

income tax

turnover



COMPLIANCE PROGRAMME

2012/13 - 2016/17

estate

FOREWORD



More so than perhaps any other time in history, the current global economic conditions have thrust domestic resource mobilisation into the spotlight, highlighting sustainability built on a foundation of tax compliance.

Countries lacking this solid base have found their room for manoeuvre in these uncertain times severely curtailed and, in some cases, completely absent. The impact of self-reliance on self-determination is self-evident.

Fortunately, unlike many countries that find themselves at the mercy of international creditors, South Africa continues to enjoy a high degree of autonomy in determining and implementing our own socio-economic policy to best meet the needs of our people.

This self-reliance has been hard won through wise fiscal choices and an ever-growing culture of tax and customs compliance. Among the very visible signs of these gains have been the growth in the individual tax register from 1.7 million in 1994 to 6 million in 2010 (the register has since doubled again following a policy change in 2011 to register all individuals in formal employment). And during the latest Tax Season a record 5 million returns were filed on time – raising on-time filing by individual taxpayers to over 83%. This rise in compliance, coupled with our country's economic growth, has seen total revenue climb from R114 billion in 1994/95 to over R730 billion this year – an overall increase of almost 550% at an average increase of 11.6% per year.

The contributions from citizens – both individual and corporate – to finance the provision of public services and the running of the state is one of the key defining features of a capable state. Indeed, one of the features that differentiates South Africa from many countries, on the continent and elsewhere, is our ability to generate our own resources.

The many millions of honest citizens in our country can justifiably take pride in the central part they have played in ensuring the good health of our public finances, allowing the government to maintain expenditure on social priorities and to continue investing in the country's infrastructure without incurring unsustainable levels of debt which our children and grandchildren will have to pay for.

Unfortunately, there remain those who are not willing to meet their responsibilities as good citizens and as caring human beings. These people not only affect our ability to function independently as a state, but also undermine the foundation of the tax system by eroding the core principle of fairness. For compliance to flourish, each and every citizen must enjoy confidence in the system and know that everyone is paying their fair share.

This Compliance Programme is an important building block in achieving and maintaining that confidence. It identifies key areas where compliance is not at the levels it should be at and highlights a range of measures to address this over a period of time.

These measures are not for the South African Revenue Service alone. Compliance is a shared national priority in which we all have a stake. All sections of society must work together in achieving a moral society with integrity, honesty and equality as its core values.

A handwritten signature in black ink that reads "Pravin Gordhan".

Pravin Gordhan
Minister of Finance

INTRODUCTION



We are proud to introduce the inaugural SARS Compliance Programme, a high-level overview of our plans for the next five years to further grow compliance with tax and customs legislation.

We plan to do this by focusing particular attention on areas which our research has shown pose a significantly higher risk of non-compliance. By focusing on these issues we believe we can make a significant impact on increasing the fairness of the tax system and on protecting our economy and society from unwanted, harmful or illegal goods.

We believe that if you are making your fair contribution and doing the right thing, you deserve to know that everyone else is doing so too! As we make it easier for all taxpayers to meet their obligations quickly, easily and cost-efficiently, we must make equally sure that those who don't pay their fair share and don't abide by the rules are brought into the fold.

It may appear somewhat counter intuitive for us to publicly announce those areas of risk that will come under the SARS microscope. But in doing so, we would like to help people recognise behaviours that pose a risk to them and take measures to avoid them, thereby encouraging voluntary compliance. We are not out to catch people. Rather we are in the business of getting everyone to do the right thing willingly.

This is a bit like road signs which alert drivers to upcoming speed traps. In the same way that these have been shown to reduce speeding, international best practice has shown that by highlighting areas of high risk and non-compliance with tax and customs legislation, taxpayers and traders are encouraged to adjust their behaviour.

Many tax administrations publish similar compliance programmes (including Australia, Brazil, Canada, Denmark, Netherlands, New Zealand, Poland, Spain, Sweden, Turkey, USA, UK) and we have based our Compliance Programme and this publication on their ground-breaking work.

The modernisation of our tax systems have led to improvements in the quality and integrity of data. This has enabled us to sharpen our research and analytical capabilities, providing us with key insights which have enhanced our understanding of taxpayers and traders. From this data, we have been able to prioritise segments that require our immediate attention, the results of which have informed our Compliance Programme.

The areas earmarked for attention in this publication are, of course, not the only areas we will be working on. We will continue with our usual work in detecting and deterring non-compliance through the use of our risk engines, third party data and other sources of information which help us to identify non-compliance.

We will also be adjusting and refining our Compliance Programme each year to account for changes in behaviour and possible new areas of risk which emerge.

We hope you find this document useful. We look forward to your feedback on how we can make both this document and our Compliance Programme better and more effective.

A handwritten signature in black ink, reading "Oupa Magashula". The signature is fluid and cursive.

Oupa Magashula
SARS Commissioner

WHAT IS COMPLIANCE?

Compliance refers to the degree to which taxpayers and traders, along with intermediaries like practitioners and clearing agents, meet their legal obligations.

Most modern tax and customs administrations rely on people willingly and voluntarily doing the right thing. Fortunately in South Africa, the vast majority of our citizens – both individual and corporate – are law-abiding and share a sense of responsibility to actively participate in building our country through making their fair tax contribution.

People need to know what they have to do, have the ability to do it and then have the right motivation

Of course, wanting to do the right thing and actually doing it are not always the same thing. In order to do the right thing, people need to know what they have to do, have the ability to do it and then have the right motivation to take action. These are the three pillars of any behavioural model and are at the heart of our approach to encouraging compliance.



We must first make sure that all taxpayers, traders and anyone else involved in the tax or customs process know what they have to do. We do this through continual education and communication. Over the past 15 years we have conducted thousands of workshops, printed millions of guides, brochures and pamphlets, produced training videos, and interacted via our branches, call centre and outreach activities with millions of taxpayers, traders and other stakeholders to help them understand and meet their obligations.

Secondly, we must empower people to meet these obligations – by ensuring they have the knowledge and tools to quickly, easily, conveniently and cost-effectively meet their obligations. Here too we have made huge progress in simplifying the tax and customs process and giving people tools like eFiling to help them meet their obligations. We have modernised our tax and customs processes. Last year over 95% of all income tax returns and more than 90% of all Customs transactions were conducted electronically. We are continuing our modernisation programme to make it simpler, easier and quicker for all taxpayers and traders to comply.

Thirdly, we must give everyone the right motivation. For most people that means reminding them of why we pay tax and why we have laws which protect our country from unwanted, harmful and illegal goods. The majority accept this and support the notion that everyone should contribute to the well-being of our country and all our people according to their ability.

Then there are others who are motivated less by doing the right thing and more by avoiding undesirable consequences. These are the people who do the right thing only because they want to avoid punishment. For these people we have to show them that they will get caught and they will be punished. We have introduced an administrative penalty regime which penalises taxpayers for failing to meet their obligations such as submitting a return by the due date. In the past year alone we have issued over 700 000 taxpayers with penalties for submitting returns late. We also impose additional tax of up to 200% where taxpayers have evaded tax by under-declaring income or over-stating deductions.

Finally, there is a minority of people who either think they won't get caught or don't appear particularly concerned about the consequences of their actions. There is only one thing to do with these people – catch them and punish them to the full extent of the law.

During the past financial year SARS has made over 20 000 seizures of goods to the value of almost R1 billion including:

- ◆ Almost R100 million worth of contraband cigarettes
- ◆ Almost 1 million counterfeit CDs and DVDs
- ◆ Over 2 tons of hard drugs taken off the streets by SARS in joint operations with other agencies
- ◆ Over 750 000 pieces of under-declared or illegal clothing confiscated worth R483 million

These and other actions against smugglers resulted in 149 cases being referred to the National Prosecuting Authority for criminal prosecution.

On the tax side, since April last year SARS has successfully prosecuted over 230 taxpayers for a range of tax related offences, bribery and fraud, resulting in a total of 370 years of jail sentences and nearly R5 million in fines for those who would cheat the fiscus. A further 1 500 tax-related cases are awaiting prosecution with the National Prosecuting Authority.

SARS is firmly committed to upholding its integrity as a world-class tax and customs administration. We do not tolerate corruption and strive to entrench our core values in all aspects of our business.

In summary, the factors affecting compliance behaviour are an intersection of individual values and norms, societal values and norms, the belief in the justice and fairness of the system, the ease of compliance, the speed and accuracy of detection of non-compliance (i.e. the likelihood of getting caught), the speed and accuracy of corrective measures and the severity or impact of the deterrent measures.

There is a minority of people who either think they won't get caught or don't appear concerned about the consequences of their actions

Compliance is influenced by...	What we are doing...
Attitude and willingness to pay their fair share	Understanding what informs taxpayers' attitudes and willingness to comply
Knowing what their obligations are	Educating taxpayers about their obligations
Knowing how to comply	Educating taxpayers about how to comply
Ease of compliance	Making it easy to comply
Legal treatment of some tax positions	Making the legal treatment clear
An understanding of the possible consequences of non-compliance	Utilising both monetary and other punitive measures that escalate according to the context and severity of non-compliance
Perception of a credible threat of detection of non-compliance	Establishing frameworks that constitute a credible threat of detection

OUR COMPLIANCE PROGRAMME

While the overall compliance climate is showing improvement, we know that we need to continuously focus our efforts on not just sustaining the levels of willing compliance, but on creating a climate that is increasingly conducive to full compliance by all taxpayers.

To do this we need to constantly monitor the compliance levels of taxpayers, traders and other stakeholders in order to pin-point areas of high or low compliance and then to understand the drivers of this good or bad behaviour so that we can devise appropriate strategies in line with our compliance approach to sustain or alter the behaviour as required.

We conduct on-going research into compliance across different tax types and within tax types according to different industry sectors, taxpayer segments, profiles and other demographics in order to identify whether there are specific kinds of taxpayers, traders or intermediaries who are more or less likely to be non-compliant. We also try to identify and understand the nature of the non-compliance. The digital revolution has significantly assisted in providing huge volumes of electronic data which we are able to dissect and cross-reference to get a clearer picture.

Our analysis looks not only at behaviour among South Africans but also taps into similar research being conducted by tax and customs administrations around the world and by international organisations like the World Customs Organisation (WCO), the Organisation for Economic Cooperation and Development (OECD) and others.

What all this gives us is an increasingly robust and granular view of the behaviour of taxpayers, traders and intermediaries. And it gives us the ability to tailor our approach to improving compliance according to the specific needs or drivers of a specific section of the taxpayer or trader population.

We need to continuously focus our efforts on not just sustaining the levels of willing compliance, but on creating a climate that is increasingly conducive to full compliance by all taxpayers

OUR APPROACH IN DEVELOPING THE COMPLIANCE PROGRAMME



How we select our priority areas:

To ensure our Compliance Programme is broad and inclusive, and that we explicitly focus on changing the compliance landscape, we look beyond just basic above-the-line risk assessments. This means that for each of our segments and sectors we consider:

We hope to encourage taxpayers to review their own tax affairs, and to make a voluntary disclosure now to avoid being penalised in the next phase of SARS action

- ◆ The industry's overall risk rating
- ◆ The revenue risk posed by the industry
- ◆ Specific lifecycle risks relating to registration, filing, declaration and payment
- ◆ Border protection risks
- ◆ Consumer protection risks
- ◆ Systemic legislation and policy gaps and risks
- ◆ Which system optimisation would have the biggest impact on compliance
- ◆ Which education and empowerment initiatives would have the biggest impact on compliance
- ◆ What leverage opportunities we have to maximise compliance

For each of our focus industries and segments, we make an effort to enhance our understanding by reviewing international trends and best practice, identifying specific cases for intervention, and by conducting random audits with the specific purpose of deepening our understanding of compliance behaviour.

We will make every effort to ensure that taxpayers in the selected segments are fully empowered with the necessary guides and interpretation notes, and "How can we make it easier" dialogues.

PRIORITY AREAS AT A GLANCE

Over the next five years we will focus on the following seven broad areas:

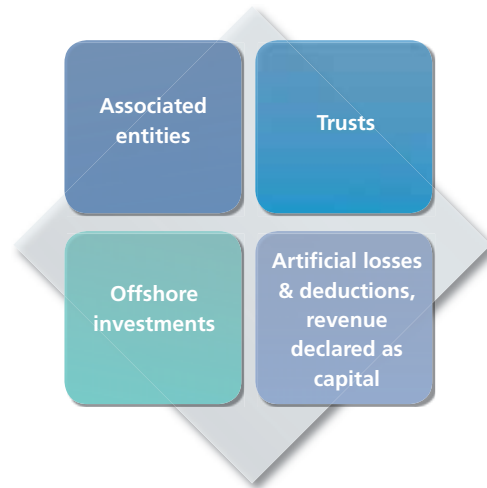
- 1. Wealthy South Africans and their associated trusts:** These can expect substantially more compliance checks and integrated audits – but also more opportunities for upfront engagement and pre-filing agreements. Our research shows there are some wealthy individuals not registered for tax and we will use third party data including information from financial institutions, credit bureaux and other sources of data (such as residential and holiday homes, aircraft, vehicle and boat sales) to identify such individuals for registration. Offshore accounts in tax havens that are used by individuals to avoid tax will be given priority attention using international cooperation agreements.
- 2. Large business and transfer pricing:** In this area transfer pricing by large multinational corporations will come under the spotlight with a comprehensive international review of the practice, upskilling of our staff and greater cooperation with other administrations. Apart from transfer pricing, we will also continue to focus on international tax compliance as well as follow-ups on underdeclaration of provisional tax (paragraph 19(3))¹ activities to ensure accurate and on time provisional tax payments.
- 3. Construction industry:** Our research has shown that compliance within the construction sector is low. We intend to conduct extensive compliance checks and integrated audits in this industry with a particular focus on individuals and entities that are awarded government tenders. These individuals and entities have the responsibility to maintain healthy tax compliance especially in light of the fact that they are remunerated by public funding. Filing, declaration and payment behaviour will be a focus for Corporate Income Tax, VAT and PAYE. There will be particular focus on contractors and the various levels of sub-contractors involved in paving, decorating, plumbing, heating and ventilation, and ceilings and floors.
- 4. Illicit cigarettes:** The trade in and consumption of illicit cigarettes is detrimental to the fiscus and to the health of South Africans. Our interventions will continue to focus on clamping down on cigarettes smuggled via warehouses as well the diversion of cigarettes destined for export back into the local market. We also plan to modernise the warehousing management and acquittal system.
- 5. Undervaluation of imports in the clothing and textile industry:** Undervalued imports pose a significant risk not only to the fiscus but to local industry and job creation. SARS will continue to work together with other government agencies and industry stakeholders to clamp down on this practice including through the establishment and frequent revision of a reference pricing database to detect undervaluation, increasing inspections as well as supporting an integrated border management model.
- 6. Tax practitioners and trade intermediaries:** Regulation of this industry will be pursued to ensure that tax practitioners and trade intermediaries are all persons of good standing, are fully tax compliant in their personal capacity and provide a high quality service and advice to their clients. We will also develop a rigorous risk profiling system to identify high risk practitioners and trade intermediaries.
- 7. Small businesses:** Registration in this segment is low and we will be conducting registration drives in conjunction with other government agencies in which businesses will be inspected and, where necessary, registered on site. Abuse of VAT (including withholding VAT but failing to pay it over and abuse of VAT refunds) will be a key focus area.

Our focus will be on seven segments but this does not mean that others can breathe a sigh of relief

We will continue with our regular risk-based compliance work to detect and deter non-compliance in all areas including through verifications, audits and investigations

¹ Paragraph 19(3) of the fourth schedule to the Income Tax Act

WEALTHY SOUTH AFRICANS AND THEIR TRUSTS



We know that wealthy individuals value their reputations. We know that time is one of their most precious commodities. We also know that they appreciate the principles of sound risk management and that they value wealth preservation, which is why we believe that tax compliance should be top of mind for them.

We have around 2 300 wealthy individuals on register. This group of taxpayers is a significant contributor to the fiscus, with wealthy individuals contributing an average of R1.7 million each to tax annually. Our preliminary sampling exercise

has shown that under-declaration of income is an area of concern, where an individual's declared income is not consistent with their asset base. To date, 467 potential wealthy individuals have been identified where there are discrepancies between their asset base and declared income, and they can expect much closer scrutiny from SARS.

Wealthy individuals are also generally linked to a number of trusts and companies, some of which are used as vehicles to channel and hide their assets and income. Most of the wealthy South Africans we have reviewed are linked to more than 10 associated companies on average and 87% of these associated companies and 59% of trusts have outstanding returns. A total of 67% of audits conducted into trusts show serious under-reporting.

Among the issues which are cause for concern are:

- ◆ Fringe benefits not being declared
- ◆ Input VAT claimed without declaring VAT on trade income
- ◆ Artificial losses and deductions
- ◆ Salary restructuring
- ◆ Assets and income diverted through associated entities
- ◆ Incorrect declaration of revenue profit as capital in nature

Our compliance activities for this segment includes a range of initiatives:

- ◆ Increase the use of data flows from other jurisdictions through the international Exchange of Information programme
- ◆ Improving our collaboration with the Master's Office with regard to administration of trusts, specifically in terms of obtaining information electronically and uniformly as well as acquiring complete information on trustees and beneficiaries
- ◆ Reviewing how best to leverage "industry" norms and benchmarks, and improving our ability to trace the flow of funds around the world through a multi-agency approach
- ◆ Moving towards more pre-emptive engagement with taxpayers based on real-time data, and the use of pre-filing meetings
- ◆ Improving our rulings regime, and encouraging more taxpayers to make use of advance rulings
- ◆ Broaden our audit and investigations to include additional third party information including the lifestyle and related entities questionnaire
- ◆ Ensuring the registration of wealthy individuals currently not on register
- ◆ Audit will focus on those individuals identified as having discrepancies between their asset base and declared income
- ◆ Reviewing the structure of tax returns for both wealthy individuals and trusts
- ◆ Encouraging taxpayers to make voluntary disclosures – and making known to them the consequences if they don't

LARGE BUSINESS AND TRANSFER PRICING



Large corporates are generally compliant, although there is room for improvement: 38% of CIT payments are late, 26% of CIT returns are filed late and our VAT audits show up to 60% reporting inaccuracy. We are mindful that in the current challenging financial environment, taxpayers are inclined to tightly manage their cash flows and may sometimes need prompting to pay the correct amount on time.

Some large corporates tend to exploit grey areas of the law, and in recent years we have faced a number of challenges in respect of structured finance schemes and foreign tax credit schemes.

Our general compliance activities in respect of large businesses will continue to focus on:

- ◆ Tax avoidance structures that have inflated deductions through circular flows of money
- ◆ Audits of corporates on a group level where one of the focus areas will be on the change in the nature of income from taxable to non-taxable income for purposes of tax avoidance or to reduce their “group” tax liability
- ◆ Modernisation of the management of the payment of provisional payments
- ◆ Movement from post-filing return examination to “real-time” evaluation of risk and compliance issue resolution
- ◆ The development of forward compliance arrangements, advance rulings, advance pricing agreements and pre-filing agreements

We will also be working towards increasing the visibility of tax as an issue on the agenda of companies’ boards, and increasing awareness amongst board members of the importance of tax as a key management and corporate governance dimension. We believe that empowering board members with a basic understanding of the high-level risks tax could pose to their business, and sensitising shareholders to the importance of good governance and tax risk management will positively shape the compliance climate and culture in big business.

As multinational enterprises account for more than 70% of world trade, there is an imperative to counter unacceptable transfer pricing practices between related parts of the enterprises. We will roll out a programme to counter these practices by:

- ◆ Unpacking more international transactions, looking at the prevalence of Permanent Establishments (PE), and treatment of PEs from a profit attribution perspective
- ◆ Undertaking more case studies of major international audit firms and the structures they promote
- ◆ Starting work soon on the development of a local comparable database, and seeing how best to leverage it for a consistent approach to valuing intangibles
- ◆ Reviewing how best to offer bilateral and multilateral Advance Pricing Agreements to South African multinational enterprises
- ◆ Leveraging our relationship with other administrations through joint audits and the secondment of specialist staff
- ◆ Reviewing company tax returns to ensure that we have more relevant information available from a transfer pricing perspective

CONSTRUCTION INDUSTRY



Our research has shown the construction industry to be the least tax compliant sector in the formal economy. Given that this industry receives a significant portion of public infrastructure spending from the fiscus, compliance in this industry is even more critical. Therefore our focus will be on ensuring that those companies receiving government tenders maintain their compliance.

Like other industries, construction has been impacted by the global recession. Between 2009 and 2010, the industry suffered job losses and declining profitability. We understand that the industry is under pressure, and one of our key

priorities is ensuring that taxpayers are compliant from the start so that tax liabilities do not later threaten their on-going viability. The industry is recognised as a significant provider of employment in South Africa which further entrenches its significance to the economy and the importance of its ability to remain viable.

VAT under-declaration in the construction industry is of serious concern, where almost 70% of audited cases reveal incorrect disclosures. We will also focus on PAYE and corporate income tax, where audited cases show under-declaration of 50% and 61% respectively. In terms of filing behaviour, 64% of corporate income tax returns are not filed on time, while 36% of VAT returns and 28% of PAYE returns are not filed on time. Over half of payments of corporate income tax and VAT are made late.

Our assessment suggests that the biggest risks lie in the small and medium business segments, and particularly in contractors and sub-contractors involved in paving, painting, decorating, plumbing, wall and floor tiling, heating and ventilation, and ceilings and flooring. We are also seeing substantially higher rates of non-compliance amongst self-employed individuals.

While the focus is on contractors involved in government tenders, we will not lose sight of private sector contracts and general compliance of the industry.

We will be focusing on creating a sustainable improvement in compliance levels in the construction industry through:

- ◆ Integrated multi-tax audits, where entities are audited for all taxes simultaneously
- ◆ The imposition of administrative penalties for late filing and payment
- ◆ Ensuring continued compliance for the duration of a government tender – rather than only requiring a Tax Clearance Certificate at the beginning of the process
- ◆ Introducing an early contact strategy with non-compliant taxpayers to ensure that unexpected tax debts do not threaten their ongoing viability
- ◆ Making use of agency appointments to recover outstanding debts

ILLICIT CIGARETTES



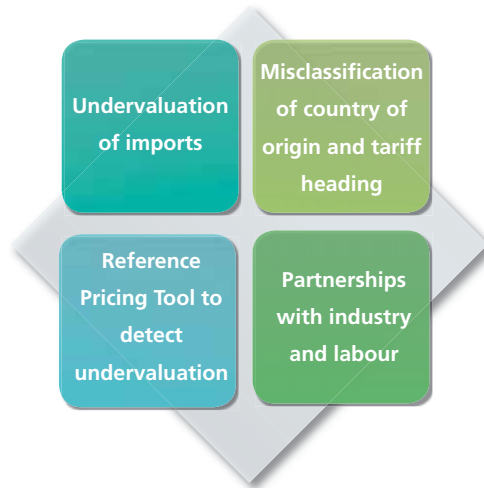
The prevalence of the trade in and consumption of illicit cigarettes in the South African market undermines government efforts to reduce the negative health impact of cigarette smoking (and in the case of illicit cigarettes this is made even worse by the frequent use of lethal additives and mixers).

We are aware that a significant number of illicit cigarettes are consumed in South Africa each year, amounting to a considerable loss of revenue. This loss occurs through smuggling of cigarettes into the country from across our borders and the diversion into the local market of cigarettes that are earmarked for export.

Our compliance activities will focus on:

- ◆ Increasing supervision of cigarettes exported from warehouses
- ◆ Improve the manual tracking of cigarettes in transit through South Africa to ensure that the declared quantities are accounted for at both the points of entry and exit
- ◆ Collaboration with tobacco industry experts to develop a set of targeted risk criteria to detect illicit cigarettes
- ◆ Improve authentication markings on cigarettes to enable identification of legal cigarettes
- ◆ Intensify retail cigarette inspections with a complementary review of legislation to ensure that punitive action is sufficiently discouraging to wholesalers and retailers
- ◆ Conduct targeted communication campaigns with industry aimed at consumers to help them identify illicit cigarettes and to understand the risks illicit cigarettes pose to their health and the economy

CLOTHING AND TEXTILES



We are particularly mindful of SARS's role in protecting the local economy and local employment, which further highlights the need to focus on the clothing and textile industry.

The industry is threatened by non-compliance related to valuation, as well as country of origin and tariff misclassification which open doors for the dumping of goods and undercutting of prices that renders the domestic industry and players uncompetitive.

Government, labour and industry have joined forces to work together in order to manage compliance risks in the industry. SARS provides advice on regulation and strategic policy issues in addressing customs fraud, as well as enhancing trade facilitation and compliance.

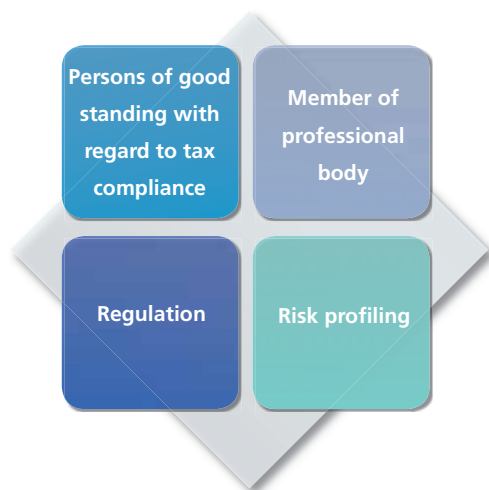
Our compliance activities will focus on the following:

- ◆ The introduction of a reference pricing database as a mechanism to identify undervaluation of imports for certain products
- ◆ Constantly seeking to identify systematic solutions to gaps in the clothing and textile value chain as it relates to imports, exports and manufacturing activities under rebate
- ◆ Increasing the number of inspections at border posts

Customs Modernisation will play a crucial role in creating a sound platform for effective risk management with initiatives such as:

- ◆ Supporting a seamless transition to an integrated border management model, to be developed together with other government departments
- ◆ Continual enhancing and refining of the Preferred Trader Programme
- ◆ Integration into the international Authorised Economic Operator Programme which looks at the entire supply chain from end to end
- ◆ Increasing our non-intrusive inspection capability
- ◆ Pursuing a common customs working philosophy across Africa
- ◆ The Draft Customs Control Bill proposes clauses on dealing with under-valuation

TAX PRACTITIONERS AND TRADE INTERMEDIARIES



Tax practitioners represent around three million taxpayers. We know that the vast majority of practitioners are compliant and play a positive role in shaping the compliance climate and culture – and it is with practitioners like these that we wish to partner and seek joint solutions to making compliance ever easier, both for taxpayers and the tax practices.

But there are also some practitioners that have poor personal compliance history and who think nothing of shirking their personal tax responsibilities. Practitioners in this group have over 18 000 personal tax returns outstanding and have accumulated debt of about R260 million.

Aside from their personal levels of compliance, some practitioners also actively advise their clients on how to unlawfully evade taxes or recommending schemes which are highly risky.

Only 55% of practitioners are registered with a professional body. This makes focused engagement with practitioners as a group more difficult. It also makes recourse for SARS – and taxpayers – more difficult where these practitioners engage in unprofessional conduct. Another concern is that non-association members as a group appear to be more non-compliant – for instance, the average debt per case for non-association practitioners is more than four times that of association members.

Our compliance activities will focus on:

- ◆ Ensuring that tax practitioners and trade intermediaries are persons of good standing in terms of their personal tax compliance
- ◆ Encouraging tax practitioners to join professional bodies
- ◆ Encouraging taxpayers to report unethical behaviour to SARS and the relevant association/s
- ◆ Refining and developing a practitioners' risk rating mechanism to more accurately identify high-risk practitioners
- ◆ Conducting more multi-tax audits
- ◆ A debt collection focus on the top 5% of practitioners who owe 96% of all debt due
- ◆ The imposition of administrative penalties for late filing and payment
- ◆ Legislative proposals to regulate tax practitioners will be released in 2013

SMALL BUSINESS



Small businesses play a vital role in stimulating economic activity, job creation, poverty alleviation and the general upliftment of living standards. Our aim is to make meeting their tax obligations simpler and at the same time to entrench a culture of voluntary compliance.

Small businesses represent a high-risk group in most countries because they are numerous and because their income is often neither fixed nor, in most cases, capable of easy verification against third party data. In addition, their commercial set-ups can lack the well-developed structures for record keeping, independent audit of accounts and cash handling that helps to minimise risks of under-reporting.

Over the years, government has taken many steps toward alleviating the burden on small business and assisting them to migrate the normal income tax system. Some of these initiatives have been:

- ◆ In 2001 a lower tax rate structure, capital gains tax relief and enhanced depreciation for small business corporations was introduced
- ◆ Small businesses with a payroll of less than R500 000 were exempted from the Skills Development Levy from 2005
- ◆ The Small Business Amnesty was launched in 2006 which waived taxes, penalties and interest potentially payable by small business
- ◆ A presumptive Turnover Tax was introduced in 2008 as an alternative to income tax and VAT for business with turnover less than R1 million
- ◆ The VAT registration threshold was raised from R300 000 to R1 million to reduce paperwork
- ◆ In 2010, small business as well as other taxpayers had the opportunity to disclose and pay undeclared tax liabilities at reduced interest charge and without penalty in the Voluntary Disclosure Programme
- ◆ From 2012, the tax-free threshold for small business corporations increased to R63 556, the ten percent tax rate is reduced to seven percent and the threshold up to which this rate applies is increased to R350 000 (from R300 000). Qualifying micro-businesses will also be able to pay turnover tax, VAT and employees' tax twice a year

As we continue to lower the cost of compliance, we are also strictly monitoring compliance levels of small businesses. Registration for tax remains low in the small and micro business sector and we will be conducting registration drives with other government agencies to register businesses on site.

Non-compliance with filing of VAT returns among small businesses is low where only 57% of returns are submitted on time. Sixty percent of audits show under declaration of income and 41% of small businesses also have debt older than 49 months. Abuse of VAT (including withholding VAT but failing to pay it over and abuse of VAT refunds) will be a key focus area.

Our compliance activities for small businesses will focus on:

- ◆ Improving registration of small and micro businesses through a registration drive with other government agencies
- ◆ Encouraging small businesses toward a developed structure of record-keeping for the purpose of sound business practice and assisting in tax compliance
- ◆ Providing more electronic options for registration, filing and payments
- ◆ Cooperation with other government agencies to enhance the existing “one-stop” shop where small businesses can have all their regulatory needs serviced
- ◆ Imposing administrative penalties for non-compliance including late submission of returns
- ◆ The use of agency appointments for the collection of outstanding debts

THIS IS YOUR PROGRAMME – HOW YOU CAN HELP

Tax crime is no different to any other crime – it cripples our economy and our society. And just as with other crimes, you can contribute to combating it in two ways: by not participating in or condoning criminality yourself, and by reporting on those who act outside of the scope of the law.

Help us create and grow a culture of tax and custom compliance by following these simple steps:

**Report suspicious activities by:
Completing out a Suspicious
Activity Report online at
www.sars.gov.za
or
Calling the SARS Fraud and
Anti-corruption Hotline on
0800 00 2870**

- ◆ Declare your income and expenses accurately. If you are unsure of your obligations or how to meet them, ask us. Or ask a competent practitioner to advise you
- ◆ Have healthy tax habits all year round. We understand that tax is not top of mind for you every day. That is okay – as long as you keep your records and notes in such a way that you can access them easily when you need to
- ◆ If you choose to make use of a tax practitioner, we recommend that you choose one who belongs to a professional body. This means you have more recourse should they act unethically in their dealings with you
- ◆ Be wary of promises that sound too good to be true, and particularly of promises of an unexpected refund and that SARS cannot trace money invested offshore. We can, and we do
- ◆ If you encounter taxpayers or traders who are cheating, let us know. Their cheating is not fair on you and all other compliant South Africans and means that you end up paying more than you should. We will always treat the information you provide us with as confidential
- ◆ Don't buy illicit cigarettes and don't support retailers or wholesalers who sell them
- ◆ Support the domestic clothing and footwear industry if you can – buy local
- ◆ Never buy counterfeit goods – not even “just” a pirated DVD or fake designer handbag. Buying counterfeit goods is stealing
- ◆ If you have acted unlawfully or been non-compliant, it is never too late – or too early – to set things right. Simply start doing the right things, today. Approach us before we start an investigation and we can even help you reduce the damage to your business, your lifestyle and your reputation. Call us before we call you!

