



Portfolio Committees
on Finance (PCOF)

30 May 2006

SARS Response to PCOF
report on Strategic plan 05/08

**RESPONSE TO THE COMMENTS SUBMITTED BY THE PORTFOLIO COMMITTEE
ON FINANCE ON 6 APRIL 2005 ON THE SARS PRESENTATION OF THE 2005/08
STRATEGIC PLAN AND MTEF**

1. The memorandum titled ***"A summary of key issues raised in the hearing on the 2005/08 Strategic Plan and MTEF of the South African Revenue"*** submitted to SARS by the Portfolio Committee on Finance on 6 April 2005 refers.
2. SARS acknowledges the Committee's comment with thanks and appreciates the opportunity to respond in the spirit of deepening our cooperation with the Committee in the broader interest of democracy as well as the South African general public, taxpayers and traders.
3. Against that background, we wish to react generally to the summary of the key issues raised and, in particular, the recommendations contained at the end of the document.
4. With regard to the summary of the key issues, we concur with the content and confirm that it is a true and fair reflection of SARS' input during the session.
5. With regard to the specific recommendations, we wish to respond as follows:
 - 5.1 ***That SARS continue to take measures to ensure the retention of managerial staff so as to secure the long term effectiveness of the organization given that it has a key role to play in the building of the nation***

Retention of staff by SARS is linked to amongst others proper career pathing, appropriate rewarding and succession planning. These are the major focuses of the SARS People Development Plan which will be completed in and implemented incrementally from 2006/07.
 - 5.2 ***That SARS investigate the abuse of travel allowances which was referred to by the Minister of Finance in his Budget Speech and that action be taken against those found to be abusing the system***

SARS has continued to strengthen the regulation of travel allowances through legal amendments, enforcement campaigns and enhanced engagement with taxpayers. In particular, the following legal amendments were adopted during the past two years:

- Capping the car value at R360 000 (as of 1 March 2005)
- Deemed private kilometers have increased from 14 000 to 16 000 in 2005, and to 18 000 in 2006
- Simultaneously, new cost tables, adjusting the maintenance and fuel costs to reflect the latest applicable average running cost for motor vehicles, were published and are reviewed annually
- The monthly taxable fringe benefit for the use of a company car was increased from 1.8% to 2.5% effective from 1 March 2006
- The percentage of the monthly motor vehicle allowance subject to tax was increased from 50% to 60% effective from 1 March 2006.

During 2005/06, SARS undertook focused audits of travel allowance deductions. As part of the engagement drive, taxpayers were reminded by sms and through an advertisement campaign to record their odometer readings on 28 February 2006. Verifying and validating of travel claims continue to form part of general audits in taxpayers in any event.

5.3 That SARS continue to explore ways of expanding the tax base so as to ensure that all who should be paying taxes do so. In this regard, the Committee commends the approach SARS has adopted using educational and outreach programmes aimed at drawing players in the second/informal economy into the tax net but urges that SARS take vigorous legal action where flagrant non-compliance is uncovered particularly by well-resourced taxpayers

Taxpayers display different attitudes and behaviours that range from compliant, willing to be compliant, reluctant to comply and intentionally non-compliant. SARS compliance approach is to apply differentiated service, education and enforcement responses tailored to different attitudes and behaviours. For example, a successful service and education initiative has been the SARS Filing

Season campaigns of 2004 and 2005. Both years saw an increased number of return filings before the deadline date and an increase in new taxpayers on register.

The foreign exchange and the small business amnesties are other initiatives aimed at increasing the tax base. Under the foreign amnesty, R65 billion in foreign assets were declared. SARS collected some R 2,9 billion in levies from 42 183 approved applications. The small business amnesty process, due to begin on 1 August 2006, provides a further opportunity for small business to normalize its tax affairs with the SARS. SARS released for public discussion and comment its report on new general anti-avoidance rules, to create a more effective deterrent to tax avoidance.

Vigorous enforcement action was taken in relation to reluctant and intentional non-compliers. In 2005/06, successful prosecutions increased by 81 convictions against the 2004/05 year. This is an improvement of 27% in successful prosecutions. Furthermore, a list containing 347 convictions on individuals and businesses will be published in the national newspapers shortly.

SARS' business intent remains to optimise revenue collections in a way that instills community confidence that our tax system is working effectively so that we can improve compliance and in so doing contribute significantly to funding Government's developmental agenda.

5.4 ***That SARS prioritize strengthening its relationship with the NPA so as to ensure the development of the necessary capacity to prosecute tax and customs cases***

SARS and the NPA are continuing their efforts to increase the number of prosecutions of tax and customs cases. A report on the state of the SARS-NPA relationship was submitted during June 2005 and supplemented by oral clarification on during the October 2005 MTEC hearing. Since then, a coordinating committee and a joint task team have been established to evaluate the functioning of both Criminal Investigations and the Specialised Tax Unit. A

joint report recommending ways to further enhance cooperation has been drafted and is under consideration by SARS and the NPA. In addition, 48 prosecutors were trained by the SARS Academy on basic taxation aspects and the same candidates received further in-depth training on areas of NPA concern such as customs, estates and trusts.

5.5 That SARS submit its report card on achievements for the previous year prior to hearings

The Committee's attention is drawn to the Information Pack containing SARS Report Cards for 2005/06 and supporting information submitted in advance to all Members.