflect the actual bank balance and not cashbook balance as follows:

Comparative as stated in the 2005 Annual Report	1 133 794
Interest provision reclassified as other receivables	(2 042)
Bank charges provision reclassified as other accruals	644
Outstanding cheques on the salaries account reclassified as accruals for salary related expenses	23
Outstanding cheques on the expense account reclassified as trade accounts payable	164
	1 132 583

4.2 Infrastructure, plant and equipment

During the period, SARS acquired infrastructure, plant and equipment with an aggregate cost of R155 527 000 (2005: R237 497 000) by means of capital grants from National Treasury.

4.3 Fixed property

During the period, SARS acquired fixed property with an aggregate cost of R176 108 000 by means of capital grants from National Treasury.

4. Notes To The Cash Flow Statement (continued)

4.4 Reconciliation of net cash flows from operating activities to deficit

	2006 R'000	2005 R'000
Deficit	**(430 855)**	**(46 178)**
Non-cash movements	**225 162**	**467 548**
Depreciation	**239 132**	226 462
(Decrease)/increase in payables	**(157 263)**	181 048
Increase in borrowings	**10 574**	-
Increase in provisions relating to employee costs	**107 143**	45 293
Increase in other provisions	**42 121**	-
Profit on sale of infrastructure, plant and equipment	**(97)**	(1 884)
Losses on scrapping of infrastructure, plant and equipment	**4 604**	4 557
(Increase)/decrease in receivables	**(21 052)**	12 072
Net cash flows from operating activities	**(205 693)**	**421 370**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

5.1 Infrastructure, plant and equipment

	Computer equipment R'000	Computer software R'000	Furniture fittings & office equipment R'000	Leasehold improvements R'000	Assets Under Construction	Security equipment R'000	Motor vehicles R'000	Low Value Assets R'000	Total R'000
For the year ended 31 March 2006									
At cost or valuation									
Opening balance - 01 April 2005	557 113	225 834	54 960	151 382	-	12 879	79 458	87 863	1 169 489
Revaluation	-	-	-	-	-	-	-	-	-
Acquisitions	98 316	6 881	7 868	686	26 676	556	9 056	5 488	155 527
Transfers		-		1 095	(1 095)			-	
Disposals	(8 550)	(11)	(82)	-	-	-	(193)	(1 720)	(10 556)
Scrappings	(90 934)	(37 436)	(11 187)			(907)	(995)	(8 403)	(149 862)
Closing balance - 31 March 2006	555 945	195 268	51 559	153 163	25 581	12 528	87 326	83 228	1 164 598
Accumulated depreciation									
Opening balance - 01 April 2005	354 813	118 934	21 876	21 822	-	7 126	46 999	87 863	659 433
Charge for the year	113 592	64 322	9 589	32 472	-	2 526	11 144	5 487	239 132
Disposals	(8 536)	(10)	(68)	-	-	-	(114)	(1 720)	(10 448)
Scrappings	(89 442)	(37 436)	(8 583)			(693)	(703)	(8 402)	(145 259)
Closing balance - 31 March 2006	370 427	145 810	22 814	54 294	-	8 959	57 326	83 228	742 858
Carrying amount - 31 March 2006	**185 518**	**49 458**	**28 745**	**98 869**	**25 581**	**3 569**	**30 000**	**-**	**421 740**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

5.1 Infrastructure, plant and equipment (continued)

	Computer equipment R'000	Computer software R'000	Furniture fittings & office equipment R'000	Leasehold improvements R'000	Assets Under Construction	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 - 01 April 2004	569 294	204,654	43 241	72 984	-	14 046	75 209	113 601	1 093,029
Acquisitions	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	54 960	151 382	-	12 879	79 458	87 863	1 169 489
Accumulated depreciation									
Opening balance - 01 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**	**33 084**	**129 560**	**-**	**5 753**	**32 459**	**-**	**510 056**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

5.2 Fixed property

	Owned property R'000	Leased property R'000	Total R'000
For the year ended 31 March 2006			
At cost or valuation			
Opening balance - 01 April 2005	365	-	365
Revaluation	535	-	535
Acquisitions		176 108	176 108
Disposals	-	-	-
Closing balance - 31 March 2006	**900**	**176 108**	**177 008**
For the year ended 31 March 2005			R 176 108
At cost or valuation			
Opening balance - 01 April 2004	365	-	365
Revaluation	-	-	-
Acquisitions	-	-	-
Transfers	-	-	-
Disposals	-	-	-
Closing balance - 31 March 2005	**365**	**-**	**365**

Three houses in Fouriesburg were purchased in 2003 at a total value of R 365 000. The houses are used by Customs Officials.

Land and buildings have been revalued by Breytenbach Van der Merwe & Botha Inc., a sworn appraisal, on 16 March 2006 on a replacement value basis.

An office building in Alberton South was purchased for the amount of approximately R176 108 million on 2 January 2006 through a finance lease. Refer to note 7 for disclosure of the finance lease. Over and above the finance lease agreement an amount of R37 620 million in terms of the Acquisition agreement shall be payable in 3 equal annual instalments, the first amount of R12 540 million on the commencement date of 2 January 2006. The building shell was completed by the developer in November 2005. At 31 March 2006 the fit-out was still in progress.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

	2006 R'000	2005 R'000
6. Trade And Other Payables		
Trade accounts payable	**67 172**	153 503
Accruals for salary related expenses	**8 259**	2 320
Other accruals	**138 261**	161 146
Other payables	**209**	365
Retentions	**1 930**	1 967
Tenant allowances and projects	**24 529**	30 871
VAT payable	**-**	47 451
Total	**240 360**	**397 623**

Refer to note 4 for reclassification of balances and restated comparative figures.

7. Interest Bearing Borrowings

7.1 Alberton South - Lease agreement

Reconciliation of the total future minimum lease payments at the balance sheet date, and their present values

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
31 March 2006				
Minimum lease payments	15 659	74 393	181 403	271 455
Present Value	372	15 691	124 576	140 639
Unrecognised finance charges	15 287	58 702	56 827	130 816

The Lessor developed the Alberton South Building for SARS at an approximate cost of R176 108 million. The finance lease commenced on 2 January 2006 for a twelve (12) year period. Rental will be R1 250 000 per month (exclusive of VAT); with an annual escalation of 7% (compounded) per annum. Transfer of ownership and risks takes place at the end of the lease term, once all lease payments are made. All required approvals in terms of the Public Finance Management Act, Act 1 & 29 of 1999 and the Treasury Regulations have been granted.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

7. Interest Bearing Borrowings (continued)

7.2 Alberton South - Acquisition agreement

Reconciliation of the total future minimum lease payments at the balance sheet date, and their present values.

	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total
31 March 2006				
Minimum lease payments	12 540	12 540	-	25 080
Present Value	10 202	11 311	-	21 513
Unrecognised finance charges	2 338	1 229	-	3 567

This finance lease represents the purchase price for the Alberton South building that is payable in 3 instalments of R12 540 million with the 1st instalment at the commencement of the lease agreement and the subsequent payments in the 2 following years. The disclosure notes to interest bearing borrowings were split because the agreements for the lease and the acquisition of the building are separate agreements with different repayment periods, lease terms and escalation costs.

8. Provisions

	Operating Leases (straight line basis)	Career Development Programme	Performance Bonus	Service Bonus	Leave Pay	Total
At 31 March 2005			**110 000**	**24 136**	**72 843**	**206 979**
Reversal of provisions			(9 296)			(9 296)
Utilisation of provision			(100 304)	(24 136)		(124 440)
Additional provisions	42 121	6 498	185 000	25 756	23 625	283 000
At 31 March 2006	**42 121**	**6 498**	**185 400**	**25 756**	**96 468**	**356 243**

Career development programme, performance, service bonuses and leave pay provisions represent estimated liabilities arising as a result of services rendered by employees.

The operating lease provision represents a provision due to the application of the straightline basis of leases. Refer to Note 16.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

	2006 R'000	2005 R'000

9. Asset revaluation reserve

Carrying amount - beginning of year	**48 302**	48 302
Movement during the year	**535**	-
Balance at 31 March 2006	**48 837**	**48 302**

10. Capital reserve on establishment

Surplus of assets over liabilities transferred from Government on 01 October 1997	**32 364**	32 364
Movement during the year	**-**	-
Balance at 31 March 2006	**32 364**	**32 364**

11. Revenue

Revenue comprises of the following:		
Grant received	**4 254 302**	4 037 289
Interest received	**57 963**	77 866
Other revenue	**176 286**	148 444
Other non operating revenue	**5 764**	-
	4 494 315	**4 263 599**

Other non operating revenue comprises a capital saving as a result of an interest rate decrease in the finance lease. The saving in the rate of finance was agreed upon by the parties to the development agreement. The saving realised became due at commencement of the lease on the Alberton South property.

12. Finance cost

Finance charges mainly as per finance lease	**2 463**	**7**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

	2006 R'000	2005 R'000
13. Deficit from operations		
Deficit from operations has been carried after taking into account the following:		
Auditors remuneration		
- Audit fees current year	**22 271**	21 309
- Expenses	**4 802**	4 340
- Prior years over provision	**(2 941)**	(13 996)
	24 132	**11 653**
Depreciation on fixed assets	**239 132**	**226 462**
Foreign exchange rate losses	**1 873**	**230**

13. Deficit from operations (continued)

Executive members remuneration

Designation	Salary	Bonus	Allowances	Contributions Medical & Pension	2006 R'000	2005 R'000
Commissioner for SARS	1 783	450	172	15	**2 420**	1 965
Chief Information Officer	1 380	360	251	15	**2 006**	1 711
Director Transformation	581	111	110	14	**816**	292
GM: Zone 2	654	165	170	94	**1 083**	845
GM: Commissioners Office	830	171	166	15	**1 182**	935
GM: Corporate Relations (11 months)	649	123	162	13	**947**	855
GM: Zone 1	714	179	197	101	**1 191**	1 005
GM: Enforcement	696	175	173	99	**1 143**	975
GM: Finance	681	134	230	97	**1 142**	952
GM: Human Resources (3 months)	149	122	59	3	**333**	868
GM: Human Resources (3 months)	296		42	3	**341**	-
GM: Law Admin	718	195	197	100	**1 210**	1 006
GM: LBC	1 421	168	154	15	**1 758**	1 751
GM: Operational Services	545	117	166	15	**843**	115
GM: Zone 3	427	107	163	66	**763**	105
GM: Project information Management	925	214	148	15	**1 302**	-
Total	**12 449**	**2 791**	**2 560**	**680**	**18 480**	**13 380**

No remuneration reflected in the current year indicates that the respective members did not serve on the Executive committee. Two individuals held the position of GM Human Resources in the course of the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

13. Deficit from operations (continued)

	2006 R'000	2005 R'000
Administrative expenditure	**1 051 655**	**874 300**
Expenses mainly include:		
- Printing and postage		
- Communications		
- Subsistence and travel		
- Bank charges		
- Building maintenance & accommodation		
- Filing season expenses		
- Insurance premiums		
Miscellaneous expenses	**7 870**	**9 642**
Expenses mainly include:		
- Losses on assets scrapped		
- Losses from exchange rate differences		
Professional and special services	**706 723**	**696 358**
Expenses mainly include:		
- Audit fees		
- Legal fees		
- IT maintenance		
- Consultation fees		
- Security services		

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

	2006 R'000	2005 R'000

14.1 Contingent liabilities

Guarantees issued to various financial institutions in respect of housing loans granted to employees	**17 979**	28 350
Accumulated leave prior to 31 December 1998	**89 884**	89 912
	107 863	**118 262**

The contingent amount for accumulated leave pertains to the period up to 31 December 1998. Up to this point there was no limitation on the number of leave days that could be accumulated. The value of such accumulated leave is only payable in the event of employees retiring or leaving SARS's employ due to ill health or upon their death in service.

As from 1 January 1999, limitations have been set on the amount of annual leave that can be accumulated. Provision for such accumulated leave has been made and disclosed as part of note 8.

14.2 Contingent asset

Saving in professional fees from development contract of Alberton Building	**1 921**	-

The contingent amount represents possible savings in professional fees in the construction of the Alberton South building. The realisation of the saving is subject to certification by the quantity surveyor on the project.

15. Capital commitments

Commitments for the acquisition of property, plant and equipment:		
- contracted for but not provided in the financial statements	**5 508**	**37 886**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

	2006 R'000	2005 R'000
16. Operating lease commitments		
At 31 March the future minimum operating lease commitments are:		
Within one year:	**266 418**	**256 430**
Property	**257 877**	241 002
Equipment	**8 541**	15 428
Between two and five years:	**869 065**	**1 252 294**
Property	**866 286**	1 233 962
Equipment	**2 779**	18 332
In more than five years:		
Property	**780 349**	1 009 830
	1 915 832	**2 518 554**

The operating leases consist mainly of building and equipment rentals of which renewal terms and escalation clauses differ from contract to contract.

In the past, a common interpretation of IAS 17 (AC 105) in South Africa allowed institutions to recognise lease payments on a cash basis as this was considered the most appropriate representation of the time pattern of the entity's benefit obtained from the leased asset.

The South African Institute of Chartered Accountants (SAICA) has revised its interpretation of IAS 17 (AC 105) to align itself with International Financial Reporting Standards. As a result, operating lease expenses are now recognised on a straight line basis over the lease term and not as cash is paid. This adjustment has been accounted for in terms of GRAP 3 and IAS17 for the current year and will be applied prospectively. Retrospective application is impractical due to the following reasons: Some of the operating leases are conducted on a month to month basis; leases have expired of which some were renewed in the last couple of years, new leases are entered into every year and lease contracts were compiled in such a manner that it includes monthly services.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

	2006 R'000	2005 R'000
17. Donations		
SARS received the following donated benefits in kind:		
a) **Sida - Swedish International Development Agency** - Short-term advisors, technical assistance and training	**4 109**	
b) **AusAid - Australian Aid** Technical assistance on SARS Transformation programmes	-	108
c) **Malaysian Royal Customs Academy** Training courses offered by the Malaysian government	-	153
d) **SADC - Southern African Development Community** Accommodation and airfares for various activities sponsored by the SADC	**79**	76
e) **US CBP - United States Customs and Border Protection** Airfares and accommodation for CSI (Container Security Initiative) conference	-	70
f) **ILEA - International Law Enforcement Academy** Courses on Advance Management, Land Border Interdiction, Forensic Techniques, Small Arms Trafficking and Criminal Investigation and attend the Law Enforcement Executive Development Programme. Accommodation, airfares and meals	**118**	87
g) **Inwent - German Donor Agency** Trans-Kalahari corridor training. Airfares and accommodation expenses	-	15
h) **Dell Corporation** Visit to Gartner Research in terms of TCO project and Dell EMEA's Platinum Advisory Council Accommodation expenses paid by Dell	-	10
i) **ZIMRA - Zimbabwe Revenue Authority** VAT training. Accommodation and airfares	-	22
j) **UN Office on Drugs and Crime** Counter measures on illicit drug trafficking. Travel and accommodation costs	-	8
k) **National Tax Board (NTB) of Sweden**	-	37
l) **Akmal - Akademi Kastam Diraja Malaysia** Malaysian Technical Cooperation Programme. Accommodation, airfares and subsistence allowance	**301**	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

	2006 R'000	2005 R'000
17. Donations (continued)		
m) UNCTAD - United Nations Conference on Trade and Development	16	-
Regional Round Table on Trade Facilitation Negotiation. Accommodation, airfares and meals		
n) UNEP - United Nations Environmental Programme	21	-
Ozone Depleting Subsistence's Offices' Network. Accommodation and airfares		
o) IRICA - The Islamic Republic of Iran Customs Administration	16	-
Second International Conference on Information Technology. Accommodation and airfares		
p) Japan Customs and Tariff Bureau	90	-
Post Clearance Audit. Accommodation, airfares, meals		
q) GIBS - Gordon Institute of Business Science	58	-
Global Executive Development Programme. Accommodation, airfares and meals		
r) WTO - World Trade Organisation	8	-
Trade facilitation negotiations. Accommodation and airfares		
s) Asia - Pacific Region	-	-
WCO Regional Training Centres Meeting. Accommodation costs		
t) NTA - National Tax Agency of Japan	65	-
Taxation course for developing countries (ISTAX) seminar. Accommodation and airfares		
u) National Gambling Board	6	-
Gaming Regulators Africa Forum. Accommodation and airfares		
v) British Council Interaction Leadership Programme	20	-
Pan African Leadership Programme (PALP). Accommodation and airfares		
w) UNODC - The United Nations Office on Drugs and Crime	12	-
African Seaports Project. Accommodation and airfares		
Total	**810**	**4 695**

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

18. 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 has been deregistered for VAT purposes in terms of amendments passed applicable to certain state departments and entities with effect from 1 April 2005.

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.

Section 17(3) of the Fund requires that an actuarial valuation of the Fund be conducted at least every 3 years. However, due to the frequent changes in liability and asset values, it has been decided to carry out interim actuarial valuations as and when deemed necessary. The seventh valuation of the Fund since its establishment on 1 May 1996 was done as at 31 March 2004.

Alexander Forbes Financial Services were 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. The previous official valuation was performed as at 31 March 2003. The basis of the valuation was changed for the 2004 valuation. It is the opinion of the Actuaries that the Fund is in a sound financial position with a funding level of 96.5% (2003: 89.4%) (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.

The GEPF Annual Report and the Actuarial Report for 2004 were used for the valuation notes:
The basis of the actuarial valuation done in 2004 differ from the actuarial basis of 2003’s valuation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2006

19. Retirement benefit plans (continued)

Principal assumptions used:

	31 March 2004	31 March 2003
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:	100.00%	100.00%
A long-term inflation rate:	5.43%	6.00%
A long-term salary inflation rate:	6.43%	7.00%
Pension increases are provided for:	4.35%	4.80%
The gross interest rate to discount the assets and liabilities.	9.96%	10.00%
Growth in Dividends (No dividend growth deemed necessary for 31 March 2004 valuation due to the movement to the smoothed market valuation basis)	0.00%	11.00%
Fair value of Assets:	**R'm**	**R'm**
Fair value of investments	345 550	273 811
Fixed assets and net current assets	482	8 047
Adjustment for "S-cases"	-	(671)
	346 032	**281 187**
Fair value of Liabilities:		
Contributing members	227 607	194 315
Pensioners	105 765	107 590
Mortality improvement liability	8 461	Implicit
Solvency reserve	17 613	-
Data and contingency reserves	5 598	12 766
	365 044	**314 671**
Financial Position		
Actuarial value of assets	352 269	281 187
Actuarial value of liabilities	365 044	314 671
Deficit	(12 775)	(33 484)

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

19. Retirement benefit plans (continued)

	31 March 2004	31 March 2003
Past service costs	365 044	314 671
Contributing members	227 607	194 315
Retirement	147 173	129 097
Ill-health	53 424	39 838
Death	14 272	14 499
Resignation	12 738	11 356
Adjustment for “S-cases”	-	(475)
Mortality improvement	8 461	-
Data and contingency reserve	5 598	12 766
Solvency reserve	17 613	-
Pensioners	105 765	107 590
Retirees	85 094	88 187
Spouses	20 671	19 403

The smoothed market value and market value returns on the assets over the valuation period were respectively 24% per annum and 21,8% per annum. 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.

	2006 R’000	2005 R’000
Pension fund contributions (employer contribution incl in personnel expenditure)	**158 218**	**159 048**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2006

19. Retirement benefit plans (continued)

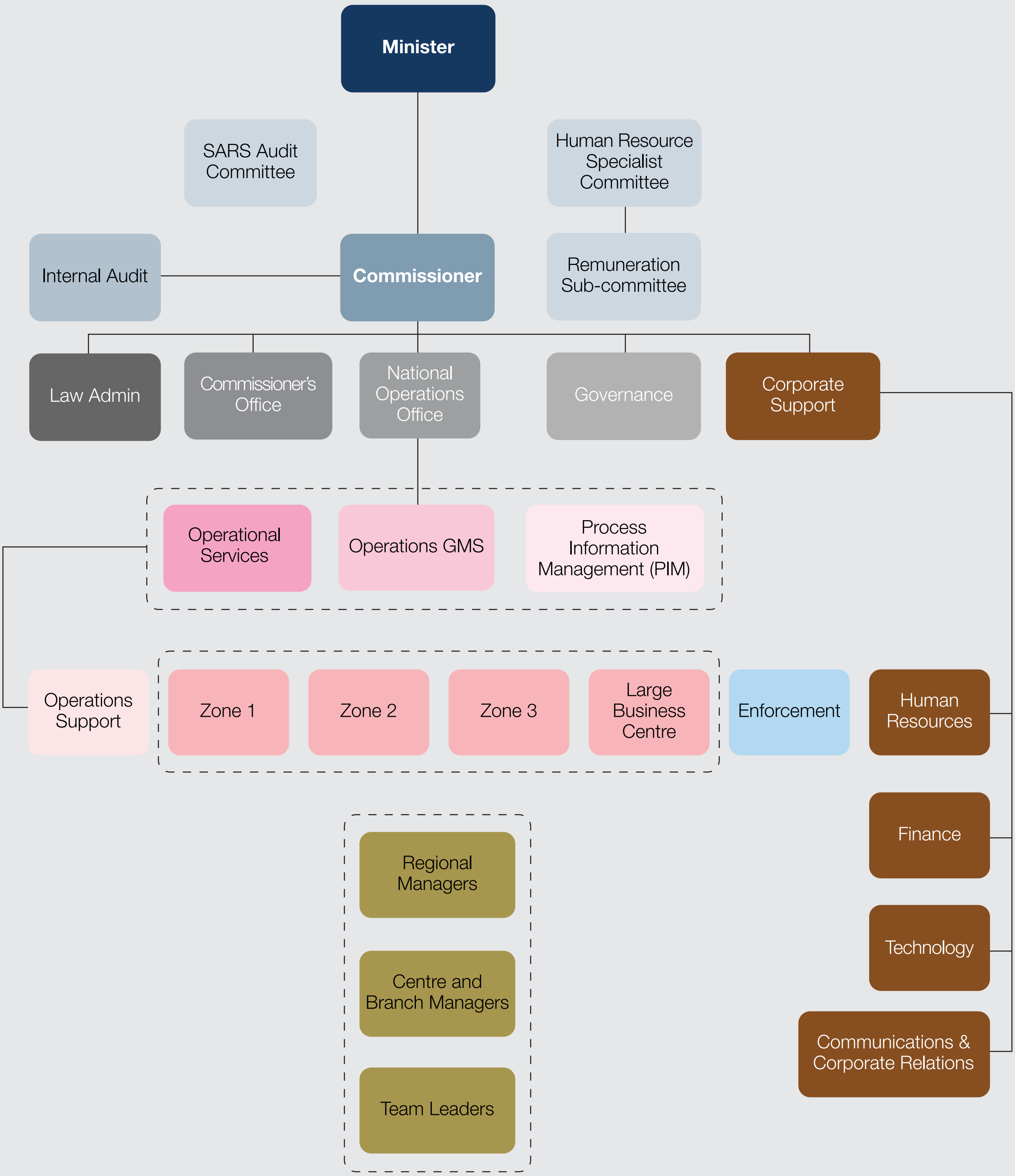
Post-retirement Medical Benefits

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.

20. Post balance sheet events (non-adjusting)

SARS has entered into agreements with two suppliers of information technology, whereby it took assignment of certain licences and rights to services for certain software products. In consideration of the assignment SARS has undertaken to pay an amount of approximately R 262 million (excl. VAT) over 4 years. SARS is presently in communication with the suppliers to renegotiate these agreements. These communications are not sufficiently advanced to predict the outcome thereof. In the event that the negotiations fail, actions by these companies and SARS may arise.

SARS ORGANISATIONAL STRUCTURE



SARS SCORECARD 2005/06

The tables below illustrate how SARS performed in the 2005/06 year when measured against the targets given for its strategic objectives.

Optimising revenue collection

Our key measures for this strategic objective are:	**2005/06**	**Achieved**	**Annual Report reference**
Revenue target	R417 05 billion (revised Feb 06)	R417 33 billion	Page 13
Revenue collected as a percentage of GDP	26,4% (revised Feb 06)	26,7%	Page 18
Cost as a percentage of total revenue	1,3%	1,19%	Page 33
Debt as a percentage of total revenue	16% (revised from 12%)	14,3%	Page 48
Non-revenue collected	R8,180 billion (revised Feb 06)	R8,5 billion	Page 14

Greater operational efficiency

Our key measures for this strategic objective are:	**2005/06**	**Achieved**	**Annual Report reference**
Percentage of outputs delivered within standard throughput time	42%	41.25% processed within 40 days	Page 27
Percentage accuracy of assessments	90%	93%	Page 27
Percentage reworked as a result of own error	5%	3%	Page 27
Maintaining success rate in litigation of appeals in the Tax and higher courts in line with international benchmarks	65%	64,6%	Page 74

SARS SCORECARD 2005/06 (continued)

Improved trade administration and border security

Our key measures for this strategic objective are:	**2005/06**	**Achieved**	**Annual Report reference**
Percentage implementation of the general annex to the Revised Kyoto Convention	50%	90%	Page 41
Percentage documentation compliance with Customs regulation coverage and examination success rates:			Page 40
• Document coverage	20%	Imports - 27% Exports – 90%	
• Examinations	6%	5,63%	Page 37
• Success rates	20%	7,27%	
Percentage of anti-smuggling activities	55% which was broken down into:		Page 38
	People and Bag searches -5%	0,62%	
	Rummages/Searches – 15%	10,2%	
	Patrols and other activity – 35%	31,8%	
Improvement in infrastructure and equipment (border, warehouse and scanner)	5%	5%	Page 41

SARS SCORECARD 2005/06 (continued)

Improved compliance and risk reduction

Our key measures for this strategic objective are:	2005/06	Achieved	Annual Report reference
Percentage increase in compliance behaviour (registration, filing and payments)	9%	9,53% Only in respect of registered growth	Page 47
Increase in effective tax rates per selected industry sector	3%	Currently working on segmenting taxpayers' database	Page 52
Enforcement revenue banked	R23,291,029,363 (revised Jan 2006)	R20,523,634,804	Page 48
Percentage success in risk-based audits	60%	79%	Page 53
Percentage audit coverage across tax types:			Page 51
CIT	1,15%	1,51%	
PIT: Salaried individuals	0,50%	0,46%	
PIT: Non-salaried individuals	1,20%	1,37%	
PAYE	1,25%	1,35%	
VAT	5,00%	4,46%	

SARS SCORECARD 2005/06 (continued)

Better taxpayer and trader experience

Our key measures for this strategic objective are:	2005/06	Achieved	Annual Report reference
Percentage of achievement against the SARS Service Charter	85%	100% implemented	Page 78
Customer satisfaction survey	85%	93%	Page 79
Year-on-year percentage reduction in number of complaints	12%	14%	Page 79

Enhancing Human Capacity

Our key measures for this strategic objective are:	2005/06	Achieved	Annual Report reference
Percentage compliance with equity plan	100%	97%	Page 97
Percentage closure of skills gap	Establish percentage skills gap	Yes	Page 88
Implementation of new Performance Management Development System	40%	50,5%	Page 92
Percentage improvement in management capability	30%	19%	Page 89

Promoting good governance

Our key measure for this strategic objective is:	2005/06	Achieved	Annual Report reference
The percentage of Governance Framework implemented across the organisation	90%	Over 90%	from Page 123

15

CONTACT DETAILS

CONTACT DETAILS

CONTACT DETAILS (continued)

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: Fax: Email: Web site:	0860 12 12 16 012 431 9695 ssmo@sars.gov.za www.sars.gov.za/ssmo
Call centre (KwaZulu-Natal, Western Cape, JHB)	Telephone:	0860 12 12 18
Large business centre	Telephone: Fax: Email:	011 602 3536 011 602 3518 LBC.General@sars.gov.za
Pretoria branch office	Telephone: Fax:	012 317 2000 012 317 2926 / 2328 / 2297 / 2666
Bloemfontein branch office	Telephone: Fax:	051 506 3000 051 448 0829
Port Elizabeth branch office	Telephone: Fax:	041 505 7500 041 586 0618 / 447 7005
East London branch office	Telephone: Fax:	043 706 5400 043 706 5552
Johannesburg International Airport Customs	Telephone: Fax:	011 923 2400 011 923 2467
Cape Town International Airport Customs	Telephone: Fax:	021 934 0221 021 934 2355
Durban International Airport	Telephone: Fax:	031 469 1919 031 469 3569
Dispute Resolution Unit	Telephone: Fax:	012 422 5149 / 4928 012 422 5135
Tax Exemption Unit	Telephone: Fax:	012 422 8800 012 422 8830

16

GLOSSARY

GLOSSARY

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
BEE	Black Employment Equity
CIT	Corporate 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's corporate social investment programme.
Customs duty	Duties paid on the importation of goods
EDW	Enterprise Data Warehouse: a central repository for housing SARS's data and information
eFiling	The online performance of interactions of taxpayers/clients with SARS and third parties such as banks
Filing Season	The period after the ending of the tax year during which taxpayers are required to submit their tax returns. Taxpayer filing activity generally peaks towards Filing Day - the filing season closing date
FTR	First-Time Resolution. The resolution of taxpayer or trader queries when they are made without having to refer the queries to back-office or other SARS functions
GRAP	Generally Recognised Accounting Practice
Fuel levy	The levy paid on petrol and diesel
ICT	Information and Communications Technology
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
LBC	Large Business Centre
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

GLOSSARY (continued)

SAD	Single Administrative Document: Documentation designed to simplify and speed-up cross-border trade administration
SARS Academy	The SARS in-house training academy, which is based at the Megawatt Park complex in Johannesburg
Service Charter	A charter adopted by SARS which aligns its mandate and public expectations against measurable benchmarks and performance standards
Siyakha	Meaning “we are building”. A programme that was launched in 2000 to transform SARS into a 21st century revenue authority
STC	Secondary Tax on Companies: refers to taxes paid on profits distributed by companies
SSMO	SARS Service Monitoring Office
Tax rulings	The Legal and Policy Division regularly issues 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
WCO	World Customs Organisation, a 169-member global organisation working towards the harmonisation of Customs processes and procedures
WTO	World Trade Organisation, 149-member global international organisation dealing with the rules of trade between nations

NOTES

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ERRATA

ERRATA

Chapter 6: Customs: Improved trade administration and border security:

1. Page 38

Percentage success of anti-smuggling activities:

The third paragraph should read: As a result, the performances of the anti-smuggling teams have been moderate. The success rate figures achieved were as follows:

- People and Bag Searches – 1,2%
- Rummages/ Searches – 10,2%
- Patrols and Other Activity – 31,8%

Increased ability to detect illicit trade and enhanced anti-smuggling activity:

The first paragraph should read: The number of counterfeit seizures has increased substantially by 156% for the 2005/06 year, when compared to last year. The registering of trade marks as per the Counterfeit Goods Act by brand holders is one of the major contributions to the high seizure rate, enabling Customs to intervene in terms of Section 15 of the Counterfeit Goods Act.

2. Page 40

Document coverage

The second paragraph reads: We exceeded the target of 20% of documentation to be scrutinised for both imports (27%) and exports (90%).The target was based on the 80/20 principle, under which 80% of goods are released without scrutiny while 20% of goods are selected for scrutiny based on risk. A key factor in exceeding the targets was the high rate of compulsory stops. For imports, more than 90% of declarations are submitted electronically and therefore the percentage achieved is close to the target. It should be entirely deleted.

ERRATA (continued)

Chapter 7: Enforcement: Improved compliance and risk reduction

3. Page 46

The first bullet point should read: Collection of 5 357 622 outstanding returns which is an increase of 28% over the previous year

The second bullet point should read: A 79% success rate in risk based audit compared to last years 56%

The last bullet point should read: Prosecutions increased by 27%, resulting in a total of 382 cases.

4. Page 47

The first bullet point in the last paragraph should read: A 9, 5% increase in the active tax register during 2005/06.

The last bullet point should read: Outstanding returns increased by 3% year on year, as opposed to an average of 10% in previous periods.

5. Page 51

The heading for column 6 of figure 7.6 should read: % variance actual vs. target 05/06.

The figure in the first row in column 6 should read “0.01%

The heading for column 7 should read: Variance actual 05/06 vs. actual 04/05

6. Page 58

Column 2 in Figure 7.11 should be removed. The table should appear as follows:

Figure 7.11

Successful convictions with regards to Campaigns	
Industry Sector	**Total**
Sweets, confectionery and tobacco	22
Government departments (Contractors rendering services to)	55
Property	2
Drugs and other Customs	29
Clothing, footwear and textile	40
Total	**148**

ERRATA (continued)

7. Page 60

The first sentence on the page should read: A hit-rate of 79% was achieved on the cases referred, as compared to 56% of the previous period.

8. Page 61

Figure 7.14 should be updated as follows:

Figure 7.14

Month	Profile/Information requests from SARS	Asset Forfeiture Unit (AFU) in 6 months of POCA	Financial Intelligence Centre (FIC) in 6 months of FICA
April	439	31	0
May	284	66	1 (5 Entities)
June	266	153	2 (6 Entities)
July	1 260	62	2 (3 Entities)
August	878	134	3 (6 Entities)
September	8 235	164	1 (6 Entities)
October	835	37	3 (17Entities)
November	1 244	117	4 (9 Entities
December	208	58	2 (5 Entities)
January	148	52	0
February	1 734	43	0
March	1 809	49	3 (3 Entities)

The last two columns of Figure 7.15 should be deleted. The table should appear as follows:

Figure 7.15

Criminal Investigations					
Area	Case number target 05/06	Number of cases attended to 05/06	Number Variance	% Variance	Number of cases attended to 04/05
Criminal Cases completed	870	1 181	311	36%	649
Criminal cases prosecuted	363	382	19	5%	301

ERRATA (continued)

9. Page 62

In Figure 7.16 the figure 248 should be added to the blank cell in the last row of column 2. The table should appear as follows:

Figure 7.16

Description	National totals 2005/06	National totals 2004/05
Actual fines	R20 975 100	R2 268 900
Imprisonment (years)	154 person years	62 person years
Suspended Sentences	1033 person years	380 person years
Correctional Supervision	240 person months	278 person months
Community Service	2 816 person hours	6 500 person hours
Total convictions	**347**	**248**

10. Page 64

In Figure 7.20 the second column should be deleted and the totals in the last column should be corrected. The table should appear as follows:

Figure 7.20

Financial Year	March	Growth
2001/02	4 459 081	0%
2002/03	4 943 685	10%
2003/04	5 445 472	9%
2004/05	6 199 297	12%
2005/06	**6 346 742**	**3%**