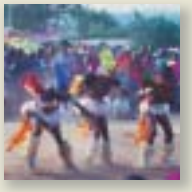
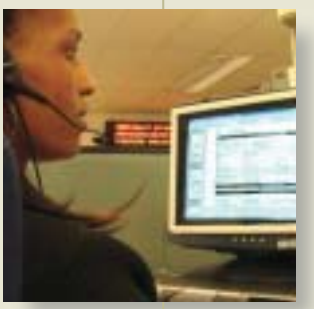
SARS
At Your Service

Working together for the good of South Africa

Annual Report 2004

South African Revenue Service Annual Report 2004





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Mandate, vision and mission

Mandate

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

- Collect all revenues that are due
- Ensure maximum compliance with the legislation
- Provide a customs service that will maximise revenue collection, protect our borders as well as facilitate trade

Vision

To be an innovative revenue and customs agency that enhances economic growth and social development, and supports our integration into the global economy in a way that benefits all South Africans

Mission

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

Strategic goals and values

Strategic goals

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

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

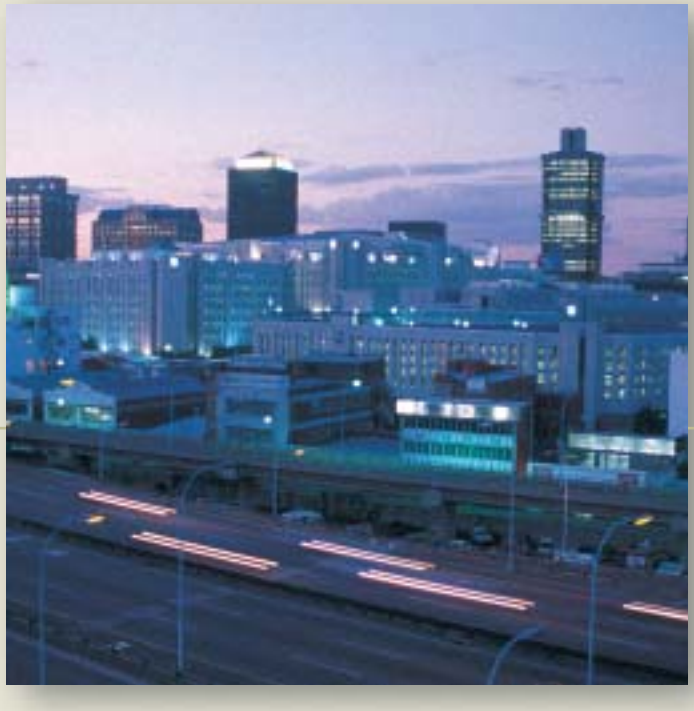
In order to achieve these goals during the year under review our focal areas were:

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

Values

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

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



"The SA government has a huge development agenda. As its primary source of revenue, SARS must continually find ways of raising our effectiveness and efficiency."

Pravin Gordhan

Commissioner's review

Ten years ago the citizens of South Africa voted for change. As we take stock of the past decade it is gratifying to confirm that, indeed, much has changed. In many respects we as a country have exceeded expectations, surprising not only the sceptics but often ourselves as well. At the same time our celebration is tempered by the recognition that, for many of our people, we have not changed enough.

Everyone acknowledges that there is still much to be done before all in South Africa enjoy the fruits of democracy: dignity, security, freedom from poverty and equal access to the infrastructure of a modern state. I am proud to be part of an organisation that plays such a crucial role in enabling Government to deliver change to those who need it most.

I am also daunted by the responsibility. SARS is the main source of revenue for a government with a huge development agenda, the performance of SARS is a critical matter. It should be no surprise, therefore, to learn that we are a particularly introspective organisation, one that forever strives to emulate best practice and continuously improve.

For this reason SARS is in a continual state of evolution, and 2004 was no different. The overriding drive this year has been to begin to link performance to concrete business deliverables, so that we all know precisely what is expected of us, and can work effectively to clearly articulated and achievable goals. To make this a reality, we significantly enhanced our business analysis capability over the course of the last 12 months. This has allowed us to examine our processes, identify changes that will yield improvements in performance, and take the first steps toward embedding a process orientation throughout SARS.

In a related development we have established – and are staffing at a high level – an Enterprise Programme Management Office that will introduce world-class project management processes and disciplines on all our programmes. This will help ensure that all initiatives are properly resourced and managed, and will provide greater certainty regarding their timing, cost and impact.

The past year also saw significant advances in our long-term drive to become a more service-oriented organisation. To an extent this was enabled by technology – we upgraded our call centres and gave our operators much better access to the information they need to handle customers' queries; we put in a very sophisticated system that, for the first time, allowed our consultants rapidly to get a consolidated view of a taxpayer across all eight of our tax systems; and we made good progress with our e-SARS initiative, which exploits the Internet as a medium for providing information and delivering a range of services. Significant improvements in the use of technology by the Customs division have also begun to make an impact.

Commissioner's review (continued)

But of course, achieving sustainable improvement is always more about people and culture than technology. I am proud to say we confirmed that if management demonstrates a commitment to service – through its own behaviour, the expectations it sets and the support it provides the people who ultimately deliver the service – achieving the necessary culture change at operational level is possible.

Most of these changes required a distinct shift in the way our 14 000-plus employees saw their role and performed their duties. This would have been unattainable had we not also, during 2004, invested in the transformation of our workforce. From the more obvious things such as the establishment of the SARS Academy to accelerate training and the replacement of ageing computers with sophisticated new PCs, to an on-site investigation to improve the working conditions of our border officials, I believe we have shown our employees that while we might demand ever higher levels of performance, our managers understand that the commitment must be mutual.

The strategy, I am happy to say, has been broadly successful. Our objectives during the past year were to be more effective, more efficient and to provide a superior service. Despite a number of unforeseen economic factors that confounded our projections – lower than expected growth and a stronger rand that depressed the profits of many of our mines and export manufacturers – we nevertheless fell only marginally short of our R303 billion revenue target. This was due in part to Value Added Tax holding up well, a consequence of lower interest rates and tax cuts stimulating consumer spending.

What we cannot overstate is the impact on the fiscus of perhaps the most significant cultural change of all: a citizenship culture that is emerging strongly and is transforming the perspective people have of tax and of their role in society.

I believe many different things are nurturing this culture. Obviously the legitimacy of the Government is a major factor. But there are others, such as the perception that SARS is an efficient service organisation that handles taxpayers' money responsibly; our improving and highly visible track record in bringing tax evaders to book; the unprecedented focus on corporate governance; and the recognition that the tax net is widening as more and more people pull their weight. Whatever the causes, this fundamental shift in South African society is creating a broad and solid foundation on which we can build a bright future.

I would like, in conclusion, to express my gratitude to everyone who has helped SARS develop and grow over the past 12 months – the Minister of Finance, the Deputy Minister of Finance, the various committees and consultative bodies that have provided such valuable input, and of course my management team and every SARS employee throughout the country. We share a vision, and a determination to make it reality.

Pravin Gordhan
Commissioner

Corporate governance and risk management

The following reflects SARS compliance with governance requirements:

SARS external governance framework

The SARS external governance framework is primarily determined through two pieces of legislation, namely the SARS Act, as amended, and the Public Finance Management Act. These pieces of legislation determine the governance structure which SARS has to put in place.

Public Finance Management Act (PFMA) (No. 1 of 1999)

The most important piece of legislation for governance in the public sector is the Public Finance Management Act (PFMA) (No 1 of 1999), aimed at improving financial management. The PFMA requires the establishment of an audit committee in terms of sections 51(1)(a)(ii) and 76(4)(d) which forms an integral part of the governance framework. In compliance, SARS established an audit committee during the period under review.

South African Revenue Service Act, as amended (No. 34 of 1997)

The SARS Amendment Act of 2002, which effects the dissolution of the SARS Advisory Board, as contained in section 11 of the SARS Act 34 of 1997, has been promulgated in the *Government Gazette* in December 2002 as Act No. 46 of 2002. The Amendment Act not only dissolved the SARS Advisory Board in its existing format but replaces it with a new governance framework. The new framework makes provision for the establishment of specialist committees to advise the Commissioner and the Minister on any matter concerning the management of SARS resources.

Specialist advisory committees

The SARS Amendment Act provides for the establishment of one or more specialist committees to advise the Commissioner and the Minister of Finance on any matter concerning the management of SARS resources, including asset management, human resources and information technology.

Only two (2) specialist committees were constituted namely:

- Human resource specialist committee
- Information technology specialist committee

Human resource specialist committee

Role and function

The human resource specialist committee is dealt with in some detail in section 11(2) of the SARS Amendment Act, which specifies that *the specialist committee on human resources must advise*:

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

The Commissioner on matters concerning the terms and conditions of employment of all employees of SARS, other than employees contemplated in paragraph (a).

Membership

The following members have been appointed to serve on the human resource specialist committee: Judy Parfitt (chairperson), Lionel Human, Adolf Maphutha, Mike Olivier and Liz Thebe.

Corporate governance and risk management (continued)

Functions of the human resource specialist committee

The functions of the human resource committee are to advise:

- The Minister on human resource issues in the management structure
- The Commissioner of SARS on human resource issues
- The representivity, costs and effectiveness of recruitment, training and promotions within SARS
- The staff establishment, retention and vacancies
- Compliance with chapter 10 of the Constitution and any other legislation applicable to SARS human resource management
- Compliance with the SARS Code of Conduct and the Client Charter
- Summaries of complaints, industrial relations issues, CCMA mediations and arbitrations, and court actions involving SARS employees
- SARS human resource policies on, inter alia, discipline, remuneration and staff benefits

Establishment of audit committee in terms of the PFMA

In terms of section 51(1)(a)(ii) and 76(4)(d) of the PFMA, as well as the Treasury Regulations (Chapter 27.1), the following requirements must be met in respect of the audit committee of SARS:

- The Accounting Authority must establish the audit committee. The audit committee must be a subcommittee of the accounting authority, who is the Commissioner.
- The audit committee must operate in terms of a written terms of reference, which must deal adequately with its membership, authority and responsibilities. The terms of reference must be reviewed at least annually to ensure its relevance.
- SARS must disclose in the annual report whether or not the audit committee has adopted a formal terms of reference and if so, whether the committee satisfied its responsibilities for the year, in compliance with its terms of reference. (This regulation is applicable to the 2002/03 annual report and onwards.)

Membership as required in terms of the PFMA

- The chairperson of the audit committee must be independent, be knowledgeable of the status of the position, have the requisite business, financial and leadership skills and may not be the chairperson of the executive committee or a person who fulfils an executive function in SARS.
- The majority of the members of the audit committee shall consist of non-executive members appointed by the executive committee, although committee members may not all be members of the executive committee. The majority of persons serving on an audit committee must be financially literate.
- The executive authority (the Minister of Finance) must concur with any premature termination of services of a member of the audit committee.

Members of the audit committee

The following members have been appointed to serve on the audit committee: Sizwe Nxasana (chairperson), Dillip Garach, Berenice Lue-Marais and Mustaq Brey.

Authority

The audit committee must have explicit authority to investigate matters within its powers, as identified in the written terms of reference, and must therefore be provided with the resources it needs to investigate such matters, and must have full access to information. All information given to the audit committee must be safeguarded within the ambit of the law.

Responsibility

The audit committee must, amongst others, review the following:

- Effectiveness of the internal control systems in SARS
- Effectiveness of internal audit
- The risk areas of SARS operations to be covered in the scope of internal and external audits

Corporate governance and risk management (continued)

- The adequacy, reliability and accuracy of financial information provided to management and other users of such information
- Any accounting and auditing concerns identified as a result of internal and external audits
- SARS compliance with legal and regulatory provisions, the activities of the internal audit function, including its annual work programme, co-ordination with the Auditor-General, the reports of significant investigations and the responses of management to specific recommendations
- Where relevant, the independence and objectivity of the external auditors (not applicable to SARS)

The audit committee must report and make recommendations to the Commissioner, report on the effectiveness of internal controls in the annual report of SARS, and comment on its evaluation of the financial statements in the annual report.

Should a report from internal audit (or any other source) to the audit committee implicate any member(s) of the executive committee in fraud, corruption or gross negligence, the chairperson of the audit committee must promptly report this to the Minister of Finance and the Auditor-General.

The audit committee must communicate any concerns it deems necessary to the Minister of Finance and the Auditor-General.

The audit committee must meet at least annually with the Auditor-General to ensure that there are no unresolved issues of concern.

The management of risk has become an essential requirement for any institution. SARS is no exception.

In carrying out its mandate SARS is faced with many challenges, both internally and externally. The attainment of the organisation's goals and objectives is affected by the prevailing local and global economic conditions, the attitudes and behaviour of taxpayers, changes in relevant legislation and new trade protocols. The challenges faced by the organisation include meeting revenue collection targets in spite of difficult local and global economic conditions; closing the tax gap; improving service to the taxpayer; building and maintaining reputation while at the same time increasing compliance levels, and improving internal efficiencies and processes.

These challenges carry with them risks as well as opportunities.

Risk management within SARS is not only about compliance with laws and regulations. It concerns itself with the organisation meeting its challenges in such a way that it manages risks and takes advantage of opportunities as they emerge.

Adopting this philosophy will enhance the organisation's ability to fulfil its mandate and achieve its stated business goals and objectives.

The Ethics Office

SARS has embarked on a process of instilling sound principles and values within SARS, as a prerequisite to fulfilling its mandate. SARS's Ethics Office has been set up, comprising the Internal Corruption Investigation Unit and the Integrity Unit. Ethical and professional policies, norms and processes are currently being developed (where none exist) and revised (where policies exist but are not being enforced).

Corporate Social Investment (CSI)

SARS has established a CSI office that looks at broader community involvement by the organisation. The aim of the SARS CSI is to coordinate all CSI activities in SARS and align them with the SARS corporate strategy. The objective of CSI policy is to contribute to the social and economic stability of the country. The key focus areas of the policy are employee community involvement/volunteerism, "Give as you earn" programme and the donation of redundant goods/assets.

Projects will be identified and evaluated by the CSI management committee as per the policy. The projects will be related but not limited to taxpayer education within the SMMEs, literacy, HIV/AIDS, disabled and women.

Pravin Gordhan

Vuso Shabalala
Ivan Pillay

Ken Jarvis
Kosie Louw
Mfundo Nkuhlu

Executive committee

1. Pravin Gordhan

Commissioner for the South African Revenue Service

A veteran of the anti-apartheid struggle, Mr Gordhan notably chaired the CODESA management committee. After 1994, he served as an MP and, as Chairperson of the Parliamentary Constitutional Committee, played a leading role in drafting the present Constitution, Act 108 of 1996. He was appointed Commissioner for the South African Revenue Service (SARS) in 1999 with the mandate to transform the organisation on all fronts. His contract as Commissioner was renewed this year by President Mbeki for a further five years.

2. Vuso Shabalala

General Manager: Customs

Mr Shabalala returned to South Africa in 1991 after many years in exile as an Umkhonto we Sizwe operative. He gained a BComm degree in 1995, having abandoned his legal studies when he left the country in 1976. He continues to pursue postgraduate studies. As general manager of the Customs division he is totally committed to turning around a division of revenue administration which suffered most from apartheid's conscious historical neglect.

3. Kosie Louw

General Manager: Law Administration

Mr Louw has been with SARS since 1970, and holds BComm and BProc degrees. His current role is to ensure the uniform application of tax laws and efficient litigation in tax matters. He represents SARS on the Tax Advisory Committee of South Africa, briefs Parliamentary committees on draft tax legislation, and plays a key role in the development of the annual national tax proposals.

4. Ken Jarvis

Chief Information Officer

Mr Jarvis has a distinguished career of more than 30 years in the information and communication technology industry. He joined SARS as Chief Information Officer in 2002, where he oversees the Technology and Process division. His remit is to create the technology infrastructure and business processes that will support SARS's drive to provide the revenue required for Government's growth and development targets.

5. Ivan Pillay

General Manager: Compliance

Mr Pillay joined SARS in 1999 as General Manager: Special Investigations after spells in the National Intelligence Agency and the South African Secret Service. He assumed his present role in 2000. His division has the task of creating a climate of voluntary compliance, while creating disincentives to discourage non-compliance and eliminating all opportunities for evasion.

6. Mfundo Nkuhlu

General Manager: Strategy and Planning

Mr Nkuhlu resigned from SARS with effect from 31 March 2004.

Revenue performance 2003/04 – Economic downturn has an impact

- Total tax revenue collected: R302,5 billion

Overview

South Africa experienced lower economic growth during 2003/04 than forecast. The two main contributing factors were weak global demand as a result of the global downturn, and the effect of the firmer rand on exports in general.

This combination conspired against the profitability of both export-orientated companies and import-competing manufacturers. The effect on exporters is clearly understood, but less clear is the fact that local manufacturers aiming at the local market suddenly found themselves competing against international companies looking for new markets, and whose prices were reduced by the strong rand. Profitability was therefore reduced across business, and this in turn severely reduced corporate income tax and secondary income tax collections as well as lower rand import values on customs duties. In addition, the Central Bank's repurchase ("repo") rate dropped 5,5% during the fiscal year, resulting in a significant reduction in the interest income from retirement funds and hence a reduction in collections of retirement funds tax.

As a consequence, the total tax revenue amounted to R302,5 billion of the R304,8 billion reflected in the AFS income statement which reflects all taxes, duties, levies and other monies collected by SARS.

While the shortfalls in revenue collections as against budget were disappointing, they must be placed into context. The performance of SARS is ultimately dependent on the performance of the economy, and therefore when the economy performs below expectation the amount of tax available for collection is obviously reduced. More important is the fact that the transformation process under way at SARS, which is aimed inter alia at increasing efficiency and specifically at managing risk more effectively, is enhancing the agency's ability to obtain the maximum revenue possible for the state. The ten-year review of revenue performance which concludes this section makes this point eloquently.

Revenue performance 2003/04 Source of revenue (R million)	Printed Estimate	Revised Estimate	Actual result	Increase/ decrease on Printed Estimate	Increase/ decrease on Revised Estimate
Income tax	177 864	171 990	171 963	(5 901)	(27)
Persons and individuals	97 344	98 900	99 220	1 876	320
Companies	66 570	61 490	61 712	(4 858)	222
Secondary tax on companies	8 000	6 000	6 133	(1 867)	133
Tax on retirement funds	5 950	5 600	4 898	(1 052)	(702)
Value-added tax	81 000	81 000	80 682	(318)	(318)
Customs duties	10 429	8 500	8 479	(1 950)	(21)
Fuel levy	16 342	16 350	16 652	310	302
Excise duties	12 271	12 715	12 381	110	(334)
Skills development levy	3 600	4 000	3 896	296	(104)
Other taxes and duties	8 519	8 763	8 457	(62)	(306)
TOTAL TAX REVENUE	310 025	303 318	302 510	(7 515)	(808)
Non-tax revenue	4 157	6 705	6 581	2 424	(124)
Less: SACU payments	9 723	9 723	9 723	–	–
TOTAL BUDGET REVENUE	304 459	300 300	299 368	(5 091)	(932)

Table: Actual collections against the Printed and Revised Estimates

Note that an alternative way to represent the income tax collections is: the first portion being Pay-As-You-Earn collections of R94 593 million, and the second portion being the sum of personal income tax (paid by individuals and trusts) other than PAYE and company income tax, i.e. R66 339 million.

Revenue performance 2003/04 – Economic downturn has an impact (continued)

Taxes on income, profit and capital gains

Taxes on income, profit and capital gains amounted to R172,0 billion, which is R5,9 billion and R27 million less than the Printed and Revised Estimates, respectively. This deficit was the result of collections in respect of corporate income tax, STC (secondary tax on companies) and Tax on Retirement Funds falling below expectations.

Revenue from persons and individuals exceeded the Printed Estimate by R1,9 billion due to higher wage settlements and PAYE initiatives targeting, amongst others, unclaimed benefits from retirement funds. These initiatives yielded R716 million during the year under review.

Collections in respect of companies recorded a shortfall of R4,9 billion against the Printed Estimate. This was due mainly to an unanticipated reduction in profitability for export industries. Despite the high dollar-denominated commodity prices, the stronger rand meant that rand-denominated prices remained at lower levels than current in 2002/03. Furthermore, loss of orders to import competitors favoured by the strong rand exchange rate negatively affected profitability of local manufacturers.

However, the severity of these factors was partially offset by the application of paragraph 19(3) which generated R5,9 billion during the fiscal year (paragraph 19(3) refers to adjustments to companies' provisional tax payment calculations to ensure that provisional payments are more closely related to taxable profits).

The under-collection of Secondary Tax on Companies is attributable to lower profitability for, in particular, export-orientated and import-substitution industries.

Revenue from tax on retirement funds was lower than expected as a result of the effect of interest rate reductions on the interest income of retirement funds. Collections were R1,1 billion lower than the Printed Estimate and R700 million lower than the Revised Estimate.

Value-added tax (VAT)

VAT collections amounted to R80,7 billion, which is R318 million less than both the Printed and Revised Estimates. VAT collections on imports were negatively affected by lower import values due to the unexpectedly strong exchange rate. This was, however, partly offset by a corresponding reduction in VAT input claims (which resulted in lower refunds); and improved retail sales from the fourth quarter of 2003 (giving rise to higher collections of VAT levied on locally produced goods and services).

Fuel levy

Fuel levy receipts amounted to R16,7 billion, which is R310 million higher than the Printed Estimate. This over-performance is the result of enforcement efforts by SARS and slightly higher-than-expected fuel sales.

Excise duty

Excise duty collections totalled R12,4 billion, R110 million more than the Printed Estimate but R334 million lower than the Revised Estimate. The underperformance with respect to the Revised Estimate is attributable to a reduction in the expected collection in respect of beer, spirits and cigarettes.

Customs duty

Revenue from customs duty amounted to R8,5 billion, almost R2 billion less than the Printed Estimate. The appreciation in the value of the rand resulted in reduced receipts (customs duties are largely driven by the composition of imports, import volumes and the exchange rate). In terms of the Revised Estimate, collections came in very much as expected.

Skills development levy

Skills development levy receipts amounted to R3,9 billion, R296 million higher than anticipated. This was primarily as a result of the expansion of the register and higher-than-expected wage increases.

Other taxes

Revenue collections in respect of other taxes amounted to R8,5 billion, R306 million below the Revised Estimate. This was in part due to revenue from stamp duties being lower than expected.

Ten year review of the revenue performance in the main tax types

Major tax administration reforms over the last decade have improved efficiencies in the functioning of the tax system and have yielded equity gains through the broadening of the tax base.

Year	PIT R'm	CIT R'm	STC R'm	VAT R'm	Fuel levy R'm	Customs R'm	Other R'm	Total tax revenue R'm	GDP R'm
1994/95	45 445	13 777	1 304	29 288	8 351	4 247	11 363	113 775	497 170
1995/96	51 561	15 831	1 262	32 768	8 928	5 326	11 602	127 278	564 164
1996/97	59 909	19 060	1 338	35 903	10 392	6 518	14 212	147 332	635 183
1997/98	68 718	21 609	1 446	40 096	12 091	6 056	15 311	165 327	699 636
1998/99	78 176	22 822	1 931	43 985	13 640	5 986	18 304	184 844	752 646
1999/00	86 390	21 279	3 150	48 377	14 290	6 518	21 382	201 386	819 421
2000/01	86 939	29 956	4 031	54 455	14 495	7 854	22 604	220 334	914 634
2001/02	90 976	42 979	7 163	61 057	14 923	8 632	26 568	252 298	1 010 921
2002/03	94 924	56 326	6 326	70 150	15 334	9 331	29 819	282 210	1 149 890
2003/04	99 220	61 712	6 133	80 682	16 652	8 479	29 632	302 510	1 232 113

The benefits of these reforms have become tangible for taxpayers in the form of personal income tax relief of more than R61 billion since 1995. If reductions in rates of corporate income tax, the retirement fund tax and other domestic taxes are taken into account, the total amount of relief passed on to the economy as a whole is almost R72,8 billion.

Total tax revenue as a percentage of GDP increased from 22,9% in 1994/95 to 24,6% in 2003/04.

Revenue performance 2003/04 – Economic downturn has an impact

(continued)

Personal Income Tax (PIT)

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

Year	PIT R million	Y/Y change %	% of tax revenue	% of GDP
1994/95	45 445	19,4	39,9	9,1
1995/96	51 561	13,5	40,5	9,1
1996/97	59 909	16,2	40,7	9,4
1997/98	68 718	14,7	41,6	9,8
1998/99	78 176	13,8	42,3	10,4
1999/00	86 390	10,5	42,9	10,5
2000/01	86 939	0,6	39,5	9,5
2001/02	90 976	4,6	36,1	9,0
2002/03	94 924	4,3	33,6	8,3
2003/04	99 220	4,5	32,8	8,1

The PIT collection trend for the past ten years can be divided into two periods; the first six years, and the last four years. During the first period (1994/95 – 1999/2000), the year-on-year increases in PIT were between 10% and 20%, averaging 15%. Contribution of PIT to total tax collection also increased from 39,9% in 1994/95 and reached a high of 42,9% in 1999/2000, as did the PIT/GDP ratio (from 9,1% to 10,5%).

These increases were mainly due to:

- Relatively high real increases in household income
- Tax policy changes not fully offsetting the effect of fiscal drag
- Significant progress by SARS in narrowing the tax compliance gap

In the second period (2000/01 – 2003/04), the year-on-year increases in PIT collections were lower than 5%, with an increase as low as 0,6% in 2000/01. The contribution of PIT to total tax revenue collected dropped by 10,2% (from 42,9%) since it peaked in 1999/2000, contributing only 32,8% in 2003/04. The two main reasons for this development are:

- The tax relief granted to individuals, which reduced their tax payments in real terms
- Lower wage rate increases as a result of a lower inflation environment.

Company Income Tax (CIT)

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

Year	CIT R million	Y/Y change	% of tax revenue	% of GDP
1994/95	13 777	18,9	12,1	2,8
1995/96	15 831	14,9	12,4	2,8
1996/97	19 060	20,4	12,9	3,0
1997/98	21 609	13,4	13,1	3,1
1998/99	22 822	5,6	12,3	3,0
1999/00	21 279	(6,8)	10,6	2,6
2000/01	29 956	40,8	13,6	3,3
2001/02	42 979	43,5	17,0	4,3
2002/03	56 326	31,1	20,0	4,9
2003/04	61 712	9,6	20,4	5,0

For the first four years of the period under review, growth in CIT averaged 17%, with a moderate increase in the CIT/GDP ratio and in the contribution of CIT to total tax revenue. In 1998/1999, the growth in CIT was restricted by low economic growth, mainly due to the Asian crisis. In the 1999/2000 fiscal year, the tax rate applicable to taxable income was reduced from 35% to 30%. This resulted in a negative year-on-year growth rate and a decline in the CIT contribution to total tax revenue.

From 2000/01 to 2002/03, significant growth in CIT collections was experienced, due to:

- Robust growth in corporate earnings, which was underpinned by ongoing cost cutting, improved commodity prices and the depreciation in the rand which impacted positively on profit margins of export-orientated companies;
- Improved enforcement and compliance by SARS:
  - Adjustments to ensure provisional tax payments are 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 Woodmead, Sandton
  - Changes to the taxation of long-term assurance companies

The rapid growth in CIT collections resulted in an increase in the CIT/GDP ratio to 5%, and a contribution of 20,4% to total tax collections in 2003/04, as against 11,9% in 1993/1994. The robust growth in CIT since 2000/01 slowed somewhat in 2003/2004 as a result of the unfavourable economic conditions described above.

Revenue performance 2003/04 – Economic downturn has an impact

(continued)

Secondary Tax on Companies (STC)

Secondary Tax on Companies refers to taxes paid on profits distributed by companies.

Year	STC R million	Y/Y change %	% of tax revenue	% of GDP
1994/95	1 304	48,7	1,1	0,3
1995/96	1 262	(3,2)	1,0	0,2
1996/97	1 338	6,0	0,9	0,2
1997/98	1 446	8,1	0,9	0,2
1998/99	1 931	33,5	1,0	0,3
1999/00	3 150	63,1	1,6	0,4
2000/01	4 031	28,0	1,8	0,4
2001/02	7 163	77,7	2,8	0,7
2002/03	6 326	(11,7)	2,2	0,6
2003/04	6 133	(3,0)	2,0	0,5

The reduction in the STC rate from 25% to 12,5% in 1996/97 has reduced the propensity to issue shares in lieu of cash dividends, and a rapid increase in STC receipts was experienced. STC collections peaked in 2001/02 mainly as a result of higher corporate earnings distribution, especially in the resource and financial sectors. Resource companies declared special dividends due to higher profits.

A general reduction in distributions, particularly by mining companies, prompted a negative year-on-year growth rate in 2002/03. Contributing factors were expansionary programmes and distributions returning to normal levels off a high peak in the previous year. The lower profits recorded by export-orientated companies in 2003/04 contributed to a further decline in STC collections.

STC contributed only 2% to total tax revenue in 2003/04 after an almost 3% contribution during the peak year of 2001/02.

Value-added tax (VAT)

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

Year	VAT R million	Y/Y change %	% of tax revenue	% of GDP
1994/95	29 288	15,1	25,7	5,9
1995/96	32 768	11,9	25,7	5,8
1996/97	35 903	9,6	24,4	5,7
1997/98	40 096	11,7	24,3	5,7
1998/99	43 985	9,7	23,8	5,8
1999/00	48 377	10,0	24,0	5,9
2000/01	54 455	12,6	24,7	6,0
2001/02	61 057	12,1	24,2	6,0
2002/03	70 150	14,9	24,9	6,1
2003/04	80 682	15,0	26,7	6,5

To understand the year-on-year increases in VAT collections, it is important to discuss the factors that affect VAT collections:

- The trend in consumption expenditure

  From 1994 to 1997, consumers were prepared to spend and use credit extensively to finance their purchases, leading to relatively high levels of consumption expenditure. In 1998, consumption expenditure weakened as the prime overdraft rate shot up, job prospects became bleaker and households experienced an inordinately heavy debt burden. Since 2000/01, growth in household consumption expenditure has been buoyed by income tax reductions and lower bank lending rates.
- The increase in prices

  Higher product prices, associated with the depreciation of the rand exchange rate and higher international oil prices, have also contributed to the increase in VAT collections.
- Improved audit and enforcement by SARS

  The increase in the VAT/GDP ratio to above 6% since 2000/01 can be attributed to SARS's actions, coupled with a buoyant domestic demand.

Revenue performance 2003/04 – Economic downturn has an impact

(continued)

Fuel Levy

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

Year	Fuel Levy R million	Y/Y change %	% of tax revenue	% of GDP
1994/95	8 351	6,2	7,3	1,7
1995/96	8 928	6,9	7,0	1,6
1996/97	10 392	16,4	7,1	1,6
1997/98	12 091	16,4	7,3	1,7
1998/99	13 640	12,8	7,4	1,8
1999/00	14 290	4,8	7,1	1,7
2000/01	14 495	1,4	6,6	1,6
2001/02	14 923	3,0	5,9	1,5
2002/03	15 334	2,8	5,4	1,3
2003/04	16 652	8,6	5,5	1,4

The declining trend in Fuel Levy receipts is the result of two main factors:

- Fuel consumption

  After a relatively buoyant fuel consumption period from 1994/95 to 1997/98, the growth in fuel consumption slowed down, and even decreased, from 1998/99 to 2000/01. Declining sales were the result of the rapid increases in the fuel price during this period, caused by higher international crude oil prices and the depreciation of the rand. Since 2001/02, fuel consumption has been much stronger, due to stronger GDP growth.
- Fuel Levy rate

  During the entire period under review, the Fuel Levy rate was increased on an annual basis (during the Budget speech), except for 2002/03 when, due to the impact of the depreciation of the rand on the pump price of fuel, the rate was left unchanged.

Customs Duty

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

Year	Customs Duty R million	Y/Y change %	% of tax revenue	% of GDP
1994/95	4 247	24,4	3,7	0,9
1995/96	5 326	25,4	4,2	0,9
1996/97	6 518	22,4	4,4	1,0
1997/98	6 056	(7,1)	3,7	0,9
1998/99	5 986	(1,2)	3,2	0,8
1999/00	6 518	8,9	3,2	0,8
2000/01	7 854	20,5	3,6	0,9
2001/02	8 632	9,9	3,4	0,9
2002/03	9 331	8,1	3,3	0,8
2003/04	8 479	(9,1)	2,8	0,7

Since early 1995, tariff reductions and a considerable rationalisation of tariffs have been achieved in terms of World Trade Organisation commitments. This has had a negative impact on Customs Duty collections. Customs Duty collections were even further affected by negative trading conditions in 1998/99.

During 2000/01, collections were boosted as the value of merchandise imports increased considerably, due to the depreciation of the rand. Despite the easing of tariffs, the overall growth in Customs Duty collections has been robust thanks to the continued opening up to international trade and transactions.

Customs Duty collections are sensitive to:

- Changes in the composition of imports, and increased importation volumes of items such as capital equipment, appliances and mineral products that attract little or no duty;
- Fluctuations in import volumes in response to the international prices of imported goods;
- The value of the rand: while the depreciation of the rand supported collections during the first nine years, the appreciation of our exchange rate during 2003/04 resulted in a decrease in Customs Duty collections.

"The past year saw significant advances in our long-term drive to become a more service-oriented organisation."

Pravin Gordhan

Service orientation – Treating taxpayers as valued customers

Customer service is one of the pillars on which SARS is rebuilding itself. It is based on the realisation that building the desired culture of compliance will be aided by making SARS customer-focused. Important principles here are understanding what the taxpayers need in order to simplify the filing of tax returns, treating them as valued customers, and delivering prompt service. Another important part of this drive is to communicate effectively with taxpayers so that they are made aware not only of their obligations but also of the far-reaching social and economic programmes which their tax rands are required to fund.

"SARS at your service" has become the credo of the organisation, and describes the quality of the engagement we wish to have with our customers. This strong service orientation is in accordance with the principles of Batho Pele (People First) and the core values of SARS.

Great strides have been made, and continue to be made, in transforming SARS into a flexible, professional, and service-oriented organisation, which is easy for taxpayers to deal with and in whose integrity they can have confidence. This section will cover those initiatives put into place during the year that are designed to enhance the customer focus of SARS, and will report on the metrics that demonstrate the effectiveness of our efforts to build the tax base and increase the amount of money available to the fiscus.

Becoming more customer-focused

Customer relationship management strategy

An initiative to define and entrench a customer relationship strategy is under way. It will integrate and align SARS's processes and systems in order to become a customer-centric organisation. In time, this strategy will govern much of the organisation's development in the future. As part of this process, the nature of service is being defined, and formal channels for taxpayer feedback are being investigated.

Single view of the taxpayer

A complex software system was implemented that allows the previously isolated systems running SARS's eight main taxes to speak to each other. In the past it took weeks to obtain a consolidated view of a taxpayer. This impeded reconciliation of accounts, and often resulted in taxpayers being given a refund under one tax when they owed a larger amount under another. Today it takes only a few seconds to gain a holistic view of the taxpayer. The impact on SARS's revenue has been dramatic, with the system more than paying for itself.

Call centre upgrades

In response to the demand by taxpayers for greater accessibility, and by its own officers for the information they needed to address taxpayers' queries, SARS has dramatically upgraded the capability of its call centres. By upgrading the equipment, installing a sophisticated customer relationship management system and automatically routing calls to the region that has the most capacity, SARS is able to provide a much more professional service. Call centre statistics are constantly being monitored to ensure that customer service falls within the accepted international benchmarks.

E-SARS

The internet represents an opportunity for SARS to improve its service dramatically. E-Filing grew hugely in popularity during the year under review. It creates an electronic channel for a variety of transactions between taxpayers, SARS and third parties like banks. More than 100 000 taxpayers have already registered for the service, a growth of 216% over the previous year.

Service orientation – Treating taxpayers as valued customers (continued)

A solid foundation has been laid for the expansion of the facility over the next year or two, to include services such as e-stamps, e-transfer duty and Internet access that allows taxpayers to amend their data on SARS's records.

Key e-filing statistics for the last two years:

	2003/04	2002/03	% change
Number of registrations	127 531	40 352	216
Number of returns submitted	122 219	51 396	138
Number of payment transactions	112 794	26 334	328
Value of payments received	R3 930 173 041	R2 025 112 242	94

Taxpayer Service Charter

During the year of 2003 SARS released a draft version of its Taxpayer Service Charter which binds SARS to service delivery standards and to carry out independent taxpayer satisfaction surveys – these are reported on publicly.

Closer relationships with accounting partners

A current initiative to work more closely with the accounting profession is being piloted in KwaZulu-Natal. This is aligning SARS and its customers more closely, and positive spinoffs already noted are:

- Quicker pace (cycle times) of revised assessments
- Reduced need for records required during revised assessments
- More efficient staff deployment in KwaZulu-Natal

Customer satisfaction programme at Customs

Five major Customs offices were provided with electronic keypads which provided real-time feedback on the level of client satisfaction. A manual version of the keypad with a measurement/analysis tool was rolled out nationally in February 2004.

Guides for clients published by Customs

In its drive to facilitate trade, Customs has undertaken several customer-focused initiatives. Two guides were published to assist customers to gain the maximum benefit from SARS. The ad valorem guide provides information not only about the responsibilities of clients but also about their rights and what they can expect of SARS. Similarly, guides for the correct filling in of forms DA63, 64 and 66 have been made available on the Internet, with the aim of reducing the rejection rates on refunds claimed on these forms.

Optimising processes and business methods:

- The Companies and Intellectual Properties Registration Office (CIPRO) interface was enhanced to include the following updates:
  - Notification of changes to registered details
  - Notification of liquidation
- Returns (filing season):
  - Changes made for the issuing of the 2003 and 2004 returns that will assist in streamlining the assessment process
  - The online capture screens changed completely to enable capturing data on a maximum of two screens
  - Income, deductions and allowances can now be captured on one screen
  - All registration functionality was enhanced to accommodate the addition of the physical address
  - The ability to issue returns per return type (taxpayer classification) was introduced

- Extensions: Operational and policy enhancements:
  - Normal and special extensions were split to assist with a more flexible policy
  - Functionality to control the extension period per return type and financial year-end was added.
- Amnesty:
  - Functionality was developed for the new Amnesty Unit to capture amnesty applications received from taxpayers.
- Refunds:
  - Refunds will not be issued electronically if bank details have not been approved
  - The refund job was enhanced by creating online functionality for the control of the issuing of refunds.
- Multiple area access (MAA) for Siyakha, which will enable SARS users to access taxpayer records outside of their area restriction
  - The registration, assessment and certain recovery functions were enhanced to accommodate MAA.
- Single view:
  - Phase one was implemented, which reduced risk.
- Continuous implementation and roll out of the PAYE automated reconciliation process for KwaZulu-Natal and Western Cape (all the other regions will be rolled out before end of this financial year).
- Additional procedures were introduced to ensure control over the stock of employee tax certificates (IRP5s) to be issued/cancelled etc.
- The data clean up for user IDs and profiles on existing core tax systems – especially for the Siyakha offices – this ensures that user profiles are linked to the correct functionality.
- The Payment Allocation System (PAYFIN) revamp was implemented in February 2004 to improve the payment system. The revamp included the implementation of additional functions, as well as reports through which payment tracing could be more effective.

Tax register

The tax register is the number of active taxpayers, and therefore a primary objective is to grow the register. The level of growth is influenced by economic conditions, tax policy, legislative amendments, tax base broadening activities and the overall compliance climate. It is hoped that SARS's increasing customer focus will help to grow the tax register, and so contribute to reducing the tax gap.

The composition of the register is as follows:

	2003/04 %	2002/03 %
Individuals	67,1	66
Companies	20,1	21
PAYE	4,3	4
VAT	8,4	9

The composition of the register has remained relatively stable, with the greatest proportion of the register (87,2%) attributable to income tax (individuals and companies).

Service orientation – Treating taxpayers as valued customers (continued)

During the financial year, growth was recorded in all registers, resulting in an overall expansion of the register by 8,7% (2002/03: 9,9%). This amounts to an increase of 509 130 taxpayers.

	Cases on register		% change	
Category	2003/04	2002/03	Current year	Previous year
Income tax	5 563 284	5 106 512	8,9	10,1
Individuals	4 280 129	3 885 090	10,2	9,3
Companies	1 283 155	1 221 422	5,1	12,9
PAYE	274 764	252 589	8,8	15,0
VAT	536 281	506 098	6,0	5,5
Total	6 374 329	5 865 199	8,7	9,9

The increase in the various registers was caused by a variety of factors, including:

- Natural growth of the tax base.
- Increase in the overall effectiveness of portfolio maintenance (management of registered taxpayer particulars) due to the formation of dedicated new registration teams.
- An improved compliance environment resulting from more focused and visible enforcement actions.
- An increase in the company register resulting from the CIPRO link to the registrar of companies, thus reducing the chances of non-registration.

Measuring customer service

In terms of the Taxpayer Service Charter and its core values, SARS is committed to delivering good service to its customers. Much effort is expended in measuring how satisfied customers are, and in profiling the service itself. These studies are all fed into the planning process so that continuous improvement is enabled.

Turnaround time for generating an assessment from the receipt of a return

Income tax — 85 – 90% of the returns are captured within 30 days of receipt for non-peak periods;
35 – 40% of the returns are captured within 30 days of receipt for peak periods.

Increased compliance, due in part to a successful filing campaign, increased compliance by 30% during the year. This sudden influx of work had the effect of increasing the average turnaround time. The majority of the returns received before July was processed within 30 days, but the turnaround for those received after July increased to over 40 days.

Customer satisfaction measured

Customer service is regularly measured by both internal and external surveys to determine the level of taxpayer satisfaction. The following surveys were performed:

Customer feedback system	79% customer satisfaction rating (undertaken at eight of the top ten branches) (2003: 79%)
Manual exit surveys	87% customer satisfaction rating (2003: 95%)
Call-back surveys	94% customer satisfaction rating (2003: 94%)

SARS At Your Service

What type of service do the branches offer?

The quality of service given to taxpayers at branches is also monitored through the collection of certain statistics. These are used to help capacity planning for the future.

The following figures are derived from eight top branches.

The waiting time period

2004		2003	
Rating	%	Rating	%
Waited very long	7	Waited very long	7
Waited long	6	Waited long	6
Waited not long	38	Waited not long	36
Served immediately	48	Served immediately	51

Time to resolve a counter query

Service centre	6 minutes (7 minutes in 2003)
Call centres	2,25 minutes (3 minutes in 2003)

The average number of queries handled for the year represents 43% (4 688 million) of the total number of taxpayers on the register (10 898 million).

Customer service through education

A number of initiatives were undertaken to educate customers about tax, and how to be a good taxpayer.

- Outreach programmes to government schools and other educational institutions covered the following topics:
  - Tax registration programme
  - Assisting taxpayers with the completion of tax return
  - Seminars on taxation in South Africa
  - Establishment of tax focus groups in partnership with major stakeholders
  - Outreach programmes to various industries
  - Seminars and information kiosk on various tax subjects

- Educational campaigns focused on:
  - Capital Gains Tax
  - PAYE reconciliation process
  - VAT – Input and output taxes
  - Allowances
  - Investment and capital income
  - Tax deductions, for eg medical expenses and travelling

Service orientation – Treating taxpayers as valued customers (continued)

Assessment

The operational productivity of SARS is largely dependent on efficient processing of taxpayer returns. The assessment cycle comprises registration, issuing of returns, assessment activities and maintenance of the taxpayer account, regardless of the tax type. The primary objective is to achieve high quality processing and optimal productivity. The quality of the assessment service is an important contributor to the service levels experienced by taxpayers, and so feeds back into the compliance environment.

Key indicators of assessment productivity are reflected by the levels of:

- Returns processed
- Returns unassessed
- Quality

Returns processed

This indicator reflects the work executed in the assessment cycle during the current financial year:

	Returns processed		% change	
Category	2003/04	2002/03	Current year	Previous year
Income tax returns	4 086 746	3 832 805	6,6	1,9

The 6,6% increase in return volumes processed is a direct consequence of improved management of the assessment cycle and the enhancement of the processing efficiencies within the assessment function. This was achieved through capacity enhancements and workload balancing.

Rapid processing room concept

Rapid processing rooms are based on:

- Dedicated staff per function, with an emphasis on streamlining the various activities;
- Workflow design to support bulk processing;
- Appointment and training of temporary staff to achieve rapid turnaround times;
- Limiting interference from the frontline to enable uninterrupted processing.

This approach has been successful in ensuring the timely processing of large volumes of Income Tax, VAT, PAYE and provisional tax returns. Rapid processing rooms will be phased out as Siyakha is implemented within the Gauteng, Free State and Eastern Cape regions.

	Number of returns		% change	
Income tax returns processed	2003/04	2002/03	2003/04	2002/03
Four rapid processing rooms	2 984 614	2 127 974	40,26	53,6

SARS At Your Service

Income tax returns unassessed

Work in progress in the assessment of returns at 31 March 2004 is as follows:

Category	Returns unassessed 2003/04	Returns unassessed 2002/03	% change Current year	% change Previous year
Companies	91 705	54 890	67,1	(31,5)
Individuals	286 209	205 771	39,1	(12,0)
Trusts	22 890	13 822	65,6	(41,6)
Total	400 804	274 483	46,0	(18,7)
Active cases	5 563 284	5 106 512	8,9	10,1
% unassessed of active register	7,2	5,4		

The number of unassessed returns has increased by 126 321 since the 2002/03 tax year. This increase was a direct consequence of the 8,9% growth in the active register as well as the increase in taxpayer compliancy levels.

Quality improvement

Revised assessments (reworks)

The percentage of revised assessments which occur as a result of an assessment error (errors which emanate from various sources) or reworks, has declined significantly. During the previous tax cycle, approximately 9,4% of all assessments raised were reworked or revised, and for the 2003/04 filing cycle, the percentage has decreased to 8,88%. SARS has launched several initiatives over the last two years to ensure that the assessment errors decrease to an acceptable level. These included staff training, quality awareness, improving of experience levels and improved templates. In addition, taxpayer education and tax consultant awareness have also contributed to the decrease in the number of revised assessments.

Tax year	Assessments raised	Assessments revised	% change
2003/04	4 086 746	363 034	8,88
2002/03	3 832 805	358 796	9,36

Taxpayer objections and dispute resolution:

A new alternate dispute resolution process was introduced this year. It has proved popular with taxpayers since it costs less and takes less time.

Service orientation – Treating taxpayers as valued customers (continued)

Future challenges

Three core goals are increased revenue, improved quality and efficiency. In line with the customer-centred business model, all branch and centre operational plans were contextualised against relevant revenue targets. The emphasis has thus been shifted from files and documents, to the inherent and implied revenue worth of each assessment. Quality control and assurance has thus attained new meaning, since revenue seepage and equalisation of debt prior to refunds being issued, will be pivotal.

To ensure the latter, current processes and procedures are being revisited. PIM (Process and Information Management) teams have already started analysing the pipelines within the rapid processing units. Quick and relatively simple gains are being implemented, whilst business targets have been revisited.

SARS Large Business Centre

Large corporations, numbering only a few hundred, contribute a large share of SARS's total revenue. This, together with the fact that their tax affairs are very complex, warrants the creation of a dedicated facility to deal with their tax affairs. The Large Business Centre (LBC) will be an integrated facility that provides SARS's administrators and taxpayers alike with the information and tools they need to assess liability across all the relevant taxes – quickly, accurately and collaboratively.

Planning for the implementation of the SARS LBC has progressed well, and the expected launch date is September 2004.

New tax return forms

Tax return forms are being enhanced to make them more user friendly.

Provisional tax development

Several developments in the handling of provisional tax will be introduced in the year ahead. These improvements are designed to make the administration of the tax less onerous on taxpayers and more efficient to administer. They include:

- Issue of new Provisional Tax returns (IRP6s)
- Changes to estimated amount calculated
- Capture of IRP6s
- Final demands on IRP6s
- Changes to provisional consolidation for third periods

Continued roll-out of electronic channels

SARS's drive to become more customer-focused uses the internet and other electronic channels extensively. The introduction of a suite of services under the banner of E-Filing will continue. Future developments include ad hoc payments, Standard Income Tax on Employees (SITE) return submission, stamps submission, and Company Income Tax return (IT14) submission.

Compliance – Maximising voluntary compliance and reducing the tax gap

In its drive to support Government's social and economic development goals by increasing the flow of money into the fiscus, SARS has developed a clear compliance strategy. This strategy has a number of components aimed at building a culture of voluntary compliance through both improved service delivery to clients and more effective enforcement of tax legislation. A three-pronged approach encourages compliance, discourages non-compliance and strives to eliminate all opportunities for evasion. The ultimate goal is to reduce the tax gap, which is the difference between tax collected and tax due in terms of all applicable regulations.

SARS's compliance strategy is also designed to ensure that all citizens bear the financial responsibilities of the state equitably. The compliance strategy has several elements:

- Differentiated engagement with taxpayers driven by taxpayer behaviour;
- Full view of the taxpayer's affairs and circumstances across all SARS products and processes;
- Managing the taxpayer throughout his or her lifecycle (cradle to grave approach);
- Focusing on critical processes to maximise voluntary compliance such as pre-engagement, registration, filing and assessment supported by service, information and education;
- Fostering a community approach to taxpaying that seeks collaboration with taxpayers and traders, tax and trade professionals, and third parties;
- Targeting high risk areas for credible enforcement supported by random sampling for maximum visibility and deterrence.

This strategy is dependent on the success of the Customer Service initiatives under way within the organisation to underpin the culture of voluntary compliance. These are covered elsewhere in this Annual Report, and this section will deal specifically with those programmes designed to support the drive to understand more closely the nature of the tax gap, and to close it. These areas are covered primarily by the work of the Enforcement and Law Administration divisions.

Ensuring compliance

The Enforcement division plays the major role in ensuring that taxpayers comply with the relevant legislation. It includes audit, enforced collections (debt and outstanding returns), and criminal investigation functions. The nature of the functions performed are varied, but can generally be categorised as control and deterrence on the one hand and the investigation of specific allegations of non-compliance on the other.

The focus is to improve compliance through effective and timely detection, measurement, correction and deterrence of tax transgressions. Successful industry-related campaigns as well as a number of high profile cases have resulted in an increased perceived likelihood of being investigated, an improvement in citizens' awareness of their responsibility to pay tax, and an increase in voluntary disclosures in respect of past non-compliance. However, much remains to be done in adequately combating aggressive tax planning. Other areas which remain in need of focus are organised crime and the cash/informal economy.

SARS continues to promote tailored responses to taxpayers based upon their behaviour, compliance risk levels and history. An important principle is to improve overall levels of compliance while reducing the actual costs of compliance to taxpayers and SARS itself.

Getting the legal framework right

One of the cornerstones for a successful compliance strategy is to ensure that SARS operates effectively within a legislative framework that supports it. The range of legislation which governs the activities of SARS is very broad, and ranges from the Constitution down to the most detailed Customs rules.

Compliance – Maximising voluntary compliance and reducing the tax gap (continued)

To that end, SARS develops and interprets the legislation it administers, and also resolves disputes by way of dispute resolution or litigation.

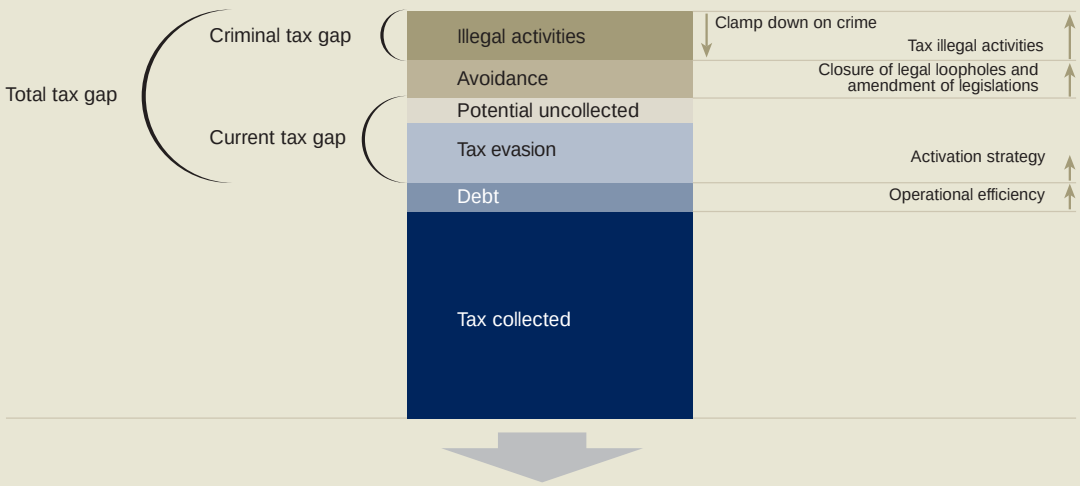
During the year under review, numerous initiatives have helped to further SARS's overall compliance strategy through transforming operational units responsible for compliance.

- The Enforcement head office was restructured to clarify its dual roles of providing strategic and operational leadership and control;
- A greater emphasis on quality control yielded positive operational results;
- The Siyakha process was launched for Gauteng, following successful implementation of tax centres in KwaZulu-Natal and the Western Cape. Further roll-out will continue in 2004/5;
- During the year, the Central Enforcement Unit (CEU), which primarily conducts criminal and civil investigations, was formed through the combination of various specialised units;
- The improvement of skills and competencies continued to receive attention during the year. Training has markedly improved performance and planning for the next year will build on these results. All training interventions are done in collaboration with the SARS Academy;
- Branch offices were visited in order to workshop the latest amendments to the Value-Added Tax Act. Three tax treaty workshops were offered for SARS staff, two for other regional tax administrations, and assistance was offered with respect to another five workshops on international tax topics in the SADC region.

The tax gap

During the year under review, the drive to understand the tax gap continued, while the revenue estimation and modelling processes were enhanced. These insights are continuously used to inform interventions directed at reducing the tax gap.

Anatomy of the tax gap



The gap exists because some individuals and businesses understate income, overstate deductions, credits or exemptions, or make calculation errors on their returns. It further includes taxpayers who do not file returns that they are required to file, or file after they were legally due. Finally, the gap includes errors in assessments made by SARS.

SARS's compliance strategy is having an effect in reducing the tax gap. Some of the observed trends in this regard are:

- Greater media interest in customs and tax matters, raising the profile of SARS's actions, but also serving the important purpose of raising the level of awareness in respect of taxpayer obligations;
- Larger organisations are increasingly aware of their obligations, with senior management taking a personal interest in tax and customs matters. This facilitates both proactive compliance as well as the quicker resolution of disputes in instances where non-compliance has been detected;
- Indications of proactive actions by taxpayers to rectify non-compliance;
- An increase in both the quality and quantity of suspicious activities reported to SARS by citizens;
- A new industry is emerging in respect of tax/customs education and advice. SARS engages with practitioners to ensure that the needs and requirements of both SARS and taxpayers are met;
- An analysis of the taxpayer register for the period 1999 to 2003 indicates:
  - Growth of 9,89% in individuals registered
  - Growth of 11,87% in companies registered

  (Detailed statistics relating to the tax register may be found in the Customer Service section).

SARS remains committed to reducing the different manifestations of the gap.

Risk profiling

During the year under review, the SARS Business Intelligence Unit was established to manage the national roll-out and expansion of the Regional Risk Profiling Unit. As part of this unit's work, a list of industry and cross-industry risk areas was compiled, and a strategy for improving overall compliance devised. These areas are:

- Financial services
- Trademarks
- Petroleum and chemical
- Tobacco
- Cash and carry
- Government tenders
- Gaming and leisure
- Mining
- Importers and exporters
- Taxi

Risk profiling was continued and expanded to all regions as a case selection methodology to improve overall audit effectiveness. The risk profiling methodology has contributed to a marked improvement in audit results over the past few years, with further refinement expected to yield even greater returns in the coming years. It is estimated that it will take a further two to three years for the risk-profiling platform to reach maturity.

Audit

The audit division continued its focus on the following operational changes and approaches to support the enforcement of the compliance strategy:

- Obtaining a better sense of the taxpayer's affairs through an improved audit methodology;
- Improved quality in cases selected for audit, resulting in fewer cases investigated but an improvement in yield per case;
- An increased emphasis on coordinated audits that signals a holistic approach to the taxpayer's compliance obligation;

Compliance – Maximising voluntary compliance and reducing the tax gap (continued)

- Standardised audit procedures ensuring an improvement in the quality of audit work;
- Formal training sessions focusing on audit techniques, resulting in improved quality of work;
- An improved quality review process positively impacting on the number of objections and appeals;
- Roll-out of the case management and tracking (CMT) system to all regions to improve the reporting, tracking and turnaround of audit work.

More effective auditing

During the year under review, 58 054 audits were conducted, which represents 79% of the target set for the period. The setting of targets is a management tool to motivate staff and to measure performance, and is receiving attention in this context.

Various factors contributed to the lower number of cases audited in comparison to the prior year but with a comparative improvement in yield per case. The definition of what constitutes an audit was revised, and now excludes screening activities, hence the reduction in number of audits. There was also a more focused approach on coordinated audits, focusing on the taxpaying entity holistically. Coordinated audits are conducted by teams consisting of various tax specialists. Effectiveness should improve in the coming year as team members become more familiar with this approach. The expansion of screening and risk profiling capabilities, formal training interventions and improved quality reviews also contributed to the improvement in the yield per case.

Audit coverage

	2003/04		2002/03	
Tax type	Number of cases	Coverage as % of the tax register	Number of cases	Coverage as % of the tax register
VAT	29 351	5,50	52 071	10,20
PAYE	1 441	0,55	3 347	1,30
Income Tax	26 324	0,50	76 151	1,40
Other	938	N/A	3 966	N/A
TOTAL	58 054		135 535	

Value of additional tax assessments

	Audit result R'000		% change	
Tax type	2003/04	2002/03	2003/04	2002/03
VAT	4 355 853	5 881 363	(25)	52
PAYE	974 041	1 313 585	(25)	159
Income Tax	14 883 172	11 699 874	27	128
Other	194 156	1 856 320	(89)	126
TOTAL	20 407 222	20 751 142	(1,6)	101

SARS At Your Service

Strike rate, additional tax assessment per case and per auditor

	2003/04	2002/03
Strike rate	52%	52%
Average additional tax assessment per case	R351 521	R151 296
Average additional tax assessment per auditor	R20 165 241	R14 126 032

Outstanding returns

Returns issued to taxpayers for payment and/or return filing must be submitted to SARS in terms of legislation. Outstanding returns arise when a return has not been received despite an existing obligation to do so. The number of outstanding returns reflects the incidence of non-filing. Clearly, the management of outstanding returns is essential to contain the size of the tax gap. Another factor that adversely affects processing volumes and the flow of funds to the fiscus is the granting of extensions. SARS has tightened the criteria for the granting of extensions and actively manages the process.

Outstanding returns at year-end

	Number of outstanding returns		% change	
Type of return	2003/04	2002/03	Current year	Prior year
Income Tax (individuals)	2 100 274	2 000 230	5	10
Income Tax (companies)	1 299 682	1 141 784	14	15
PAYE	1 117 847	861 348	30	0
VAT	919 359	630 819	46	14
TOTAL	5 437 162	4 634 181	17	10

The increase in the number of outstanding returns is receiving attention by way of the outstanding returns project implemented during the prior year. These statistics should be interpreted taking into account the growth in the total tax register (10% and 9% in the 2003 and 2004 financial years respectively). There is also a significant backlog of outstanding returns from prior years of assessment, especially those for companies and trusts, which directly impact on work volumes and collection of revenue.

The number of outstanding returns may be misleading as outstanding monthly PAYE, alternate-monthly VAT and annual Income Tax returns for each taxpayer are calculated in these totals. Accordingly, the number of outstanding returns does not correlate with the number of non-filing taxpayers. An enhanced outstanding returns management system will be implemented in the coming year.

Debt

An online debt system was successfully implemented and rolled out to all the offices during the course of the year. This system assists in the proactive management of the debtor's book and will be rolled out to Customs debt in the coming year.

A new debt collections strategy was implemented during the year under review. The strategy encompasses the classification of debt into four focus areas, namely existing, enforcement, assessing and Customs debt. A further segmented approach was

Compliance – Maximising voluntary compliance and reducing the tax gap (continued)

followed by way of the prioritisation of debt, focusing on the top 300 debt cases, suspended cases (taxpayers with address unknown and taxpayers who ceased operations) as well as estates. The debt equalisation process, whereby amounts owed to and by taxpayers were set off against each other, received an increased emphasis during the year.

Debt (before adjustments and excluding current debt) stayed virtually unchanged as compared with the previous year. This is evident from the decrease in the percentage growth of debt from 44% in the previous year to 4% in the current year. The following tables illustrate variances in terms of growth in debt, composition of debt and age analysis of debt.

Issues that contributed to variances are:

- A material increase in the tax register;
- An increased emphasis was placed on addressing debt classified under adjustments. Allocation of effort to this area of debt did not always translate into money collected, due to the nature of the debt. Debt relating to taxpayers with addresses unknown and taxpayers who have ceased operations (suspended cases falling under adjustment debt) increased by 16% during the year under review;
- The outstanding returns strategy initiative resulted in more debt.

Outstanding debt at year-end

Debt type	31 March 2004 R billion	31 March 2003 R billion
Income Tax (individuals)	11,9	10,1
Income Tax (companies)	13,5	12,7
PAYE	10,5	12,1
VAT	20,3	21,1
Total before adjustments	56,2	56,0
Less: Unallocated receipts	1,6	2,3
Less: Objections and appeals	8,7	13,0
Less: Estates and liquidations	6,9	5,5
Less: Provisions for write-offs	3,5	3,2
Total after adjustments	35,5	32,0
Plus current debt (debt due but not enforceable)	8,2	6,1
Total after adjustments and including current debt	43,7	38,1
Total tax revenue	302,5	282,2
Debt before adjustments as a % of total tax revenue	18,6%	19,8%
Debt after adjustments as a % of total tax revenue	11,7%	11,3%

SARS At Your Service

Composition of debt at year-end (excluding current debt)

	R billion		% composition		% change in register	
	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03
Income Tax	25,4	22,8	45	41	9	10
VAT	20,3	21,1	36	38	6	6
PAYE	10,5	12,1	19	22	9	15
TOTAL	56,2	56,0	100	100		

Age analysis of debt at year-end (including current debt)

	R billion Debt at		% change	
	2003/04	2002/03	2003/04	2002/03
Interest	7,9	7,3	9	43
1 – 8 months	7,4	10,4	(29)	5
> 8 months	40,9	38,3	7	58
Current debt	8,5	6,1	39	56
TOTAL	64,7	62,1	4	44

Criminal investigations

The primary focus was on revenue-related crimes in order to enhance the level of compliance among the taxpaying population. In this regard a distinction was drawn between cases which are purely of an administrative nature (i.e. predominantly non-registration and non-filing) and those cases relating to fraudulent activities. A conscious decision was taken to focus on prosecutions. Consequently no revenue target was set for criminal investigations.

Key achievements during the period under review were:

- A continued emphasis on co-operation and engagement between head office and branch offices, and between SARS's divisions, to enable successful prosecutions;
- Training on tax policy and legislation was provided to a number of prosecutors, including some at the Commercial Crimes Court;
- The results achieved during 2003/04 represent a 96% conviction rate.

Prosecutions are handled by the National Prosecuting Agency (NPA). SARS is in the process of assisting the NPA to build a tax and Customs prosecuting capacity.

Compliance – Maximising voluntary compliance and reducing the tax gap (continued)

Results for the current year

	2003/04	2002/03
Cases handed over for prosecution:		
• Administrative cases	3 836	4 172
• Serious cases	697	332
Cases successfully prosecuted:		
• Administrative cases	1 438	842
• Serious cases	120	64

Enabling legislation

During the period under review, several pieces of legislation were drafted to give effect to the proposals announced by the Minister of Finance. The most high profile of these was the Exchange Control Amnesty and Amendment of Taxation Laws Act, 2003. Apart from providing for various rate adjustments announced in the 2002 Budget, this legislation provided for an exchange control and related tax amnesty for residents with unlawful foreign exchange holdings. The legislation was particularly challenging to draft in view of the secretiveness of those affected by the legislation, and SARS worked closely with the National Treasury, the South African Reserve Bank and other stakeholders. Two sets of regulations were issued to resolve uncertainties, anomalies and incongruities that were detected as the amnesty process unfolded. Preliminary indications are that the amnesty process has been a success, with over 40 000 applications received by the final deadline of 29 February 2004.

The Revenue Laws Amendment Act, 2003, introduced a number of significant changes intended to protect the tax base and to promote trade and investment. Some of the more significant amendments related to the:

- Deferral of all taxation on the disposal of capital assets by a business where the proceeds are reinvested, to assist business cash flow and encourage investment;
- Ring-fencing of losses of certain secondary trades carried on by individuals to counter attempts to claim disguised personal expenditure for tax purposes;
- Participation exemption in respect of foreign dividends to encourage the repatriation of foreign earnings where the resident shareholder has significant influence over the company declaring the dividend;
- Reporting of certain transactions to SARS when they take effect to identify tax avoidance schemes more quickly;
- Establishment of a system for the licensing and operation of degrouping depots to facilitate imports and exports by way of air;
- Imposition of an environmental levy in respect of plastic bags in accordance with environmental policy.

Understanding what the law means

In line with its strategy to build compliance by meeting the needs of its taxpaying clients, SARS releases documents aimed at helping businesses, individuals and tax consultants gain certainty about the way certain legislation will be applied. The following were published during the course of the year:

SARS At Your Service

Guides

- Dispute Resolution
- Public Benefit Organisations
- Residence Basis of Taxation for Individuals
- Small Business
- Taxation in South Africa
- Taxes and Tax Incentives in South Africa
- VAT Guide for Vendors
- VAT Welfare Guide

Interpretation Notes

- Interpretation Note 4 updated – Residence of an Individual
- Interpretation Note 9 updated – Small Business Corporations
- Interpretation Note 15 – Late Objections
- Interpretation Note 19 – Year of Assessment
- Interpretation Note 20 – Learnership Allowance
- Interpretation Note 21 – Regional Establishment Levies
- Interpretation Note 22 – Public Benefit Organisations and Transfer Duty
- Interpretation Note 23 – Estimated Assessments: Foreign Funds or Assets
- Interpretation Note 24 – Public Benefit Organisation Trading Rules
- Interpretation Note 25 – Residence in Year of Death or Insolvency
- Interpretation Note 26 –Taxation of CCMA Awards to Employers and Employees
- General Note 32 – Late Interest Payments
- Retirement Fund Practice Note 01/04 – Payment of Annuities in Arrears

Customs Notices published

- Notices amending schedules to the Customs and Excise Act – 161
- Notices amending the rules to the Customs and Excise Act – 25

Rulings

To help provide certainty for its taxpayers and promote compliance, SARS issues rulings on certain transactions as requested.

	2003/04		2002/03	
Type	Number	Target	Number	Target
Direct taxes	260	120 days	57	120 days
Indirect taxes	307	36 days	50	36 days

The substantial increase in rulings stems from the increased provision of assistance to SARS branch offices and increased guidance in respect of amendments in recent years relating to employment income, allowances and deductions under the Income Tax Act, 1962, as well as amendments to the Value-Added Tax Act, 1991.

Dispute resolution

A new dispute resolution process for tax-related disputes came into effect at the beginning of the year under review. This process is more structured, provides for specific timelines for taxpayers and SARS, and provides for alternative dispute resolution in addition to litigation through specialised tax boards and tax courts.

Compliance – Maximising voluntary compliance and reducing the tax gap (continued)

Alternative dispute resolution

	2003/04
Settled	42
Conceded by SARS	32
Withdrawn by taxpayer	13
Referred to litigation	48
Total	135
Pending	143

Alternative dispute resolution has proven to be an increasingly popular option amongst taxpayers for resolving tax disputes in view of its speed and relatively low costs.

Litigation

Litigation provides the way in which SARS can attempt to enforce compliance and resolve disputes with respect to the interpretation of the law when all other avenues have failed. The following tables reflect the cases brought before the various courts.

Tax Court

	2003/04		2002/03	
	Number	% of total	Number	% of total
Won	28	29	18	17
Withdrawn	21	22	21	20
Settled	22	23	37	36
Conceded	14	15	18	17
Lost	10	11	10	10
Total	95		104	
Pending	136		115	

SARS At Your Service

High Court, Supreme Court of Appeal, Constitutional Court: Customs

	2003/04		2002/03	
	Number	% of total	Number	% of total
Won	97	64	25	78
Withdrawn	43	28	–	–
Conceded	7	5	–	–
Lost	5	3	7	22
Total	152		32	
Pending	271		248	

The increased number of matters appearing before the High Court is largely attributable to applications with respect to seizures of counterfeit goods.

High Court, Supreme Court of Appeal, Constitutional Court: Tax

	2003/04		2002/03	
	Number	% of total	Number	% of total
Won	8	47	13	76
Withdrawn	3	18	–	–
Settled	1	6	0	0
Conceded	0	0	–	–
Lost	5	29	4	24
Total	17		17	
Pending	15		8	

Compliance – Maximising voluntary compliance and reducing the tax gap (continued)

Future challenges

A priority in the year ahead will be the achievement of optimal coverage across industries and sectors, tax types, taxpayer types, geographical locations and manners in which non-compliance manifests itself. Essential to this goal will be the increase of skills and competencies in the relevant disciplines. In addition, operational efficiencies must be improved via the application of quality control and ensuring operational processes are followed. The design of processes should also support high levels of service to taxpayers. Optimal collection of debt and outstanding returns will continue to receive attention.

The determination of a taxpayer's liability is a data-intensive process, and SARS is investing considerable effort and resources in improving both its access to data and the way it manages it. A data warehouse will accommodate not only SARS's information but also that obtained from other sources such as financial institutions and Government agencies. Powerful software will check the consistency of this data, eliminating a tedious and time-consuming manual task and hugely strengthening SARS's ability to combat tax evasion.

Other important challenges include:

- The preparation of an in-depth policy document that will form the basis for a rewritten Customs Act that will take account of regional integration, the balance to be achieved between trade facilitation and the security of international borders, the Kyoto Convention, and other trends linked to the globalisation of trade.
- The activation of the reportable arrangements provisions that were inserted in the Income Tax Act, 1962, in 2003. A discussion paper on the interpretation and implementation of these provisions was released in May 2004 and public comments received are being evaluated.
- The introduction of an advance ruling system to provide business with greater certainty in respect of transactions that are being considered. A discussion paper was issued in November 2003 and the public comments received have been considered. Legislation to underpin such a system is currently being drafted.

Trade facilitation – Ensuring South Africa benefits from global economic activity

SARS has attained significant success in its effectiveness, demonstrated by its capacity to meet increasing revenue collection demands and the extent of its current enforcement presence. Increased revenue collection has helped Government establish and support our democracy, and has seen a more sustainable economic outlook for the country and business at large. This has meant a more predictable environment for local business and economists, but more specifically for foreign investors.

As part of its mandate to support the economy and provide the revenue needed by Government, SARS performs several important roles in the general area of international trade. Primarily through its Customs division, it has to monitor, control and facilitate the movement of goods and people through all the country's ports of entry, and control the storage and manufacturing of certain goods with the aim to:

- Correctly assess and collect the applicable duties and taxes on all goods;
- Prevent the movement of any prohibited goods;
- Administer the movement of restricted goods; and
- Maintain appropriate records on the movement of goods.

At a time when Government is committed to an export-led economy and the outlawing of all forms of corruption and fraud, the Customs administration bears an important part of the responsibility for the management of import, transit and export movements of people and goods.

As with all its other activities, however, SARS has a clear responsibility to perform these tasks in such a way as to facilitate legitimate economic activity. To that end, and in line with overall SARS policy, it continues to work towards providing service offerings that make it easy and efficient for businesses and individuals to engage in cross-border economic activity.

Legislation plays an important role in SARS's mandate to foster legitimate international trade. The correct legislative framework will enable control to be exercised while reducing friction within the regional and international trading system. The challenges here are real: as international co-operation increases, the range of controls that must be implemented broadens. The global marketplace offers greater opportunities for fraud and organised crime. The war on terror and the general international security situation has also increased the burden of control that the authorities must exercise at ports, and this of course affects the flow of goods and of people through all ports of entry. All of this takes place against a backdrop of increasing volumes of trade.

Through the Law Administration division, trade is further facilitated by the negotiation of tax and custom agreements with trading parties. These arrangements are designed to promote equitable trade and tax arrangements for both companies and individuals.

Customs is involved in the administration of regulations pertaining to external trade, not only for duty and trade regulation purposes, but also as regards environmental, anti-dumping, consumer protection, health and agricultural controls. The Customs declaration is the principal support for statistical data concerning external trade. Customs must therefore ensure the consistency and quality of the statistical information without unduly burdening the commercial operator. As with many of the developments reported in this document, the solution lies in SARS's strategy of aligning its business processes with those of its clients, and by making compliance as easy and as smooth as possible.

Trade facilitation – Ensuring South Africa benefits from global economic activity (continued)

Global trade context

Trade liberalisation – the lowering of customs tariffs – and the proliferation of free trade areas and preferential agreements pose significant challenges for Customs. Some degree of complexity is inherent in the need to apply different tariff rates to commodities imported from different countries.

The most fundamental of the challenges resulting from the proliferation of preferential arrangements is the need to apply rules of origin so as to ensure that these rates are applied appropriately. Moreover, a central implication of establishing free trade among a subset of countries is the need to ensure proper control of imports from third countries. This then becomes a crucial pressure point for Customs administrations.

Besides the South African Customs Union, South Africa has entered into other free trade agreements (European Union and Southern African Development Community) and General Systems of Preference agreements (such as the African Growth and Opportunities Act or AGOA), thereby affording local manufacturers greater competitiveness in foreign markets.

Government's economic trade policy also seeks to boost competitiveness in the local export manufacturing sector, and has designated four Industrial Development Zones (IDZs) to support this commitment. SARS will play a key role in the administration of enterprises operating in the designated Customs Controlled Areas. This specific project is one where the level and extent of Customs' services could determine the overall viability of the IDZ scheme.

According to the International Monetary Fund, there has been a significant liberalisation of trade in recent years. For many developing countries trade tariff rates continue to be high, and the receipts they yield are a key component of the public fiscus. The following table reflects collected tariff revenues as a percentage of import value in the 1990s:

Tariff revenues by region (Unweighted averages as a percentage)

Region	1990	1998
All Countries	11,7	9,3
Organisation for Economic Co-operation and Development (OECD)	2,9	1,2
Non-OECD	15,3	11,4
Africa	19,6	17,0
Asia and Pacific	12,9	5,6
Middle East	18,2	10,4
Western Hemisphere	10,3	8,7
South Africa	9,0	4,2

Sources: IMF and OECD

It is interesting to note that the trend is downward, with the decline more rapid in developed countries of the OECD, Asian and Pacific countries (non-OECD), Middle-Eastern countries (non-OECD) and also South Africa (non-OECD). The average effective tariff rate in Africa has barely changed, but it has reduced in line with the global trend.

The continuing importance of trade revenue, excluding VAT, collected at points of entry is shown in the following table.

Trade taxes as a share of total tax revenue (Unweighted averages as a percentage)

Region	1980	1990	1998
OECD	4,7	2,7	1,1
Non-OECD	24,2	20,5	17,7
Africa	38,6	31,9	37,5
Asia and Pacific	29,0	27,6	19,2
Middle East	31,7	28,9	25,2
Western Hemisphere	24,9	14,3	14,2
South Africa	15,5	16,9	15,4

Sources: IMF and OECD

Africa, on average, accrues more than one-third of its total revenue from import tariffs, whose relative importance increased over the 1990s. Elsewhere in the world the trend is downward, although in some cases reliance still remains high. These figures do not mean that there has not been significant trade liberalisation, and this is so even in countries where the collected tariff rate remains high. Trade liberalisation is not simply a matter of reducing tariffs and export taxes, but of relaxation of a whole range of restrictions on trade flows. Whilst trade liberalisation should thus ultimately lead to a decline in trade tariff revenues, revenues may not be greatly affected, in the early stages at least.

Trade liberalisation brought about through multilateral trade initiatives of the World Trade Organisation (WTO) also create obligations for SARS, notably in the application of rules of origin. These are indeed extensive given the current list of free trade and preferential agreements:

- South African Customs Union (SACU) Agreement
- South African Development Community (SADC) Trade Protocol
- South Africa/European Union (EU) Trade Development & Cooperation Agreement
- African Growth & Opportunity Act (AGOA): United States legislation relating to clothing and textiles
- Generalised System of Preferences with EU, Switzerland and Norway

This initiative also co-ordinated the 12-day visit of two US Customs AGOA jump teams during visits to several factory sites in Durban, East London, Cape Town, Johannesburg and Pretoria. The aim of the visits was to foster bilateral customs-to-customs co-operation through compliance and enforcement of the preferential trade agreement between RSA and the USA. The team focused on the following risk areas:

- Rule-of-origin audits
- Under-valuation
- Tariff misrepresentation
- Debt collection

In addition to the above, a free trade agreement is currently being negotiated between the SACU and the USA; Mozambique is considering entry into the SACU; and General System of Preference agreements are being negotiated with Turkey and Russia.

Trade facilitation – Ensuring South Africa benefits from global economic activity (continued)

Harmonising the global network

The negotiation of Customs and tax agreements is one of the functions fulfilled by the Law Administration department within SARS. These agreements are aimed at enabling the international trade regime, and are administered by SARS. They also play a significant role in creating the right enabling environment for business.

The Customs agreement with the Netherlands, which had been signed previously, came into force on 1 April 2003. During the year under review tax agreements were signed with Brazil, Ethiopia, Kuwait, Rwanda, Swaziland and Ukraine. The tax agreements with Belarus and Oman, which had been signed previously, were ratified and came into force on 29 December 2003.

SARS's global role

South Africa is signatory to a number of international agreements and conventions, amongst them the International Convention on the Simplification and Harmonisation of Customs Procedures, commonly known as the Kyoto Convention. Another important international agreement is the General Agreement on Tariffs and Trade, or GATT. This agreement is best known for dealing with the valuation of imported goods for customs purposes.

Since 1 January 1995, South Africa has also been a member of the World Trade Organisation (WTO), which has 147 members. The WTO was established as an institution to administer multilateral trade agreements negotiated by its members. The basic rules and principles of the WTO are:

- Non-discrimination – embodied in the Most-Favoured-Nation rule requiring that trading partners be treated no less favourably than any other WTO member.
- National treatment – requiring that foreign goods be treated no less favourably than domestically produced goods.
- Binding obligations – where disputes between trading partners are subject to the Dispute Settlement Understanding (DSU). Non-compliant members may be subject to the imposition of sanctions (withdrawal of preferences).

The WTO's primary objective on trade facilitation is a reduction of the costs of international transactions, and in so doing, the stimulation of trade. The view is that trade facilitation has the potential of enabling both the least developed and developing countries to participate in international trade and attract opportunities for foreign direct investment.

SARS is a member of the World Customs Organisation (WCO), which was established in 1952. The approximately 160 member countries are responsible for processing more than 98% of all international trade.

The WCO has for instance adopted a resolution on Trade Facilitation and Supply Chain Security. The scope of the resultant work of its Task Force on Supply Chain Security covers substantial areas of the customs discipline, including:

- Customs Capacity-Building Guideline
- A multilateral Customs Mutual Administrative Assistance Convention
- Guideline for interacting with stakeholders
- Technical guidelines providing for common customs data interchange – with recommendations for domestic usage and international customs-to-customs information exchange

The Commissioner for SARS, Mr Pravin Gordhan, has been the chairperson of the WCO since first being elected in June 2001 in Brussels, Belgium.

Mr Beyers Theron, the Assistant General Manager of Customs Trade Services, is the vice-chairperson of the WCO Committee on Enforcement, whilst the Information Management Sub-Committee (IMSC) of the WCO is chaired by Mr Intikhab Shaik, the Assistant General Manager of Customs Business Policy and Projects. Mr Ron van der Merwe, Manager: International Treaties, co-chaired the OECD's Business Profits Technical Advisory Group, which successfully completed its work in March 2004.

Continued role in Africa

Customs has engaged in developments with the explicit intention of protecting and promoting the interests of the country, the continent and the developing world. Together with other African customs administrations, a significant contribution has been made to the New Partnership for Africa's Development (NEPAD).

The successful implementation of the pilot phase of the Trans-Kalahari Corridor (TKC) project represents a milestone in terms of rationalised documentation, rules and procedures between the three countries (Botswana/Namibia/South Africa). Recently the Dar es Salaam Corridor began aligning its strategy along similar lines to the TKC experience template. Processing times through the TKC corridor have reduced substantially to the benefit of regional economies and trade. Rationalisation to a common bond in the TKC corridor, and seamless electronic Single Administrative Document (SAD) submissions to the Customs administrations serve as the next phase of the programme. SARS representative Mr Theo Ruiters is chairperson of the Customs Administration TKC Committee. Mr Ron van der Merwe, Manager: International Treaties, chairs the Tax Treaties Working Group of the SADC Tax Sub-Committee.

The sharing of systems and information by the Swaziland and SARS administrations is another project currently under way, which will enhance regional co-operation. In addition, there is a project under way to examine, and where possible implement, One Stop Borders in accordance with a new section in the Customs and Excise Act.

South Africa is also a member of the Eastern and Southern African Regional chapter of the WCO.

Role in facilitating local trade

In its revenue function, Customs implements trade and fiscal policy. This implies that in addition to applying measures to enforce compliance, Customs must also ensure uniformity and fairness in its treatment of commercial operators. The multiplicity of issues that are involved in a simple trade transaction require a diverse set of customs competencies to ensure that the information tendered for purposes of customs declarations are sufficient for accurate tariff assessment, customs valuation, and correct revenue calculation. Linked to the tariff is a complex array of prohibitive and restrictive regimes that are prescribed by the relevant regulatory authority, for example:

- Department of Trade and Industry: Tariff and trade policy, counterfeit goods, Industrial Development Zones
- South African Bureau of Standards: Non-tariff barriers, technical barriers to trade, quality assurance
- Department of Health, Department of Agriculture and Department of Environmental Affairs and Tourism: Prohibitive and restrictive policy
- South African Reserve Bank: Exchange control policy

Trade facilitation – Ensuring South Africa benefits from global economic activity (continued)

Private sector stakeholders and trade facilitation

With the introduction of electronic clearance and the development of various automated systems, Customs has reviewed the roles of its stakeholders and has amended its legislation and rules to accommodate additional operators, previously overlooked. Some examples include removers (road hauliers), and non-vessel operating common carriers. The rules for registration have also been expanded and now provide for specific client types, making it incumbent upon trade operators to register, and in certain instances, license with Customs according to the their line of customs activity.

Customs has developed an accreditation scheme to offer preferred clients privileged status through certain benefits – typically, electronic (paperless) customs clearance. The scope of accreditation has recently been revisited, specifically regarding the benefits offered to participants.

Regulatory authorities

Regulatory authorities are government departments that develop policies for the safety and well-being of the country's commerce and the welfare of its citizens. The nature of activities involves the issuance of a specific form, quota, permit or certificate which gives legitimacy to the clearance of goods for import or export. SARS's mandate is to attest the compliance of such transactions through verification and ensuring that the permit is suitably discharged. In recent times Customs has encouraged the Department of Trade and Industry to automate its permit system. In this way, permit fraud and manipulation can be eradicated, and prohibitive and restrictive measures more tightly controlled.

Revenue

The revenue connected with trade generally forms an important part of the total revenue collected by SARS. These figures are reported in the Revenue Performance section of this report but some facts are of interest to form a picture of the contribution this area makes to the total business of SARS. These statistics also illustrate the general trends influencing the whole trade area.

- The Customs and Excise (C&E) component of SARS has consistently contributed over 26% of total revenue collected prior to the latest year when this contribution dropped to 24,69%.
- VAT collections attributable to C&E have increased in each of the years prior to the latest from 47,73% of total VAT collections to 53,89% – the most noticeable upward trend over the period. However, in 2003/04 this slumped to 45,71%.
- VAT collections also amount to the largest slice of Customs revenue collection over the past six years.
- Excise duty has declined in terms of contribution to total revenue collected over the past six years: 4,36% in 1998/99 to 3,71% in 2003/04.
- Similarly, levies on fuel over the past six years have declined in terms of contribution to total revenue collected – 7,38% in 1998/99 through to 5,51% in 2003/04.
- Customs duties over the six year period have remained fairly constant at just over 3% of total revenue collected, except for the latest year where they dipped just below 3%.

In line with overall SARS strategy, two main strategies are pursued in order to facilitate trade and to maximise the revenue collected for the fiscus. Firstly, SARS takes measures to reduce the inconvenience for importers and exporters of complying with their revenue obligations, and to apply even more sophisticated profiling to ensure that high risk cargoes are prioritised. Increasing the amount of revenue obtained from these sectors of the economy will play a big role in spreading the tax burden more equitably while providing added support for Government's redevelopment programmes. SARS's performance in the import and export fields is reported below.

Secondly, there remains the problem of those traders who seek to evade their lawful tax obligations, or who persist in dealing in prohibited or controlled substances. SARS's performance in enforcing the law in the trade area is reported hereafter, including the number and value of seizures of illegal or controlled goods. Again, these efforts must be seen as part of the broader strategy to ensure that the law of the country is upheld, that South Africa fulfils its obligations in terms of international laws and agreements, and the fiscus receives the maximum amount of its due revenue.

Imports facilitation and control

Table 1 below illustrates the volumes of entries processed through our borders. SARS's key business strategy is to ensure that risk is minimised by selecting cargo for stops and examinations on the basis of its risk profile. The hit rate on imports has shown a remarkable increase from 16,91% in 2001/02 to 19,45% in 2002/03. The implementation of the Integrated Customs Risk Analysis Solution (ICRAS) has caused a temporary reduction in the hit rate for 2003/04. Once the system is stabilised in the working environment, higher hit rates are expected. In view of this temporary situation, greater emphasis has been placed on post-clearance inspections.

Table 1. Imports

	Number processed			Number stopped			Percentage hit rate		
	2003/04	2002/03	2001/02	2003/04	2002/03	2001/02	2003/04	2002/03	2001/02
Import clearances									
Bill of Entry	1 465 950	802 769	748 865	42 045	39 482	41 454	13,46%	19,45%	16,91%
CCA 1s	165 127	155 598	74 818	28 426	20 624	9 923	18,21%	37,36%	16,89%
Sub-total	1 631 077	958 367	823 683	70 471	60 106	51 377	15,38%	25,60%	16,90%
Transit clearances									
Bill of Entry	75 259	54 459	85 587	22 719	4 191	4 191	0,43%	8,04%	12,43%
CCA 1*	25 787	33 553	5 637	3 937	2 303	694	10,41%	11,42%	15,71%
Sub-total	101 046	88 012	91 224	26 656	6 494	4 885	1,91%	9,24%	12,90%
Total imports	1 732 123	1 046 379	914 907	97 127	66 600	56 262	11,68%	24%	16,55%

* *The CCA1 is a simplified clearance declaration used for movements within the Southern African Customs Union, known as the Common Customs Union, or CCA.*

Trade facilitation – Ensuring South Africa benefits from global economic activity (continued)

Exports facilitation and control

Table 2 below illustrates the volumes of entries processed through our borders. SARS's key business strategy is to minimise its risks by selecting cargo for stops and examinations on the basis of its risk profile.

Table 2. Exports

	Number processed			Number stopped			Percentage hit rate		
	2003/04	2002/03	2001/02	2003/04	2002/03	2001/02	2003/04	2002/03	2001/02
Bill of Entry	1 028 200	841 233	1 165 714	26 898	25 732	128 282	12,76%	80,60%	5,81%
CCA 1s	1 526 764	1 401 009	316 616	138 388	109 796	53 428	19,67%	12,36%	20,52%
Total	2 554 964	2 242 242	1 482 330	165 286	135 528	181 710	18,55%	25,32%	10,14%

Enforcement statistics

Despite all efforts to facilitate trade as described above, there remains a portion of trading activity that is illegal. In terms of the law of the country and to fulfil international obligations, Customs authorities have an obligation to police trade. Border control authorities successfully intercepted and seized a large amount of prohibited goods as indicated on the table below.

Type of seizure	Number of seizures	Total	Value R million
Cocaine	9	42 kg	19,7
Mandrax	2	4 000 kg	700
Ecstasy	4	1 002 tablets	0,9
Cannabis	35	2 820 kg	19,5
Other (steroids, etc)	9	19 079 kg	1,1
Other seizures:			
Counterfeits	285		
Firearms	8		
CITES	34		
Other cases	313		

In 2003 SARS conducted 444 individual seizures of counterfeit goods totalling approximately R343 million in protected value.

A specialist counterfeit goods team at Johannesburg International Airport (JIA) deals with large volumes of DVDs and CDs smuggled by passengers and through cargo. Of the 122 seizures nationally, JIA contributed 80 valued at R48 million, and Durban Harbour six seizures valued at R167 million. The majority of the latter was six containers of counterfeit CDs "in transit".

A cigarette and tobacco task team co-ordinates interventions against smuggling. Stakeholder partnerships were encouraged and information flow enhanced by implementation of mechanisms to report suspicious activities.

Tobacco seizure	Number of seizures	Quantity (sticks)	Value R million	Area of detection
Counterfeit	6	14 350 000	9,3	Gauteng
Contraband	15	27 518 400	12,1	Gauteng
Total	21	41 868 400	18,9	

Investigations and prosecutions

The Customs Compliance Task Unit (CCTU) is a special task unit that has been established within Customs to address areas of non-compliance and corruption. This unit will ensure that cases of fraud and corruption are investigated and prosecuted.

Service development

Customs has taken a leap in terms of how processes and procedures are documented and implemented. A quality management system enabled Customs to generate high quality documents and procedures. The following processes and procedures were implemented to enhance staff understanding of operations and the way we should do business.

State warehouse policy and procedure

Ensuring the best practice in the operation of State warehouses. It supports the State Warehouse Manager System, which was implemented by the Projects division.

Counterfeit goods policy

Aimed at helping officers execute their responsibilities in terms of section 15 of the Counterfeit Goods Act more effectively. Intellectual property copyright holders apply to the Commissioner for the seizure of goods alleged to be counterfeit in terms of this policy.

Procedure for clearance of diamonds

Outlines the revised import and export procedures for diamonds, taking into account the responsibilities imposed by the Kimberley process, which seeks to curtail the movement of diamonds from conflict areas.

Surety bonds for oil industry

This policy relates to bonds which are applicable to licensed manufacturing and storage warehouses and to licensed distributors in the oil industry.

Manuals

In order to encourage compliance and to provide a useful service to taxpayers, SARS issued the following guides:

Ad Valorem guide for external stakeholders

The guide provides information to manufacturers and owners of goods liable to Ad Valorem Excise Duty on licensing, records and accounts; rebates of duty; and dealing with customs and excise. It not only informs clients of their responsibilities in terms of this duty, but also of their rights and of what they can expect from SARS.

Trade facilitation – Ensuring South Africa benefits from global economic activity (continued)

Completion guides for applications for refunds (forms DA63, 64 and 66)

Guides for the accurate completion of the forms DA63, 64 and 66 for external clients are available on the internet. This serves to lower the rejection rate on refunds claimed on these forms.

Refunds reference guide

Aimed at ensuring uniformity in the completion and checking of refund claims. This serves to lower the rejection rate on refunds claimed by clients. An external document, to assist clients towards speedy resolution of their refund claims, is in the process of being completed.

Quick reference guide to the Motor Industry Development Programme

This document provides Customs Officers with a basic overview of the Motor Industry Development Programme (MIDP). It deals specifically with the legislation governing the MIDP and provides a high level overview of functions pertaining to MIDP.

Small systems development

Another element of improving service delivery is the creation of systems to optimise certain important systems, either those which are frequently used or which have been operating less effectively than desired.

Refund System

This system controls and monitors the process of refunding duties and VAT, eliminating duplication of claims and controlling outstanding balances.

State Warehouse Manager

This system controls the goods entering and leaving the warehouse, ensuring efficient and effective management of state warehouses nationally.

Electronic Permit and Certificate Control System

This new system allows most permits and certificates to be handled electronically, replacing a cumbersome manual process.

Integrated Customs Risk Analysis System (ICRAS) – Import & Export

ICRAS is designed to improve compliance and covers all relevant business areas where risk analysis can be effectively performed. Import and export modules have been fully implemented.

Exports Paperless

Streamlines the export process, allowing for better control over export consignments, less additional documentation to handle during processing, more focus on the consignment and better enforcement. A pilot is currently under way.

Removal in bond (RIB) and Removal in transit (RIT)

This system provides a follow up and acquittal mechanism which allows total control over in bond removals and in-transit consignments. The result is better enforcement over movement of goods to other areas of control and other countries, as well as the control and prevention of round tripping.

World Customs Organisation (WCO) E-learning

This interactive, multimedia, online learning facility is an automated training management tool. It increases the availability of training to trainees and rapidly produces updates to course content and material.

Roll-out of databases

During the period under review, several major database projects were implemented, all aimed at making officials more effective, providing better service to clients and ultimately enhancing the revenue collected.

European Customs Inventory of Chemical Substances (ECICS) database

This is a European database that governs the six-digit classification of chemicals, and assists officers in the difficult task of chemical classification.

Tariff (TAR) system

The TAR (tariff classification database) is a computerised record-keeping system of all tariff determinations since the advent of the harmonised system. It helps officers verify if goods have previously been determined.

Indicative Valuation System (IVS)

The IVS was developed by SARS, Trade Compliance South Africa and the Caucus, consisting of approximately 24 different industries. Market-related free-on-board (FOB) prices of imported goods are made available to Customs officers via the internet. The data is used for comparisons in the event that there is a dispute regarding the value of imported goods.

Valuation (VAL) system

Approximately 300 actual cases are captured on this system and provide easy access to Customs officers for comparing the values of imported goods.

Value Determination Numbers (VDN) system

Importers are allocated Value Determination Numbers in respect of specific suppliers subsequent to an appraisal. Omitting VDN details on a bill of entry is an offence and subject to penalties by Customs.

Infrastructure

Blueprint for a land port of entry: Defines the criteria/requirements of Customs for these places of entry.

Blueprint for the approval of international airports: Strategic blueprint for the approval of international airports. The document defines the criteria/requirements of Customs which would be expected to be met prior to the approval of any place of entry being a Customs and Excise airport.

Repair and Maintenance Programme. The Department of Public Works is implementing the repair and maintenance programme at a number of land ports of entry. This R130 million programme will ensure that the facilities of all government departments at 22 land ports of entry are first repaired and then maintained for the balance of a 36-month contract period. After this period, follow-up contracts may be initiated. In the 2003/04 financial year, R29,7 million was spent on this programme. Tenders have been awarded and work commenced at the following ports:

- Beit Bridge (20 August 2002)
- Lebombo (7 October 2002)
- Maseru Bridge (18 March 2003)
- Ficksburg (21 August 2003)
- Kopfontein (9 October 2003)
- Vioolsdrift (14 October 2003)
- Van Rooyen's Gate (20 October 2003)

Trade facilitation – Ensuring South Africa benefits from global economic activity (continued)

- Caledonspoort (21 October 2003)
- Kosi Bay (3 November 2003)
- Pafuri (12 December 2003)
- Ramatlhabama (3 March 2004)
- Grobler's Bridge (3 March 2004)

Container Security Initiative (CSI)

CSI was launched at Durban Harbour in December 2003 with four US officers and one SARS officer. A three-month evaluation was held in March 2003 and an action plan developed to address current constraints identified.

Border control improvement programme

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

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

Future challenges

The integration of Customs with the rest of SARS continues, although its transaction-based activities have remained separate, owing to their real-time nature. Some of the key areas to benefit from Customs-Revenue integration within SARS are:

- Customs revenue management – currently managed by the Kopano system.
- Intelligence and risk management – through the newly formed Business Intelligence Unit, where some significant progress has been made to improve targeting through internal and third-party risk engines. This specific area probably provides the biggest opportunity for SARS to capitalise on its Single View principle.
- Certain elements within the Compliance/Enforcement approach, specifically debt management. Some initiatives involving Customs and the VAT division have also proved successful yet remain outside the mainstream.

'Protection' is a principle of SARS strategy, and is an area of specific focus for Customs. It is a principle that poses a dilemma for SARS as an organisation, and for Customs specifically it is an impediment to trade. Yet it is the very foundation for the future role of Customs. Whether or not this results in a split in the Customs function ('protection' versus 'revenue collection') remains to be seen.

Some of the flagship projects under way or planned to create the SARS of the future include:

Customs Business Solution

Customs is in the process of building a world-class capability and has embarked on the Customs Business Solution project to develop new business architectures across the legislative, people, process, technology and infrastructure areas, supported by a change management capability.

The model accommodates the scope of the three core business activity areas – cargo and traveller (both international), and manufacturing (domestic). The cargo activities are further segmented into import-export and transit processes.
The model and its associated architectures are designed around a number of key design principles:

Adoption of customs best practices and standards including those of the World Customs Organisation and World Trade Organisation

- Adoption of technology-enabled core customs and manufacturing processes
- Alignment to the revised Kyoto General Annexure acceded to by SARS

- Inclusion of relevant aspects of the revised Kyoto Specific Annexure
- Adoption of supply chain security and the "Chain of Custody"
- Adoption of the WCO data model
- Inclusion of the Container Scanner Initiative principles (CSI)

Integration of Customs into SARS wherever synergies exist

Adoption of the SARS Total Compliance Approach principles
- Utilisation of a risk-based approach
- Single SARS view and client accounting
  - Customer-centric (rather than purely transactional focus)
  - Adoption of proactive compliance design features
- Leverage of third-party information eg from other customs organisations (via Mutual Assistance Agreements), carriers, banks and so on

Collaboration with other government departments
- Moving to a single window concept at border posts

Partnership with regional customs organisations including SACU and SADC
- Moving to one-stop border posts with regional neighbours where appropriate.

Redrafting of the Customs and Excise Act

The necessity to redraft the Customs and Excise Act is partly due to the changing focus of Customs. The revised Act must provide an efficient and effective legal framework for protecting society, facilitating legitimate trade while penalising non-compliance, and collecting the correct revenue due to the State.

Balancing trade facilitation and enforcement of customs control is one of the challenges not only in this endeavour but every day in Customs. These two elements also form the foundation of the Kyoto Convention. Facilitation can also be seen as a factor of compliance, as a client's compliance level increases, Customs is better able to facilitate his transactions.

The strategic principles on which the Act will be built are:
- An Act that enhances the protection of the South African economy and society;
- An Act that is consistent with other national legislation and in particular with the Constitution;
- An Act that is modern and supports and facilitates the fast developing international trade environment by creating an environment of efficiency;
- Harmonisation, standardisation and simplification of processes and procedures resulting in a more user-friendly Customs, thereby providing the predictability, consistency and transparency trade requires;
- A legal environment that provides the community, industry and other international role players with a system of review and appeals (administrative and judicial);
- An Act that facilitates the collection of the correct revenue due to the State, and the control of prohibited and restricted goods;
- Implementation of relevant international standards consistent with applicable international conventions such as the Revised Kyoto Convention;
- An Act that supports the principles of the Arusha Declaration on Integrity;
- Targeted enforcement with audit based controls and risk management techniques including information to drive programmes of selectivity;
- Maximum use of information technology and automated systems, such as electronic document interchange and electronic funds transfer;

Trade facilitation – Ensuring South Africa benefits from global economic activity (continued)

- Co-operation and co-ordinated interventions with other agencies; and
- A formal consultative relationship and partnership with the business community in order to manage the expectations and responsibilities of both parties.

Scanners

In parallel with the Container Security Initiative (CSI) and in support of the expansion of the CSI capability at remaining seaports, inland consolidation centres and certain land border crossings, SARS has embarked upon a public private partnership (PPP) approach towards the sourcing of an effective cargo scanning package. Following registration of the Container Scanner PPP Project with the PPP Unit of National Treasury in July 2003, the Deloitte and Touche Consortium was appointed as transaction advisors. The project team has conducted an extensive status quo and needs assessment of all the major ports and land border posts, as well as a 'Request for Information' tender to:

- Analyse current business processes, operations and procedures for non-intrusive interventions
- Look at the existing container scanner operation in the Durban harbour
- Determine the state of existing infrastructure
- Perform traffic analysis
- Determine volumes of containers passing through these points
- Determine technical and financial requirements

Total journey

Customs' long-term strategy seeks to provide a landscape of the key areas of focus over the next 10 years. This does not, however, exclude the various operational initiatives and management interventions (such as Obsession and Revenue Focus), which may be required at certain points within the 10-year time frame.

Trans-Kalahari pilot project

This project implements a Single Administrative Document (SAD) between South Africa, Botswana and Namibia. Benefits include operational efficiency, harmonised documentation, harmonised and simplified procedures and processes, and regional integration. The project will be piloted with 15 transporters at the Skilpadhek and Ramatlhabama borders with Botswana.

One-stop border

This project promotes regional/international trade, harmonises documentation and streamlines processes for legitimate trade and commercial goods. It should also ensure enhanced protection against prohibited and restricted goods, reduce costs to both government and international trade, and increase revenue collection from greater enforcement and control. A Mutual Assistance Agreement (MAA) between South Africa and Zimbabwe has been drafted and approved by the Department of Foreign Affairs, and has been sent to Zimbabwe for comment. A workshop with stakeholders in both countries has been held and the outcome is a strategic document.

Transit system

This project aims to facilitate to the maximum extent the international movement of goods under Customs control. The system provides transit countries with the required guarantees to cover the Customs duties and taxes at risk. A balance is struck between the responsibilities of the Customs authorities and those of the international trading community. A pro forma guarantee has been designed by industry and submitted to the participants for comment. A feasibility study has been conducted and was presented on 7 May 2004 to the participants.

Accreditation embedding

This project introduces streamlined methodologies to support an accreditation structure in the accreditation scheme. This will accelerate SARS's knowledge of the low/high-risk clients by client type, and the client record for perpetual compliance will be an up-to-the-minute event. Customs resources will then be able to be focused on plugging the compliance gap in a partnership with the compliant trader sectors.

Public key infrastructure

This project will raise the level of security and integrity of Internet-based transactions. It will be rolled out to all external stakeholders.

Swaziland system integration

The sharing of systems and information by the Swaziland and SARS administrations will allow Swaziland access to the SARS CCA1 export and import system. Training will also be provided on the above systems.

Industrial Development Zones

Government has developed an economic framework to promote foreign direct investment and greater economic activity in the local export manufacturing sector. SARS provides the necessary enforcement and customs controls with an emphasis on facilitation and risk management. This will improve export competitiveness in foreign markets and trade facilitation through expedited customs services.

Zeerust Customs Clearance Centre

This project will improve the working environment and provide for future business and staff growth in the North West region. As a result there will be operational savings as well as improved customer service levels, effective and efficient utilisation of resources and centralised regional co-ordination of management.

Manifest Acquittal System (MAS)

Control over importation of goods is achieved through this project by creating a paperless environment for cargo control in respect of imports. The MAS for sea, air, rail and road has been implemented. Training for all the offices is currently under way. Technical problems detected during implementation are being addressed and will be finalised during 2004.

Advance Passenger Information (API)

This project will ensure electronic capturing of passenger declarations and advance receipt of passenger information. This will allow for advance profiling of passengers (subject to a national intelligence initiative running in parallel) and electronic storing of declaration information, resulting in access to historical passenger movement information. The pilot project is to be implemented at Johannesburg International Airport.

Integrated Customs Risk Analysis System (ICRAS) expansion

ICRAS is designed to improve compliance by Customs' clients. This project covers all relevant business areas where risk analysis can be effectively performed. Audit planning has been implemented in Germiston and Pretoria.

VAT export incentive scheme administration

This project will assess and design the most feasible solution that will address future administration of VAT refunds on exports in accordance with the Export Incentive Scheme. In addition, a Customs VAT administration unit will be set up to administer all VAT-related matters within the Customs division.

People – Our key to growing tax revenues through customer service

SARS is very conscious of the importance of fulfilling its mandate to increase the revenue available to the Government to rebuild the country and create an economic order in which all South Africans are prosperous. To do this, it is working hard to turn an entrenched culture of non-compliance into one of voluntary compliance, increasing the tax base while reducing the cost of collection.

A key element in this strategy is to deliver excellent and customer-focused service to taxpayers. Another is the need to ensure that SARS's people have the necessary skills to hold their own in an economic and financial environment that is increasingly complex, and where criminal and tax avoidance activities are becoming both more sophisticated and aggressive. SARS is also committed to ensuring that it is representative of the national demographics, in line with Government policy.

In order to fulfil these goals, SARS is passionately committed to the training and development of its people. Without them, it cannot meet its vision of becoming "an innovative Revenue and Customs agency that enhances economic growth and social development, and supports our integration into the global economy in a way that benefits all South Africans". This section deals with those initiatives designed to build up the human capital of SARS.

Training

Continuous professional development

The professional development of internal SARS trainers against set National Qualifications Framework standards, which started last year, continued in 2003/04. A total of 18 trainers successfully completed the facilitation and on-the-job coaching modules this year, and were registered as education, training and development (ETD) practitioners with the Services Sector Education and Training Authority (SETA).

National training plan

A national training plan was developed after an extensive regional needs analysis involving both HR Development and the respective business units, and utilising the Individual Development Plan (IDP) process launched last year. The business units link training with markedly improved performance, and planning for the next year will build on these results.

A Service Training Programme by Assessment was also implemented.

Training delivery

The delivery of training is carefully monitored to ensure that SARS's targets are being met. Investment in training also remains high.

Training seats (duplicate count) delivered in 2003/04

African Female	African Male	Asian Female	Asian Male	Coloured Female	Coloured Male	White Female	White Male	Total Female	Total Male	Total
5 750	4 355	1 201	862	2 372	1 581	8 441	2 583	17 666	9 365	27 050
21,3%	16,1%	4,4%	3,2%	8,8%	5,8%	31,2%	9,6%	65,3%	34,6%	

Investment in training for 2003/04	R million
Direct cost	13,6
Development cost	2,2
Indirect cost	4,4
Overheads	8,2
Attendance cost	24,5
Total	52,9
Training seats delivered: 27 050	
Cost per training seat: R1 955	

Leadership development programme

There are currently 26 delegates on the programme, of which eight are female (four African and four White) and 18 are male (13 African, two Coloured and three Asian). Thirteen delegates have successfully completed the programme.

Legal training

Branch offices were visited by legal staff in order to workshop the latest amendments to the Value-Added Tax Act. Three tax treaty workshops were offered for SARS staff, two for other regional tax administrations, and assistance was offered with respect to another five workshops on international tax topics in the SADC region.

A legal intern programme has also been launched to train previously disadvantaged individuals in order to provide them with the necessary skills and knowledge needed within the SARS environment. Six individuals were appointed in terms of this programme at the beginning of February 2004.

Recruitment

One mark of an organisation's success is that it is growing its staff complement. SARS continues to increase its workforce in targeted areas, linked to its strategic programmes.

SARS Large Business Centre

Following the decision to establish the SARS Large Business Centre (LBC), staffing has commenced. The migration from the existing Corporate Tax Centre to the new SARS LBC will be a phased approach. Management, auditor, risk profiler and other positions will be filled by a combination of internal and external appointments, with the Siyakha People Placement Protocol and SARS's employment equity policies being adhered to in all instances.

Call centres

The enhancement of SARS's call centres necessitated the recruitment of an additional 60 service agents. In addition, an agreement has been reached with the National Council for the Blind to create appropriate employment for these sight-impaired persons. This project is at an advanced stage.

Business Intelligence Unit

The restructuring of the SARS Business Intelligence Unit, which includes head office and regional offices, led to the recruitment of approximately 40 specialist personnel and the reallocation/transitioning of other staff members.

People – Our key to growing tax revenues through customer service (continued)

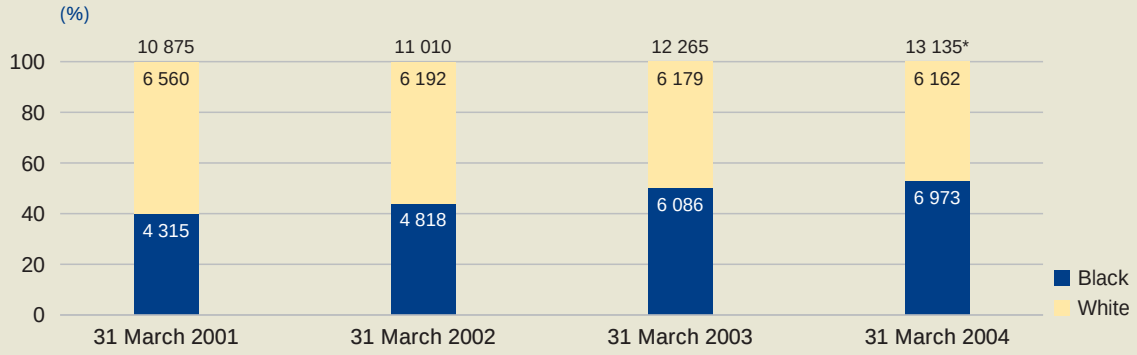
Executive placements

Senior executives were recruited for the Process Engineering, Business Intelligence, Risk Management and HR divisions. An internal transfer was made to the Corporate Relations division.

Employment equity

In terms of the Employment Equity Act No. 55 of 1998, SARS submits an annual status report to the Director-General of the Department of Labour. The salient features of the 2003/04 report are:

Race workforce profile



** This figure excludes approximately 1 000 temporary workers.*

Since March 2001, black representation at all levels has increased by 62%. Since March 2002, black representation has increased from 35% to 42% in senior and managerial ranks; from 41% to 50% in professional ranks; from 35% to 45% in technical ranks; and from 43% to 53% in clerical ranks.

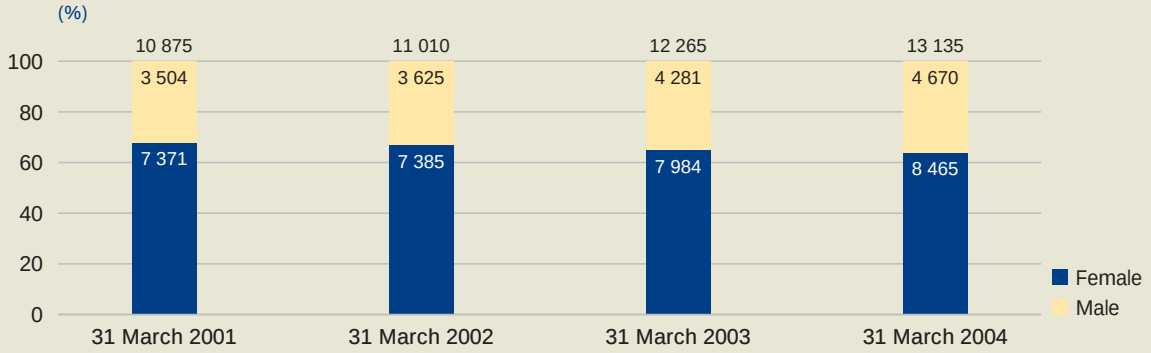
For the period under review:

- the 53% black representation consists of 38% African employees, 9% Coloured employees and 6% Indian employees;
- 79% of new appointments were black recruits, of which the majority were African (59%); and
- 55% of 821 employees who left SARS were black.

The progress made in black representation in SARS

	Mar 2001	Mar 2002	Mar 2003	Mar 2004	Target Mar 2005
Management staff	40%	39%	44%	47%	50%
Supervisory staff	22%	26%	36%	44%	50%
General staff	42%	45%	51%	55%	50%
All staff	40%	44%	50%	53%	50%

Gender workforce profile



- SARS's female representivity of 65% comfortably exceeds the 37% target indicated in the Employment Equity Commission Report of 2003.
- Black females comprise 46% of the total female complement.
- 58% of the 1 697 appointments made in 2003/04 were female.
- 60% of the 821 employees who left SARS during this period were female.
- Since March 2002, female representation has increased from 30% to 33% in senior and managerial ranks, from 35% to 37% in professional ranks and from 53% to 58% in elementary ranks.
- The majority of females are employed in the clerical ranks.

Disability workforce profile

At the end of the year under review, 1,3% (174) of SARS's total workforce comprised people with disabilities. The target for 2005 is 2%.

A formal declaration of disability procedure has been developed and implemented. This will ensure that all employees living with disabilities who were externally recruited, or who acquired a disability during their employment at SARS, are properly accounted for. This information is used, among other purposes, to evaluate how these employees can reasonably be accommodated and supported.

Employment equity accomplishments

Initiatives undertaken during the year under review to make the demographics of the workforce more representative include the following:

People – Our key to growing tax revenues through customer service (continued)

Communication and awareness

- An employment equity website was launched containing information about SARS's employment policies and procedures, and related campaigns such as Women's Day.
- A campaign was run to find a suitable slogan – "Equality, Respect and Dignity" is currently being used.
- A summary of the Act was posted on the employment equity website and published on posters which were distributed to all SARS offices.
- A summary of SARS's Employment Equity Report 2003 was published in the SARS Annual Report and booklets distributed to all SARS offices.
- E-mails and newsletters were used to create awareness of people living with disabilities, to help employees understand the realities they face, and to provide guidelines to help them deal with disability in the workplace.
- Workshops were conducted nationwide to address discrimination against people living with HIV and AIDS. Since August 2003 a total of 77 sessions were attended by 2 394 employees and 571 managers.

Work environment and facilities

The Siyakha transformation programme has included a concerted effort to ensure that all new SARS offices are accessible and user-friendly to all people, irrespective of any disability they might have.

Succession and career planning

A Leadership Development Programme was implemented to promote employment equity and service excellence. The programme was run by the Graduate Institute of Management Technology (GIMT) in partnership with SARS. All divisions were invited to nominate middle managers with advancement potential to participate in the programme. A total of 28 managers from designated groups were selected for the programme.

Graduate recruitment programme

A graduate recruitment drive was undertaken by SARS to alleviate the critical shortage of suitably qualified staff and to support its effort to employ a representative workforce. Twenty graduates from previously disadvantaged backgrounds were appointed.

Wellness @ Work

This is a broad-based employee well-being programme to improve the efficiency, effectiveness and morale of SARS employees by helping them achieve and sustain wellness in all its facets.

Statistics

- The 24-hour call centre was used 3 245 times, by 1 470 individuals.
- Face-to-face counselling was provided to 555 individuals during 1 853 sessions.
- The SARS Wellness @ Work website registered an average 3 660 hits a month, or 119 a day.
- Medical boarding assessment – 36 employees were referred and supported.

These statistics indicate that the programme is well integrated, and that employees are taking full advantage of it to promote their and their families' well-being. The issues most frequently dealt with were marital problems, followed by other relationship and family problems.

Promotion of Wellness @ Work

Ten educational sessions were held for staff, and a smaller number for managers, to inform them about the employee well-being programme. The induction programme for new recruits has been amended to include the programme.

An integrated media strategy is being used to promote Wellness @ Work. The website complements the Health Friends telephone support service and facilitates counselling referrals online, while e-mail allows the team of health, legal and financial experts at Health Friends to provide ongoing health and wellness promotion and adult learning. In addition, a monthly newsletter keeps employees informed, maintains awareness of the programme and increases utilisation.

Executive well-being

A proposal is being considered for an executive well-being programme that includes medical check-ups and a dedicated call centre. It is envisaged that the programme will include specific individual interventions as well as group workshops, and will be modified in line with managers' needs as they become apparent.

Employees living with disability

A programme is under way to address the needs of employees living with disability.

HIV/AIDS

A national strategy and prevention programme has been developed to manage HIV and AIDS within the SARS workplace. Regional strategies are being developed to address specific needs. Nineteen employees have been trained as peer educators, and steps are under way to increase this capacity and to extend awareness and education in the workplace.

Border post programme

SARS's Wellness @ Work programme and a union task team have joined forces to address the working conditions of border post employees. Visits were conducted to assess the circumstances, recommend ways of meeting employees' psycho-social needs and addressing problems that hamper their performance. Awareness of the Wellness @ Work programme and available health information was promoted.

Employee relations

SARS supports the maintenance of good employee relations, and engages with employee organisations and relevant unions in this regard.

Collective bargaining

Annual substantive negotiations were concluded within six negotiation sessions, with a settlement of a 6,75% salary increase that was in line with both the public and the private sectors.

People – Our key to growing tax revenues through customer service (continued)

Terminations for the year under review

Nature of termination	
Resignation	434
Non-renewal of contract	183
Dismissal – Operational requirements (retrenchment)	–
Dismissal – Misconduct	69
Dismissal – Incapacity	2
Other	133
TOTAL	821

IR training

During the year, 343 managers received training in industrial relations.

Disciplinary action

A customised Disciplinary and Grievance Code and Procedure has been introduced and implemented nationally.

Disciplinary action demographics

Male				Female			
African	Coloured	Indian	White	African	Coloured	Indian	White
38%	3%	4%	17%	19%	1%	5%	14%

Disciplinary action was taken against 139 employees during the year under review. The main offences were absenteeism and insubordination, while two employees were dismissed for sexual harassment.

Transformation – Enabling SARS to serve the country better

The dawn of democracy a decade ago in 1994 had many profound effects on South African institutions, among them SARS. This change of focus caused the service to reassess what its function was, and therefore how it would go about its business. As the agency charged with raising the funds needed for the economic and social reconstruction of the country, it also had to increase dramatically the amount of tax it collected.

The strategy for achieving this goal is, broadly speaking, twofold.

- Making SARS more effective through increasing operational efficiency, creating a more streamlined and effective organisational structure and re-engineering the underlying business processes accordingly. Technology is playing a vital role in enabling the enhanced business processes as well as in permitting SARS to becoming more customer-centric. Another important aspect of this strategy is working smarter through understanding the risk profiles of customers and industry segments, and using this to guide action.
- Parallel to this drive to make SARS work better as a business is an equally important impetus to turn South African citizens into partners rather than antagonists. This is being achieved through communicating the noble purpose behind the collection of tax, and through taking the necessary steps to treat taxpayers as customers.

The end result of this process will be to broaden the tax base, encourage a culture of voluntary compliance (so making tax cheaper to collect), and create a much more efficient and effective business.

In order to achieve these radical goals, a process of transformation was initiated in 2000. Called Siyakha (We are Building), its aims are to spearhead the attainment of these twin goals. The principles of Siyakha guide all the work done by the divisions of SARS, and their workings are easily discernible in the reports of the business in the following sections: People, Trade Facilitation, Compliance, Customer Service and Support Services.

Central to both of these strategies are the people of SARS. Perhaps the most important part of Siyakha is the creation of a culture of team-work and learning, a vigorous programme to improve employee competency levels and the provision of a supporting physical infrastructure.

The implementation of Siyakha has also positively contributed to employment equity ratios of the organisation and has improved the capability levels of staff.

Business process improvements have resulted in improved service to taxpayers and traders. Technology has been leveraged to make further improvements in the area of service provision and risk identification, and its role will continue to be an important one. Physical infrastructure has been designed to support access by disabled persons.

New infrastructure

To date, two assessment centres, two enforcement centres, 11 new branch offices and two call centres have been established. Of these, three were in Gauteng (Ashlea Gardens, Carlton Centre and Pretoria CBD.)

Transformation – Enabling SARS to serve the country better (continued)

Through its new office development at Megawatt Park the organisation will further leverage benefits resulting from the co-location of related business activities. By October 2004, the Gauteng West Enforcement Centre, the SARS Large Business Centre, the Central Enforcement Unit, the Outbound Call Centre, the Tax Courts and the SARS Academy will be fully operational at Megawatt Park.

SARS Large Business Centre

One of the co-located facilities planned for Megawatt Park, Sandton, the SARS Large Business Centre is aimed at enhancing service delivery to the large corporates who contribute a large proportion of the tax collected.

Extending Siyakha roll-out

Work continues on the planning for the roll-out in Gauteng, Free State and the Eastern Cape. Two more assessment centres will be established in Gauteng.

The Western Cape Siyakha programme was concluded early in 2003, with the remainder of the year spent bedding down the transition. The people migration programme was implemented successfully and great progress was made in achieving employment equity.

KwaZulu-Natal was fairly stable, although further work is needed to enhance process efficiencies.

Customs and technology

From 8 to 10 October 2003, the WCO 2003 IT Conference and Exhibition was held in Johannesburg. Leaders and senior experts from customs administrations, trade and industry and international organisations attended the conference, which enabled all customs organisations to view the latest technology available and understand the benefits of automation. It also allowed the organisations to benchmark their current systems against the latest technology available.

Kopano programme

The Kopano programme aims to provide an integrated accounting solution for the management of SARS's own expenditure as well as the tax and duty revenue administered on behalf of Government.

While Kopano is driven by the impending implementation of generally recognised accounting practices (GRAP) and international accounting requirements for public sector entities, it focuses on the simplification of tax accounting processes. Simplicity is a prerequisite not only for compliance with accounting standards, but also for unlocking benefits for SARS and the taxpayer.

At the heart of Kopano is the implementation of the leading enterprise resource planning software, SAP. Phase 1 of the implementation, which included accounting (accounts receivable, accounts payable and the general ledger), procurement and travel management, was completed in July 2004. The system will go a long way towards enhancing the efficiency of SARS by supporting modern accounting practices and providing the integrated, up-to-date information that management needs for effective decision making.

Enterprise programme management office

SARS is well on its way to establishing a mature, world-class enterprise programme management office (EPMO) that ensures projects are appropriately prioritised, managed with optimal resource utilisation, and overseen by qualified and experienced project managers. The EPMO infrastructure, methodologies and toolsets are in place, and will soon be made available throughout SARS.

Process optimisation

SARS is a process-intensive organisation, and an improvement in its processes translates invariably into increased revenue, lower costs or better service. A team of process engineers and business analysts has been recruited to map, evaluate and – where appropriate – re-engineer SARS's processes. At the same time a process culture is being nurtured within the organisation with the aim of raising operational consistency and productivity.

Recruitment

- In the year 2003, the Centre Managers and the Senior Manager for Gauteng were appointed. Advertisements for all new positions attracted more than 12 000 applications. An advanced on-line system was implemented to handle the responses. Proficiency testing was performed in the three major centres.
- Testing for Taxpayer Services was completed in September 2003. During the year under review Taxpayer Services branches were rolled out successfully in Pretoria East (Ashlea Gardens), Pretoria CBD and Johannesburg CBD. Both CBD branches are fully operational, while Randburg and Soweto are currently being repositioned. Work on the Witbank branch is expected to start early in 2005.
- Proficiency testing for Enforcement Centres was concluded in March 2004. The Gauteng West Enforcement Centre is in the process of being rolled out.
- Proficiency testing for Assessment Centres has been completed, although a number of team leader positions will not be filled in the short term.

Future challenges

The work of transforming SARS is far from complete, but excellent progress has been made thus far. Some of the challenges still to be tackled are:

- Introduction of a social enhancement campaign for previously disadvantaged individuals;
- Alignment of all branches with the front-office concept;
- Introduction of a national SARS Customer Week;
- Internal service training via the Service Quality Institute (SQI); and
- Upgraded KwaZulu-Natal Siyakha implementation.

The current Siyakha agenda should be completed by 2007. By then SARS will have established a baseline of streamlined, standardised business processes and performance measures for all business areas. This will enable the organisation to respond more rapidly to environmental changes. Taxpayers throughout South Africa will be serviced by more capable staff and leading-edge call centre technology.

Transformation – Enabling SARS to serve the country better (continued)

Moving forward SARS acknowledges the environmental challenges posed by the South African economic dualism and global economic fluctuations as potentially threatening to the existing tax base. In effectively delivering on our mandate of revenue sufficiency and economic protection, our approach will be to deepen our business understanding, gain further insight regarding taxpaying in South Africa and pursue greater efficiencies through technological and process innovation. Against this backdrop we will build critical skills in enforcement and service areas for proactive, meaningful and accurate engagement with the taxpaying and trading population.

Many of these features will find expression through a future SARS design aimed at providing the organisational blueprint for 2010. Although work is still evolving in this regard, the foundation of this future SARS will encompass three main shifts:

- *Inward administrative focus to outward taxpayer focus*

  Moving away from highly bureaucratic processing type activities to transactions centred on the taxpayer and the taxpayer's economic lifecycle. Due attention will also be given to minimising compliance and administration costs and in addressing the needs and preferences of taxpayers when engaging with SARS. Collaboration and co-operation will feature strongly in all our engagements.

- *Reactive engagement to proactive engagement*

  Shifting towards managing the taxpaying community by anticipation which is premised on having a greater, more informed understanding of taxpayers' behaviour, compliance history and segment/industry sector profiles. It also entails pursuing real time and advance processing capabilities.

- *Manual to automated*

  Ensuring substantial automation of routine type activities and the inclusion of systems validation and third party verification processes. This stance will support reduced efforts in clerical activities and will reduce the need for unnecessary human intervention.

  Key features will include the following:

  - Fiscal citizenship as an overarching theme in building a South African climate of compliance. This appropriately positions taxpaying as a citizen obligation; supportive of nation building and strengthening national sovereignty;
  - In engaging with the taxpaying and trading communities we will pursue the optimal balance between incentivising compliance through better, cheaper and more accessible service while disincentivising non-compliance through harsher sanctions, focused and more visible audit presence and reducing opportunities for non-compliance;
  - We will adopt a differentiated engagement with the taxpaying population
    - High risk, low volume taxpayers

      Comprising large corporates, high wealth individuals, parastatals, tax and trade practitioners will receive integrated service delivery and have greater ongoing engagement with SARS. Recognising their pivotal role in providing material their role as tax intermediaries (employers, finance houses, etc) will be leveraged to raise the compliance levels of the overall taxpaying population

- Low risk, high volume taxpayers
  This group comprises mainly salaried individuals with little opportunities for evasion. It is our intention to reinforce compliance and reduce compliance costs by removing unnecessary filing requirements through the provision of pre-population returns and greater third party information provision
- Untapped
  This addresses the need to adopt a unique strategy in bringing onto the tax base those economic participants in the second economy and those in the first economy functioning largely outside the tax net;

- Strengthening customs operations and providing integrated border management to facilitate legitimate trade and swiftly detect and deter illicit trade; and
- Shifting our culture, growing skills and capability to support greater professionalism and high levels of integrity and ethics.

Strategic outcomes will manifest as a smarter, more efficient, more visible and responsive SARS that provides a sustainable platform for greater revenues and higher levels of compliance.

SARS divisions

The main divisions of SARS, as well as their primary roles, are described below. The men and women of these divisions implement the increasingly integrated business processes described elsewhere in this report.

Finance

The role of Finance is to ensure that SARS's own financial management is soundly based on best practices, and the principles of good financial governance. It creates, implements and monitors all the necessary policies to ensure this. In addition, it has to account for complete tax and duty information to internal and external stakeholders.

Finance also plays an important role in reporting on the financial affairs of SARS. It provides management information regarding expenditure and cash flow in order to ensure optimal resource allocation. It also ensures that SARS's procurement policies are effective and helps it meet its commitments on black economic empowerment.

SARS's Asset Register

The Asset Register and the management thereof have received focused attention during the past financial year. A number of steps have been taken to address deficiencies:

- In December 2003 the limit for capitalisation of assets was increased from R500 to R2 000. This has been researched and applied in terms of best-practice policies of large corporations and has been discussed with both the Auditor-General and National Treasury.
- An asset management team has been put in place to deal with asset matters on a dedicated basis.
- SAP has been implemented at SARS, which includes the Fixed Asset module. This will enable integration of all transactions affecting fixed assets, in the new financial year. It will also enable SARS to decentralise asset management to the lowest level.
- The recently completed asset count has coincided with the closure of the year-end, which is a first for SARS.
- Cost centre managers will be held responsible for the management, movement and safeguarding of fixed assets, which will form part of their respective key performance activities.

Human Resources

The primary objective of the Human Resources division is to ensure that SARS recruits, trains and retains the correct people to meet its revenue maximisation goal and to implement its Siyakha transformation. This includes effective leadership development programmes and other training initiatives. Ongoing enhancements in administrative efficiency are also the focus of attention.

Technology and Process

The Technology and Process division (TPD) drives the exploitation of information technology (IT) within SARS, a key enabler for improving both its efficiency and effectiveness. TPD's structure has been simplified for greater effectiveness, especially in supporting its role in inculcating project management and process disciplines within SARS, and a continuing focus on service delivery and information security.

The seven sections that make up TPD are the Programme Management Office, Application Development and Maintenance, Service Delivery, Process and Information Management, Risk Management, Office of the CIO and Special Portfolio.

Important current projects include the Single View of the Taxpayer, Kopano (SAP implementation), call centre upgrades, the Enterprise Programme Management Office and Process Optimisation. SARS continues to invest in new, innovative systems that will reduce its costs, help close the tax gap and improve the quality of its service.

Law Administration

This division creates and administers the legal framework within which SARS operates. It has three sections. Legislation advises Government on relevant law, including customs and tax treaties. Law Interpretation releases rulings and guidelines to promote the uniform application of legislation and to provide business certainty. Dispute Resolution operates an alternative dispute resolution system, and represents SARS in litigation.

Enforcement

The Enforcement division performs two main types of activity: controlling and deterring criminal behaviour, and the investigation of specific allegations of non-compliance. Its functions are very varied, and include audit, enforced collections (debt and outstanding returns) and criminal investigations.

Customs

Customs monitors, controls and facilitates the movement of goods and people through all the ports of entry of the country. It must correctly assess and collect the applicable duties and taxes, prevent the movement of prohibited goods, administer the movement of restricted goods, and maintain records of the volume of trade passing through the ports.

Assessment and Service

This division fulfils a number of important functions. It compiles and profiles the tax register, which is the record of all active taxpayers, processes taxpayer returns, and facilitates the payment of taxes. In line with overall strategy, it works to optimise these processes and aligns them with the needs of the taxpayers in order to nurture a culture of compliance.

Corporate Relations

The Corporate Relations office is the custodian of SARS's relationships with all its external stakeholders. These include Government, professional associations and private sector organisations. It also manages the SARS corporate social investment portfolio.

Communications

The purpose of this division is to create, direct and supervise comprehensive external and internal public relations, communications, marketing and strategic programmes on behalf of SARS. These include:

- The interpretation of tax and legislative matters relevant to the business of SARS from a communications and marketing perspective;
- Positioning SARS in the media, and among legislative and governmental representatives and staff as a modern, progressive organisation;
- Developing marketing tools and collateral;
- Monitoring and developing responses to legislative and policy issues;
- Coordinating community outreach activities with communications/public relations/marketing impact; and
- Communicating, collaborating and coordinating activities with SARS's lobbyist.

Audit committee report

REPORT OF THE SARS AUDIT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2004

This report is compiled 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.

Introduction

For the year under review, the SARS audit committee was constituted in terms of and functioned according to section 51(1)(a)(ii) and 76 (4)(d) of the PFMA, as well as the treasury regulations (Chapter 27.1) and according to formally adopted terms of reference.

The audit committee consists of the following members – Mr Sizwe Nxasana (chairperson), Prof Dillip Garach, Ms Berenice Lue Marais, and Mr Mustaq Brey.

Internal audit function

SARS has an established Internal Audit unit that acts as an independent assurance function on the system of internal control, risk management and corporate governance for SARS. The management of the business units are responsible for the achievement of the business objectives, which includes the prevention and detection of fraud and the design, implementation and monitoring of adequate internal controls, whilst the Internal Audit unit is responsible for providing assurance on the adequacy and effectiveness of these internal controls.

Internal Audit reports the detailed results of their audit procedures, together with all findings and associated recommendations, to both the operational and executive management. Regular reports are also provided to the audit committee. The Internal Audit charter was revised and approved during the year.

Internal Audit has unrestricted access to all records, properties, functions and personnel necessary to effectively discharge its responsibilities.

The investigation against the suspended General Manager: Internal Audit is still pending. A new acting head of Internal Audit was appointed in December 2003. Internal Audit embarked on a transformation process that included redefining the roles and responsibilities. A key part of Internal Audit transformation programme is to further improve the standard of the skills and competencies of the Internal Audit staff.

The capacity and budget allocation of the Internal Audit functions have remained the same as the previous year. The audit committee is of the opinion that Internal Audit has sufficient resources at its disposal to meet its objectives as contained in its audit plan.

The working relationship between Internal Audit and the office of the Auditor-General has improved during the year. The Auditor-General was able to place reliance on the work performed by Internal Audit.

Audit committee report (continued)

Internal controls

The state of internal controls has improved in comparison to previous years. A reduction in audit issues is indicative of this position. The audit committee is cognisant of the fact that many of the remaining audit issues are systemic problems that will take some time to be resolved given the legacy of the organisation. Management has also demonstrated a commitment to resolving the remaining internal control weaknesses. The past year has witnessed the continuation of Siyakha, which together with the related business process re-engineering is expected to positively impact the internal control environment.

While the SARS control environment still has room for improvement, the committee acknowledges the improvements of the past year.

Monthly and quarterly reporting

Administered Revenue

Monthly reports were submitted to the National Treasury and the South African Reserve Bank in terms of Government Financial Statistics ("GFS") timeously and in compliance with all the relevant regulatory requirements.

Own Accounts

Quarterly reports to National Treasury were submitted as required by Treasury Regulation No. 26.1.1. These reports were submitted timeously and in compliance with the format prescribed by National Treasury.

Evaluation of the annual financial statements

The annual financial statements for the year ended 31 March 2004 for both administered revenue and own accounts were considered and approved by the audit committee on 20 August 2004.

Sizwe Nxasana
20 August 2004

Administered Revenue

"SARS works closely with other tax administrations in both developed and developing countries. We have benefited from their experience, and have adopted their best practices as targets for our own performance."

Pravin Gordhan

Contents

The attached annual financial statements were approved and signed on behalf of SARS's Executive Committee by:

P Gordhan
Commissioner

20 August 2004

Audit report on Administered Revenue

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 2004

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 76 to 84, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

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

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

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

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

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of SARS: Administered Revenue at 31 March 2004 and the results of its operations and cash flows for the year then ended in accordance with the prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

4. EMPHASIS OF MATTER

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

4.1 Removal in bond (RIB)/removal in transit (RIT)/ex-warehouse in bond (XIBs) and other relevant documentation and related internal controls

There were serious shortcomings in the controls relating to RIBs/RITs/XIBs and other relevant documentation, which was not acquitted in good time. A large backlog of these documents (both imports and exports) awaiting acquittal was observed. At times a record of the outstanding entries was not generated and the removal documents accepted at the branch offices were not followed up to ensure the timely acquittal thereof.

As a consequence of the above, a total of 49 471 documents were not acquitted nationally for SARS as at 31 March 2004. The potential revenue in the form of duties which may have been levied on non-acquittals and penalties which were not always issued on late acquittals for the 2003/04 financial year could be material. However, the amount thereof was not readily determinable.

Audit report on Administered Revenue (continued)

AUDITOR–GENERAL

4.2 Penalties and interest on customs

In response to a concern raised in my previous report with regard to the non-compliance with section 39(3) of the Value Added Tax Act, 1991 (Act No. 89 of 1991) in respect of the late payment of deferred VAT, section 39(4) of the said act was reinstated with effect from 1 April 2004. This was done after it was found that the customs accounting system was not designed to levy penalties and interest in the same manner as prescribed in the VAT Act, before the amendment. There was non-compliance with section 39(3) of the VAT Act for the period up to the amendment of the said act.

4.3 Risk management

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

Due cognisance was taken of the fact that SARS was still working towards refining its risk management policy with the aim to, in future, compare favourably with international benchmark targets, especially as far as the number of cases to be inspected/audited and success (hit) rates were concerned.

However, as the risk-based approach, in particular the SARS Automated Risk Assessment Process (SARAP) and the Integrated Customs Risk Analysis Solution (ICRAS), is regarded as an important control tool during the audits of the different control environments, it is important that internally set performance targets are achieved. This will enhance the reliance that can be placed on it as a compensating control measure during the performance of control based audits. The national performance (targets) for the 2003/04 financial year, indicates that there is potential for improvement in this area.

4.4 Tax evasion

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

4.5 Follow up of SCOPA resolutions

The Standing Committee on Public Accounts made recommendations pertaining to eight matters in its sixty-ninth report, 2003. Three of these matters have again been included in the current year report, whilst the remainder have either been satisfactorily addressed by SARS or corrective measures will be implemented in future financial years. Corrective measures to be implemented in the future will be subjected to audit as and when they occur and will be reported on in due course. More detail is provided in Annexure A to the report.

5. APPRECIATION

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

SA Fakie
Auditor-General

Pretoria
20 August 2004

AUDITOR–GENERAL

Annexure A

Progress with SCOPA resolutions on matters reported in my 2001-02 report

Reference to previous audit report	Subject	Findings on progress
Audit report: Paragraph 3.1 page 44	Assurance process	Implementation of the automated reconciliation process at some offices commenced during the latter part of the 2003/04 financial year. This implementation will be audited during the audit of the 2004/05 financial year.
Audit report: Paragraph 3.3 page 45	Supporting documentation	Significant progress has been made on this matter as only isolated incidences occurred during the audit where information could not be submitted. It is anticipated that the electronic document management system will be rolled out in the 2005/06 financial year and the impact of this system will be assessed during the audit of that financial year.
Audit report: Paragraph 3.4 page 45	Penalties and interest on customs and excise duties	This matter was still problematic during the 2003/04 audit (Audit report: Paragraph 5.2). The impact of the changes to the appropriate legislation to address this matter will be assessed during the 2004/05 audit.
Audit report: Paragraph 5.2.1 page 46	Revenue not recognised/ tax evasion	I am unaware of any feasibility studies conducted as regards the measurement of the tax gap. However, certain initiatives were introduced to try and address certain aspects of the tax gap.
Audit report: Paragraph 5.2.2 page 46	Sureties	Corrective actions to address this matter have been taken. Measures will again be assessed during the audit of the 2004/05 financial year.
Audit report: Paragraph 5.2.3 page 46	Weakness in internal control-Bank reconciliation	Significant progress has been made in this area and additional measures are being implemented to address this matter. I will continue to evaluate the measures introduced during the audit of the 2004/05 financial year.
Audit report: Paragraph 5.2.4 page 46	Computer audit	Corrective actions to address the matters had commenced towards the latter part of the 2003/04 financial year with certain deadlines for certain processes only expiring in the early part of the 2004/05 financial year. I will evaluate the corrective actions during the 2004/05 audit.

Statement of financial position

as at 31 March 2004

	Notes	2004 R'000	2003 R'000
Assets			
Current assets			
Cash and cash equivalents	2	10 080	335 995
Other assets	3	8 060	13 002
Total assets		18 140	348 997
Net assets and liabilities			
Net assets			
Accumulated administered assets		(413 925)	(99 352)
Current liabilities			
Bank	17	432 065	448 347
Other liabilities	4	–	2
Total net liabilities		18 140	348 997

Statement of financial performance

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Taxation		307 918 385	285 253 645
Income tax	5	171 962 773	164 565 931
Value-added tax/sales tax	6	80 681 755	70 149 852
Fuel levy		17 197 271	15 792 985
Excise duties		12 380 727	11 472 810
Customs duties		8 479 415	9 330 656
Other taxes	7	8 067 350	6 657 834
Unemployment Insurance Fund (UIF)		5 403 043	4 042 941
Skills development levy		3 896 435	3 352 053
Air Passenger Tax		367 163	324 757
Universal service fund		26 745	–
Ordinary levy		591	5 130
Road accident fund (RAF)		–	17 905
Import surcharge		–	19
Diesel refunds		(544 883)	(459 228)
Non-taxation		6 644 087	5 521 975
Departmental receipts		6 382 022	4 315 849
Non-tax revenue	8	190 576	586 732
Provincial administration receipts	9	72 259	65 101
Mining leases and ownership		64 958	270 339
Customs miscellaneous revenue	10	(65 728)	283 954
Total revenue		314 562 472	290 775 620
Less: South African Customs Union Agreement Quarterly payments made by National Treasury in terms of the South African Customs Union Agreement	11	9 722 697	8 259 425
Net revenue for the year		304 839 775	282 516 195

Statement of change in net assets

for the year ended 31 March 2004

	2004 R'000
Administered assets	
Balance at 31 March 2002	(473 891)
Net gains and losses not recognised in the statement of financial performance	374 539
Net revenue for the year	282 516 195
Transfer to the National Revenue Fund	(282 141 656)
Balance at 31 March 2003	(99 352)
Net gains and losses not recognised in the statement of financial performance	(314 573)
Net revenue for the year	304 839 775
Transfer to the National Revenue Fund	(305 154 348)
Balance at 31 March 2004	(413 925)

Cash flow statement

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Cash flow from operational activities			
Cash received from operating activities	12	314 567 412	290 783 549
Taxation		308 185 390	286 467 700
Non-taxation		6 382 022	4 315 849
Cash transferred		(314 877 045)	(290 401 081)
Payments in respect of Customs Union Agreement		(9 722 697)	(8 259 425)
Cash to National Revenue Fund		(305 154 348)	(282 141 656)
Net cash (transferred)/retained from operations		(309 633)	382 468
Cash and cash equivalents at beginning of period		(112 352)	(494 820)
Cash and cash equivalents at end of period	13	(421 985)	(112 352)

Notes to the annual financial statements

for the year ended 31 March 2004

1. Accounting policies

1.1 Basis of accounting

In terms of the Public Finance Management Act No. 1 of 1999 (PFMA), SARS is required to comply with generally accepted accounting practice unless the Accounting Standards Board approves the application of generally recognised accounting practice.

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

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

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

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

1.2 Revenue recognition

1.2.1 Definition of revenue

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

1.2.2 Recognition of revenue

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

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

1.3 Revenue not recognised – Tax evasion

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

1.4 Cash and cash equivalent

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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

	2004 R'000	2003 R'000
2. Cash and cash equivalents	10 080	335 995
Receiver of Revenue (cash on hand)	9 998	335 272
Main control account – Regional offices	82	723
3. Other assets	8 060	13 002
South African Post Office Limited (VAT)	4 644	8 911
South African Post Office Limited	2 669	2 483
Provincial Administration	706	921
Accounts Receivable	41	687
The provincial debtor of R706 104 relates to monies owing by the Eastern Cape province as a result of an overpayment of provincial revenue by SARS during the 1999/00 financial year.		
4. Other liabilities	–	2
State departments	–	2
5. Income tax	171 962 773	164 565 931
Pay-As-You-Earn	94 592 507	90 386 522
Persons, individuals and companies	66 339 686	60 864 178
Secondary tax on companies	6 132 930	6 325 581
Tax on retirement fund industry	4 897 650	6 989 650
6. Value-added tax/Sales tax	80 681 755	70 149 852
Value-added tax	80 682 448	70 149 896
Sales tax	(693)	(44)
7. Other taxes	8 067 350	6 657 834
Transfer duties	5 172 062	3 429 046
Stamp duty	1 329 758	1 540 698
Marketable securities tax	1 101 147	1 205 176
Estate duty	417 130	432 726
Master fees	30 328	31 722
Donation tax	17 131	17 696
Levy on financial services	(206)	770

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

	2004 R'000	2003 R'000
8. Non-tax revenue	190 576	586 732
State fines and forfeitures	196 146	152 960
State licences	1 494	774
State miscellaneous revenue	(7 064)	432 998
State miscellaneous revenue: During the 2003/04 financial year, a significant amount of prior periods Payfin SMR entries have been resolved and consequently reduced it to a debit balance of R7 064 317. Of the R7 064 317 balance, R37 150 680 represents net revenue received by SARS which can not be allocated to specific revenue types. The writeback of stale cheques and other miscellaneous revenue items are also accounted for in this balance.		
9. Provincial administration receipts	72 259	65 101
Provincial administration consolidated account	72 259	65 101
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 province's Provincial Revenue Fund.		
10. Customs miscellaneous revenue	(65 728)	283 954
Customs miscellaneous revenue	(63 705)	283 656
Revenue in respect of other departments	(2 023)	298

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

	2004 R'000	2003 R'000
11. Payments in terms of Customs Union Agreement		
Contributions to the Common Customs Pool	20 860 141	20 759 938
Namibia	172 394	269 231
Botswana	161 104	175 556
Lesotho	69 787	33 930
Swaziland	49 838	31 435
Sub-total	453 123	510 152
South Africa	20 407 018	20 249 786
Received from the Common Customs Pool	20 860 141	20 759 938
Botswana	3 387 608	2 574 789
Namibia	3 035 612	2 596 880
Swaziland	1 877 778	1 617 786
Lesotho	1 421 699	1 469 970
Sub-total	9 722 697	8 259 425
South Africa	11 137 444	12 500 513
12. Reconciliation of net revenue for the year to total cash received		
Net revenue for the year	304 839 775	282 516 195
Adjusted for:		
Payments in terms of Customs Union Agreement	9 722 697	8 259 425
(Increase)/decrease in other assets	4 942	9 177
Increase/(decrease) in other liabilities	(2)	(1 248)
Total cash received	314 567 412	290 783 549
13. Cash and cash equivalents in respect of cash flow statement	(421 985)	(112 352)
Cash and cash equivalents	10 080	335 995
Bank	(432 065)	(448 347)

Notes to the annual financial statements (continued)

for the year ended March 2004

14. Sureties

(i) Lien – Sanlam shares

3 403 389 (3 541 833: 2002/03) Sanlam shares with a market value of R31 311 179 (R21 534 345: 2002/03) are held in respect of amounts owing by 5 015 (5 186: 2002/03) taxpayers at 31 March 2004.

(ii) Lien – Old Mutual shares

752 400 (2 586 000: 2002/03) Old Mutual shares with a market value of R8 810 604 (R24 799 740: 2002/03) are held in respect of amounts owing by 1 562 (3 336: 2002/03) taxpayers at 31 March 2004.

(iii) Guarantees

Guarantees issued by financial institutions in favour of SARS amounting to R2 897 175 763 (R2 690 402 435: 2002/03) 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 R1 916 502 007 (R1 670 615 413: 2002/03) has been written-off on or prior to 31 March 2004. Amounts still awaiting approval for write-off do not form part of actual write-offs.

16. Audit fees

Audit fees are provided for in Own Accounts.

17. Bank

Bank primarily comprises cheques issued but not yet presented for payment amounting to R500 738 180. The remaining amount of R68 672 246 relates to net reconciling items.

Annexure

Operational receivables and payables

Taxes

Outstanding debt (receivables) as at 31 March 2004

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

Outstanding credits/(payables) as at 31 March 2004

2003/04	Total credits R'000
Income tax	2 476 188 506
Assessed tax	2 476 188 506
Provisional tax	–
PAYE	10 451 396 354
PAYE	19 696 547 612
Returns not received	(9 245 151 258)
VAT	5 264 765 697
VAT	10 307 111 348
Returns not received	(5 042 345 651)
Sub-total	18 192 350 557
STC	321 018 563
Total	18 513 369 120

Customs

Outstanding debt/(receivables) as at 31 March 2004

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

Note

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.

Annexure (continued)

Write-offs 2003/2004

PAYE	Penalty	Interest
166 963,50	–	141 644,88
738 341,48	66 898,04	628 823,82
34 802 331,94	2 694 599,86	9 804 613,83
6 622 758,43	441 810,70	1 662 038,21
5 147 582,35	405 796,71	2 088 148,43
44 364 810,93	3 476 518,51	10 780 087,76
91 842 788,63	7 085 623,82	25 105 356,93

UIF	Penalty	Interest
2 560,08	241,35	24,67
1 880,76	188,10	416,01
81,38	–	0,20
1 436,16	90,24	73,52
5 958,38	519,69	514,40

SDL	Penalty	Interest
60 314,11	4 324,80	9 355,29
27 209,08	1 941,99	2 652,43
80 675,55	6 825,23	13 212,75
76 118,65	6 684,86	12 552,87
244 317,39	19 776,88	37 773,34

Annexure (continued)

Total PAYE	91 842 788,63
Total penalty	7 085 623,82
Total interest	25 105 356,93
	124 033 769,38
Total UIF	5 958,38
Total penalty	519,69
Total interest	514,40
	6 992,47
Total SDL	244 317,39
Total penalty	19 776,88
Total interest	37 773,34
	301 867,61

VAT	Add VAT	Penalty	Interest
736 998 700,31	149 017 122,64	50 404 821,25	369 297 047,47

Total VAT	736 998 700,31
Total add VAT	149 017 122,64
Total penalty	50 404 821,25
Total interest	369 297 047,47
	1 305 717 691,67
Total income tax	345 756 806,44
Total interest	336 948,98
Total penalty	140 347 930,15
	486 441 685,57
Total PAYE	124 033 769,38
Total UIF	6 992,47
Total SDL	301 867,61
Total VAT	1 305 717 691,67
Total income tax	486 441 685,57
Grand total	1 916 502 006,70

Own Accounts

"We at SARS have shown that if management demonstrates practically its commitment to its mission and objectives, achieving change at the operational level is relatively easy."

Pravin Gordhan

Contents

The annual financial statements set out on pages 90 to 107 were approved and signed on behalf of SARS's executive committee by:

P Gordhan
Commissioner

20 August 2004

Audit report on Own Accounts

AUDITOR–GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SOUTH AFRICAN REVENUE SERVICE'S (SARS) OWN ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 90 to 107, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 28 of the South African Revenue Service Act, 1997 (Act No. 34 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

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

An audit includes:

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

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

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

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of SARS's Own Accounts at 31 March 2004 and the results of its operations and cash flows for the year then ended, in accordance with Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

4. EMPHASIS OF MATTER

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

4.1 Progress with regard to property, plant and equipment

SARS has made progress with regard to the weakness in internal control relating to property, plant and equipment, as reported previously. These are noted on page 68 of the annual report of 2004.

4.2 Suspension: Head of Internal Audit

The head of Internal Audit, whose suspension on 30 July 2003 had been reported previously, was still suspended, pending the outcome of the SARS internal disciplinary process. However, SARS has taken the necessary steps to ensure that the suspension does not have a negative impact on the performance of the Internal Audit division.

5. APPRECIATION

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

S Labuschagne
for Auditor-General

Pretoria
20 August 2004

SARS Accounting Authority's report

for the year ended 31 March 2004

1. Introduction

The Accounting Authority presents his Annual Report that forms part of the Annual Financial Statements for SARS's Own Accounts for the year ended 31 March 2004. Specific reference has been made to Administered Revenue where applicable, alternatively all other statistics quoted are for Own Accounts.

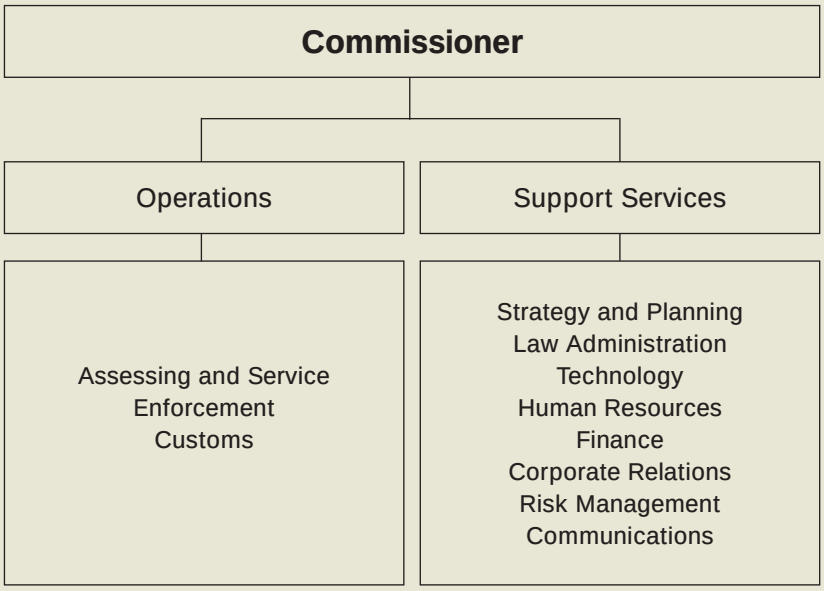
The South African Revenue Service (SARS) was established in terms of the South African Revenue Service Act, 1997 (Act No. 34 of 1997) as an organ of the state within the public administration, but as an institution outside the public service. It is listed as a national public entity in schedule 3A of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

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

2. Executive members

The members serving on the executive committee for the period under review were:
– PJ Gordhan (Chief Executive Officer and Accounting Authority)
– JJ Louw
– KD Jarvis
– V Pillay
– VR Shabalala
– MC Nkuhlu

3. Organisational structure



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 the legislation it administers
- Provide a customs service that will maximise revenue collection, protect our borders as well as facilitate trade

SARS Accounting Authority's report (continued)

for the year ended 31 March 2004

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

Own Accounts

The revenue for the year was made up as follows:

	% change	2004	2003
Revenue	8,9	3 590 759	3 298 112
– Grant received	8,3	3 326 322	3 071 886
– Donations	(100,0)	–	1 474
– Interest received	5,9	127 493	120 427
– Other revenue	31,3	136 944	104 325

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

Other revenue consists mainly of commissions earned from acting as the agent for the Department of Labour in collecting Unemployment Insurance Fund contributions (UIF) in terms of the Unemployment Insurance Contributions Act, 2002, and Skills Development Levies (SDL) in terms of the Skills Development Levies Act, 1999.

The net surplus for the year for the entity was as follows:

	% change	2004	2003
Balance accumulated surplus on 1 April		1 011 354	591 726
Net surplus for the year	(93,3)	27 941	419 628
Balance accumulated surplus at 31 March	2,8	1 039 295	1 011 354

Administered Revenue

The net revenue for the year for Administered Revenue was R304 839 775 (2003: R282 516 195). Administered Revenue does not retain funds as taxes collected are transferred to the National Revenue Fund on a daily basis.

Revenue for Administered Revenue comprises the taxes collected for the year. The net revenue is the amount after payments made to the South African Customs Union. The operating expenditure for Administered Revenue is provided for in the Own Accounts budget.

	% change	2004	2003
Total revenue	8,2	314 562 472	290 775 620
SA Customs Union Agreement	17,7	(9 722 697)	(8 259 425)
Net revenue	7,9	304 839 775	282 516 195

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

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. There is, however, no litigation which is not of a conventional nature.

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

Capital and reserves

Capital and reserves consist mainly of the initial capital reserve on establishment of SARS and the reserve created on initial valuation of its assets. Barring exceptional circumstances these reserves tend not to change. For the period under review no changes took place.

The accumulated surplus will change in line with the operational results for the year (2004: R1 039 295/2003: R1 011 354).

SARS Accounting Authority's report (continued)

for the year ended 31 March 2004

Assets

For the period under review SARS has continued to invest in selected categories of assets to meet its strategic objectives. During the year management took a conservative view on the value of intangible assets and decided to charge the residual value of intangible assets to the income statement as conditions to warrant the continued capitalisation of such costs could not be justified.

In order to align its practices on fixed assets with best practices, management decided to increase the limit of asset capitalisation to R2 000 per unit. This led to a charge to the income statement of R40 million during the year.

8. Materiality and significant framework

A materiality and significant framework has been developed for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as for significant transactions envisaged per section 54(2) of the PFMA that requires ministerial approval. During the period under review SARS has established a Risk division to further enhance its capability to deal with risk within its areas of responsibility.

9. Public/private partnerships

The entity has commenced a project for the procurement and implementation of a scanner project for Customs. To ensure the effectiveness of the partnership a transaction advisor was appointed to assist in the whole project life cycle, from feasibility through to implementation. Provided the necessary approvals are obtained the project is expected to commence in the next financial year.

10. Events subsequent to the balance sheet date

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

11. Stakeholder relations

For the period under review the entity has enjoyed constructive relations with its stakeholders in the public sector, non-governmental organisations, organised business, and professional associations. To this end, the organisation has established a Corporate Relations Office which will further enhance and manage its stakeholder relations and management. SARS recognises the taxpayer as an important stakeholder and has sought throughout to continually communicate with and educate the taxpayer with the view of enhancing the existing relationship.

12. Social responsibility

SARS has through its wellness programme sought to counsel employees on work and family-related problems. This was extended to launch and enhance education and counselling on HIV/AIDS-related diseases. A group life insurance scheme was launched in the year to provide additional benefits in certain cases of death or disability. Membership of an approved medical aid scheme has been made compulsory.

In addition, SARS has established a Corporate Social Investment Office that looks at the broader community involvement of the organisation.The overall objectives of Corporate Social Investment (CSI) policy is to contribute to the social and economic stability of the country. The focus areas of the SARS CSI policy are employee community involvement/volunteerism, "Give as you earn" programme and the donation of redundant goods/assets.

Projects have been identified and evaluated by the CSI Management Committee as per the policy and relate to, but is not limited to, taxpayer education within the SMMEs, literacy, HIV/AIDS, disablement and women.

13. Addresses

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

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

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

Balance sheet

as at 31 March 2004

	Notes	2004 R'000	2003 R'000
Assets			
Non-current assets		462 074	297 405
Property, plant and equipment	9	462 074	278 878
Intangible assets	10	–	18 527
Current assets		1 036 148	1 093 678
Trade and other receivables	11	89 151	42 984
Cash and cash equivalents	16	946 997	1 050 694
Total assets		1 498 222	1 391 083
Capital, reserves and liabilities			
Capital and reserves		1 119 961	1 092 020
Asset revaluation reserve	12	48 302	48 302
Capital reserve on establishment	13	32 364	32 364
Accumulated surplus		1 039 295	1 011 354
Current liabilities		378 261	299 063
Trade and other payables	14	214 343	183 133
Provisions	15	163 918	115 930
Total capital, reserves and liabilities		1 498 222	1 391 083

Income statement

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Revenue	3	3 590 759	3 298 112
Expenses		3 562 807	2 878 460
Administrative expenses		691 514	589 041
Depreciation	4	157 864	99 275
Amortisation	4	18 527	15 026
Miscellaneous expenses		10 848	2 938
Personnel expenses		2 209 619	1 658 413
Professional and special services		474 435	513 767
Profit from operations		27 952	419 652
Finance cost	5	11	24
Net profit for the year		27 941	419 628

Statement of changes in capital and reserves

for the year ended 31 March 2004

	Asset revaluation reserve R'000	Capital reserve on establishment R'000	Accumulated surplus R'000	Total R'000
Balance at 1 April 2002	48 302	32 364	591 726	672 392
Net surplus for the year	–	–	419 628	419 628
Balance at 31 March 2003	48 302	32 364	1 011 354	1 092 020
Net surplus for the year	–	–	27 941	27 941
Balance at 31 March 2004	48 302	32 364	1 039 295	1 119 961

Cash flow statement

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Cash flows from operating activities		237 083	617 175
Net surplus for the year		27 941	419 628
Adjustments for:			
Depreciation		157 864	99 275
Amortisation		18 527	15 026
(Profit)/loss on sale of assets and scrapping of intangible assets		(280)	15
Interest received		(127 493)	(120 427)
Finance charges		11	24
Operating surplus before working capital changes		76 570	413 541
Working capital changes		33 031	83 231
(Increase)/decrease in accounts receivable		(46 167)	46 717
Increase in accounts payable		79 198	36 514
Cash generated from operations		109 601	496 772
Interest received		127 493	120 427
Finance charges		(11)	(24)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(342 601)	(205 695)
Proceeds from sale of property, plant and equipment		1 821	794
Increase/(decrease) in cash and cash equivalents		(103 697)	412 274
Cash and cash equivalents at beginning of year		1 050 694	638 420
Cash and cash equivalents at end of year	16	946 997	1 050 694

Notes to the annual financial statements

for the year ended 31 March 2004

1. Background

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

2. Statement of accounting policies

2.1 Presentation of annual financial statements

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

2.2 Revenue recognition

SARS's chief source of income is an annual grant from Parliament for its services, based on estimated expenditure for performing any specific act or function on behalf of Government in the collection of administered revenues. The annual grant and any additional grants that pertain to expenditure not budgeted for are accounted for when they accrue.

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

2.3 Donations

Where donations are received in kind, the amounts are not brought to account as revenue, but the approximate value of benefits received are disclosed by way of note (refer to note 7).

2.4 Other revenue

Other revenue earned by SARS consists mainly of commissions earned in its function as an agent for collection of contributions to the skills development levy as well as the Unemployment Insurance Fund.

2.5 Retirement benefit plans

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

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

Refer to note 20 for details regarding the actuarial valuation method used to determine the fund's financial health.

2.6 Property, plant and equipment

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

The assets were valued on the following basis:

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

2.6.1.2 Furniture and fittings and office equipment were counted, bar-coded and valued at a fair value per item counted. The fair value is based on a comprehensive database maintained by the consultants responsible for the asset project, who are specialists in this field.

2.6.1.3 Computer equipment was counted, bar-coded and valued at a fair value per item counted. The fair value is based on a comprehensive database maintained by the consultants responsible for the asset project, who are specialists in this field.

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

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

Cabling infrastructure	5 years
Computers (mainframe)	5 years
Computers (personal and printers)	3 years
Furniture and fittings	6 years
Garden equipment	3 years
Kitchen equipment	6 years
Laboratory equipment	5 years
Leasehold improvements	Over the life of the asset or the lease period, whichever is the shorter
Office equipment	5 years
Prefabricated buildings	5 years
Security equipment	5 years
Software (mainframe)	3 years
Software (personal computers)	3 years
Vehicles	5 years

2.6.3 Fixed property consists of land and improvements thereto for occupation by employees.
Fixed property is recognised at its initial cost and revalued every three years by recognised professional valuers to net realisable open market value for existing use. The carrying value of the properties is adjusted to the revalued amounts and the resultant surplus credited to the asset revaluation reserve. Impairment losses will be treated as a revaluation decrease to the extent that the impairment loss does not exceed the revaluation surplus for that same asset. Impairment losses over and above the revaluation surplus will be expensed to the income statement.

2.7 *Intangible assets*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from in-house developed software is recognised only if the following conditions are met:
– An asset created can be identified;
– It is probable that the asset created will generate future economic benefits; and
– The development cost of the asset can be measured reliably.

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

2.8 *Financial assets and liabilities*

Financial assets

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

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

Financial liabilities

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

Significant financial liabilities include trade and other payables.

Trade and other payables are stated at their nominal value.

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

	2004 R'000	2003 R'000
3. Revenue		
Grant received	3 326 322	3 071 886
Donations	–	1 474
Interest received	127 493	120 427
Other revenue	136 944	104 325
	3 590 759	3 298 112
4. Profit from operations		
Profit from operations has been carried after taking into account the following:		
Auditors' remuneration		
– Audit fees	19 430	24 020
Depreciation on fixed assets		
– As previously stated	117 533	99 275
– Change in accounting estimate	40 331	–
	157 864	99 275
During the year SARS decided to raise the capitalisation limit of its assets to R2 000 unit value compared to R500 previously. This resulted in a change in accounting estimate.		
Amortisation on intangibles – computer software		
– As previously stated	4 044	15 026
– Change in accounting estimate	14 483	–
	18 527	15 026
During the year under review management has taken the view that the criteria of AC129 cannot be met given the current transformation of SARS and that consequently no development expenses should be capitalised. The balance of the intangible assets was written off and this resulted in a change in accounting estimate.		
5. Finance cost		
Interest paid on retention fees held	11	24

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

6. Executive members' remuneration

Designation	Salary	Bonus	Allowances	Contributions medical and pension	2004 R'000 Total	2003 R'000 Total
Commissioner for SARS	1 261	300	168	12	1 741	1 162
Chief Information Officer (2003 – 5 months)	1 211	159	161	9	1 540	531
GM: Law Administration	534	118	149	86	887	717
GM: Finance	–	–	–	–	–	834
GM: Assessments	–	–	–	–	–	612
GM: Human Resources	–	–	–	–	–	606
GM: Strategy and Planning	621	89	140	8	858	701
GM: Taxpayer Services	–	–	–	–	–	728
GM: Enforcement	536	119	137	87	879	711
GM: Internal Audit	–	–	–	–	–	593
GM: Customs	534	118	146	85	883	680
Total	4 697	903	901	287	6 788	7 875

No remuneration reflected in the current year indicates that the respective members did not serve on the executive committee.

7. Donations

	2004 R'000	2003 R'000
SARS received the following donated benefits in kind:		
a) SIDA – Swedish International Development Agency Short-term advisors, technical assistance and training Study visits Residential and non-residential training	6 150	5 424
b) DFID – UK Department for International Development Technical assistance and training on various Siyakha – Customs initiatives	16 154	15 721
Total	22 304	21 145

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.

8. Tax status

SARS is exempt from the payment of income tax in terms of section 10(1)(cA) of the Income Tax Act of 1962.

SARS is a registered VAT vendor and pays output VAT on grants received, less input VAT on applicable expenditure.

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

9. Property, plant and equipment

For the year ended 31 March 2004

	Computer equipment R'000	Computer software R'000	Fixed property R'000	Furniture, fittings and office equipment R'000	Leasehold improve-ments R'000	Security equipment R'000	Motor vehicles R'000	Total R'000
At cost or valuation								
Opening balance – 1 April 2003	437 451	44 571	365	136 776	27 915	13 910	61 996	722 984
Additions	108 917	160 799	–	7 453	45 069	797	19 566	342 601
Write-offs on change in estimate	(14 889)	(691)	–	(100 265)	–	(162)	–	(116 007)
Scrappings	(2 475)	(20)	–	(718)	–	(499)	–	(3 712)
Disposals	(1 732)	(5)	–	(5)	–	–	(6 353)	(8 095)
Closing balance – 31 March 2004	527 272	204 654	365	43 241	72 984	14 046	75 209	937 771
Accumulated depreciation								
Opening balance – 1 April 2003	311 206	15 353	–	72 515	–	2 915	42 117	444 106
Charge for the year	61 768	35 027	–	44 481	5 825	2 780	7 983	157 864
Write-offs on change in estimate	(14 889)	(691)	–	(100 265)	–	(162)	–	(116 007)
Scrappings	(1 942)	(14)	–	(300)	–	(225)	–	(2 481)
Disposals	(1 485)	(2)	–	(1)	–	–	(6 297)	(7 785)
Closing balance – 31 March 2004	354 658	49 673	–	16 430	5 825	5 308	43 803	475 697
Carrying amount – 31 March 2004	172 614	154 981	365	26 811	67 159	8 738	31 406	462 074

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

9. Property, plant and equipment (continued)

For the year ended 31 March 2003

	Computer equipment R'000	Computer software R'000	Fixed property R'000	Furniture, fittings and office equipment R'000	Leasehold improve-ments R'000	Security equipment R'000	Motor vehicles R'000	Total R'000
At cost or valuation								
Opening balance – 1 April 2002	335 897	30 654	–	105 003	–	7 796	51 167	530 517
Additions	104 540	13 917	365	34 076	27 915	6 114	12 503	199 430
Disposals	(2 986)	–	–	(2 303)	–	–	(1 674)	(6 963)
Closing balance – 31 March 2003	437 451	44 571	365	136 776	27 915	13 910	61 996	722 984
Accumulated depreciation								
Opening balance – 1 April 2002	261 460	3 123	–	53 346	–	804	32 254	350 987
Charge for the year	52 716	12 230	–	20 874	–	2 111	11 344	99 275
Disposals	(2 970)	–	–	(1 705)	–	–	(1 481)	(6 156)
Closing balance – 31 March 2003	311 206	15 353	–	72 515	–	2 915	42 117	444 106
Carrying amount – 31 March 2003	126 245	29 218	365	64 261	27 915	10 995	19 879	278 878

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

10. Intangible assets

	2004 R'000	2003 R'000
In-house developed software		
At cost or valuation	73 227	73 227
Opening balance	73 227	66 962
Additions	–	6 265
Accumulated amortisation	73 227	54 700
Opening balance	54 700	39 674
Charge for the year	18 527	15 026
Carrying amount	–	18 527

Development costs are capitalised if they comply with the requirements of AC129.

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

SARS At Your Service

	2004 R'000	2003 R'000
11. Trade and other receivables		
Accounts receivable – current and former staff	8 550	8 987
Less: provision for doubtful debts	3 544	1 177
	5 006	7 810
Government departments	33 122	28 292
Refundable deposits	8 760	610
Other receivables	142	6 272
Pre-payments	42 121	–
Total	89 151	42 984
12. Asset revaluation reserve		
Carrying amount – beginning of year	48 302	48 302
Movement during the year	–	–
Balance at 31 March 2004	48 302	48 302
13. Capital reserve on establishment		
Surplus of assets over liabilities transferred from Government on 1 October 1997	32 364	32 364
Movement during the year	–	–
Balance at 31 March 2004	32 364	32 364
14. Trade and other payables		
Trade accounts payable	3 702	15 644
Accruals for salary-related expenses	88	24
Other accruals	169 187	138 478
Other payables	217	282
Retentions	4 391	3 308
Project advances	33 645	7 450
VAT payable	3 113	17 947
Total	214 343	183 133

	Performance and service bonuses	Leave pay	Hay back pay	Other	Total
15. Provisions					
At 31 March 2003	59 666	32 505	23 295	464	115 930
Additional provisions	103 327	61 379	–	–	164 706
Utilisation of provision	(61 745)	(32 505)	(22 004)	(464)	(116 718)
At 31 March 2004	101 248	61 379	1 291	–	163 918

Performance, service bonuses and leave pay provisions represent estimated liabilities arising as a result of services rendered by employees. Hay back-pay provision represents the entity's estimated obligation towards the settlement of amounts due in terms of potential claims relative to its Hay grading scheme.

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

	2004 R'000	2003 R'000
16. Cash and cash equivalents		
Bank balances and cash comprise cash and short-term, highly liquid investments that are held with registered banking institutions that are subject to insignificant interest rate risk. The carrying amount of these assets approximate their fair value. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Bank balances	218 125	343 233
Short-term investments	728 556	707 130
Bank overdrafts	–	(1)
Cash on hand	316	332
	946 997	1 050 694
17. Contingent liabilities		
Guarantees issued to various financial institutions in respect of housing loans granted to employees	27 552	16 226
Accumulated leave prior to 31 December 1998	91 130	89 877
	118 682	106 103
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 15.		
18. Capital commitments		
Commitments for the acquisition of property, plant and equipment:		
– Contracted for but not provided in the financial statements	16 068	54 217

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

	2004 R'000	2003 R'000
19. Operating lease commitments		
At 31 March the future minimum operating lease commitments are:		
Within one year:	204 415	127 917
Property	193 880	121 672
Equipment	10 535	6 245
Between two and five years:	1 009 105	353 934
Property	999 869	347 988
Equipment	9 236	5 946
In more than five years:		
Property	910 694	79 626
	2 124 214	561 477

20. 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, property and fixed income securities. The Fund is governed by the Government Employees Pension Law.

SARS has no responsibility regarding any funding of a shortfall of the pension fund. The obligation to fund any shortfall resides with national Government.

According to rule 4.9 of the Fund, the entire Fund is subject to an actuarial valuation once every three years. NBC Employee Benefits (Pty) Limited was commissioned by the Minister of Finance, in his capacity as a member of the interim Board of Trustees, to perform an actuarial valuation of the Fund as at 31 March 2001. The previous valuation was performed as at 31 March 2000. It is the opinion of the actuaries that the Fund is in a sound financial position as the funding level is above 95% as at the valuation date.

No current audited accounts for the pension fund were available at the time SARS's Own Accounts were completed. The notes used for the valuation, as well as the comparatives, were therefore based on the most recent valuations done.

Notes to the annual financial statements (continued)

for the year ended 31 March 2004

	31 March 2001	31 March 2000
20. Retirement benefit plans (continued)		
Principal assumptions used:		
The accrual of future benefits be funded at	100%	100%
The deficit in respect of past-service benefits be redeemed as soon as possible to achieve a funding level of	100%	100%
A long-term inflation rate	10%	10%
A long-term salary inflation rate	11%	11%
Pension increases are provided for	7,5%	7,5%
The interest rate to discount the assets and liabilities	14%	14%
Growth in dividends	11%	11%
Fair value of assets	R'm	R'm
Fair value of investments	223 078	199 412
Fixed assets and net current assets	1 661	2 369
Provision for tax	(7 889)	(6 852)
	216 850	194 929
Fair value of liabilities		
Contributing members	138 048	124 858
Pensioners	77 516	73 005
Dormant members	–	3
Data and contingency reserves	5 390	4 947
	220 954	202 813

SARS At Your Service

	2004 R'm	2003 R'm
20. Retirement benefit plans (continued)		
Financial position		
Actuarial value of assets	216 850	194 929
Actuarial value of liabilities	220 954	202 813
Deficit	(4 104)	(7 884)
Past-service costs	220 954	202 813
Contributing members	138 048	127 980
Retirement	85 947	79 074
Ill health	28 942	26 761
Death	9 483	8 794
Resignation	13 676	13 351
Dormant members	5 390	3
Pensioners	77 516	74 830
Retirees	64 732	65 754
Spouses	12 784	9 076

The investment return achieved on actuarial value of the assets was 14,6% compared to 15% for the previous period.

The financial health of the Fund is measured by reference to its ability to generate enough income through future investment returns and contributions to pay for the benefits of the members as and when they fall due.

Pension fund contributions (employer contribution incl. in personnel expenditure)	141 550	121 862

21. 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.

"Like the society we serve, SARS is in a perpetual state of transformation. 2004 was certainly no exception."

Pravin Gordhan

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RP: 175/2004
ISBN: 0-621-35246-2

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