



improving the health system, completing the land restitution programme, and building community infrastructure. In total over R55 billion in additional allocations have been made over the next three years in the areas mentioned. A number of tax interventions to assist small business and a general cut in the corporate tax rate of 1% were announced to support growth in these sectors. Minister Manuel set revenue collection targets of R372.8bn for 2005/06, R414.2bn for 2006/07 and R453.7bn for 2007/08.

SARS operates in a global and continental context. A wave of democratisation, good governance and sound economic management has been sweeping the world in recent years. This has been accompanied by a new political and economic assertiveness among developing countries seized by a determination to improve the lives of millions of their citizens - the majority of the world's population.

Reducing debt, increasing trade, improving economic management and political governance are the keystones of NEPAD and other similar programmes. A crucial aspect of these programmes is sound fiscal management. A vital role in this regard is played by the development and execution of appropriate tax and trade policy, the establishment of independent and effective tax and customs administrations and the creation of the right compliance culture and socio-political ethos.

South Africa's fiscal policy, complemented by sound tax and trade policy, and an increasingly effective tax and customs administration - SARS - certainly demonstrates the South African government's commitment to the above objectives.

In pursuit of this mandate, SARS will continuously enhance its operations to build on the gains realised to date, whilst at the same time transforming the agency to



ensure that we are able to sustain delivery over the long term. Pursuant to the Siyakha change program, the benefits of the first wave of change have been illustrated in:

- Consistent and robust growth in the levels of revenue collected. In 2004/05, SARS exceeded the target of R 345,3bn;
- Improved efficiencies: in a short period of time, SARS has overhauled many of its procedures and systems and introduced standardised processes;
- Increased levels of compliance; and
- Improved services to taxpayers and traders and the introduction of additional channels of interaction.

Notwithstanding the achievements to date, SARS still faces formidable challenges. These emanate from increased complexity in both the external and internal environments. More specifically we are required to respond to the need to protect our economy from illicit trade, to continue broadening the tax base and to inculcate a culture of fiscal citizenship. All of which requires that we build organisational capability on all fronts.

Responding to these challenges will require that SARS becomes smarter, more visible, more accessible and more responsive. SARS staff are the key asset in taking SARS forward to becoming a knowledge based and learning organisation. Integral to achieving this is the challenge to develop its people and establish a cadre of progressive, professional managers. The rapid expansion of the tax base has been met by a growth in staff numbers, but SARS still faces the challenge of developing appropriate skills and a service culture. Similarly, further progress is required to ensure that processes and systems meet the requirements of an expanded and complex tax base.

## 4. OUR ASPIRATIONS



In order to adequately meet these challenges SARS needs a clear vision, a definitive roadmap and a coherent strategy that emphasises measurable action and delivery. We will therefore focus on improved performance and better utilisation of capital and operating funds.

Accordingly, the 2005-2008 Strategic Plan sets out SARS' contributions to national developmental goals by providing the funding for Government's Programme of Action, administering trade and protecting our economy against illicit trade.

In addition, this strategic plan sets out:

- SARS' aspirations to become an effective and innovative public administration institution that consistently delivers upon its mandate whilst enhancing performance and transforming the institution;
- Internal and external challenges that affect our operations and opportunities to reduce the tax gap, improve service delivery, strengthen the protection of the economy against illicit trade and improve facilitation of legitimate trade;
- SARS' business approach which outlines how the compliance model will be implemented and complemented by specific focus areas;
- The strategic objectives, outcomes, key measures and targets which will provide the framework and discipline to deliver on our mandate and meet our aspirations. In this period SARS will manage performance more intensely and ensure that a stronger foundation is laid for sustained performance;
- In the context of the programme, specific priority areas have been identified, which include customs, small business development, large business, audit and the SARS Service Charter; and
- A resource plan that reflects how resources will be allocated to ensure implementation of the strategy.



## 4. OUR ASPIRATIONS



After 10 years of democracy, South Africa is still very much in the process of reconstructing and developing the country and building strong state institutions. The rebuilding and redesigning of a tax and customs administration is part of nation building and creating a strong state. This requires a new mindset, paradigm and approach to tax and customs compliance among South Africans, which is indispensable to future democratic governance and the effectiveness of SARS.

It is recognised that the reconstruction of institutions, retaining that which is good in the old and introducing new elements, moulding a new service strategy, service culture, operational efficiency, business innovation and a new people capability cannot be achieved overnight.

This is the challenge that the Minister of Finance has set for SARS.

SARS is mindful of the context outlined above and believes that the following aspirations must inform our operational and transformational programmes:

- a) We will embrace an administration that is impartial, independent, consistent and fair;
- b) We will engender a compliance approach that incentivises compliance, disincentivises non-compliance and reduces the opportunities for non-compliance through education, service and enforcement activities;
- c) We will administer and collect revenue in accordance with the law and in a manner that will sustain community confidence in the revenue system and its administration, reduce the administrative burden on the taxpayer and reduce the cost of doing business with SARS;
- d) We will administer and facilitate legitimate trade, protect the economy against illicit trade and heighten economic security;
- e) We will broaden the tax base by bridging the gap between the formal



## 5. CHALLENGES AND OPPORTUNITIES

and informal economy as well as simplifying and consolidating various processes;

- f) We will promote the formation of a new ethics-driven corps of tax and customs professionals;
- g) We will work with other government departments and agencies to bring together, at a single point of contact, government services aimed at taxpayers and traders, particularly in pursuit of government's small business strategy; and
- h) We will actively contribute to the socio-economic development of Africa and regional economic integration in line with NEPAD.

SARS will contribute to the development of a social culture of compliance, build a resilient and professional organisation at the service of the Government and the people and deliver on annual and MTEF targets with increasing efficiency and effectiveness.

### THESE ASPIRATIONS ARE MOTIVATED AND GUIDED BY OUR:

#### **CORE VALUES...**

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

#### **AND PRINCIPLES**

- Transform our culture to one that is professional, flexible, service-orientated, results driven, able to cope with change and that creates new knowledge
- Promote a service ethic that is focused on meeting the needs of our taxpayers and traders
- Invest in our people in a way that enhances performance and promotes job enrichment and self-development
- Recognise and reward performance of high quality
- Empower staff by encouraging innovation and knowledge-sharing in a supportive, learning environment
- Provide assistance and support to employee wellness
- Communicate and share information regularly with staff



## 5. CHALLENGES AND OPPORTUNITIES



Over the recent period SARS has demonstrated an ability to provide the funds necessary to finance Government's developmental programmes. In the face of formidable challenges in the current MTEF period SARS must fully recognise the internal and external challenges, respond to them and exploit new opportunities.



Given the current economic climate SARS has the opportunity to expand the revenue base and optimise revenue collection. Faster growth coupled with efforts to improve the environment for doing business and addressing poverty alleviation more effectively results in improved chances for sustainable improvement in the prosperity of all. As a consequence of the stronger growth, employment has gradually begun to improve. At the same time, the gap between the First and Second economies continues to widen. SARS will endeavour to better understand the inner workings and mechanics of this Second economy in order to better integrate new entrants into the tax base.

Globalization, free trade agreements and e-commerce are triggering countless trade and investment opportunities for South African business. At the same time rogue traders and organized crime syndicates pose economic security challenges such as weapons and drug smuggling, money laundering and counterfeit trading. Although South Africa has shown steady increases in growth of trade over the past 10 years, we still only capture a small percentage of global trade. In order to capture a greater share of cross border trade the South African trade supply chains will have to deliver volumes, prices, safety, security and overall service and consumer satisfaction in a more efficient and effective way than competing countries.

From a regional perspective, harmonisation of laws, policies, processes and procedures among Southern African Development Community (SADC) and Southern African Customs Union (SACU) member states is vital for stimulating growth and prosperity within the region. The African Union within the framework of NEPAD has provided the impetus for growth of the African economy in relation to the global economy. There is also an increasing expectation for South Africa to take a leadership role on the continent by providing support and insight with respect to political and economic governance.

Running parallel to the increase in complexity, are global initiatives to drive international standardisation and harmonisation across trade and economic activity. These developments are resulting in additional rules and standards being developed by the World Trade Organisation (WTO) and the World Customs Organisation (WCO) that will have to be implemented by SARS. In addition, SARS is challenged by the use of tax havens, aggressive tax planning schemes that are exploited by global players as well as transfer pricing by multi-national corporations.

Whilst significant improvements have been recorded in recent years, South Africa is still emerging from a legacy of non-compliance. South African society has not yet achieved optimum levels of compliance. The challenge for SARS is to entrench a culture of compliance through education, service and enforcement without imposing unnecessary administrative burdens and costs on taxpayers/traders.

To adequately respond to the challenges requires that SARS becomes smarter, more visible, more accessible and more responsive. This will necessitate SARS developing both innovative, skilled staff and a cadre of progressive, professional managers, all exhibiting the behaviours and attitudes suitable to an outward looking, citizen centric approach. Additionally, processes and systems will need to be constantly upgraded to meet the demands of an increasingly complex taxpayer and trading base.



## 6. OUR BUSINESS APPROACH



SARS has formulated a multi-pronged business approach to realise our aspirations and to meet the new challenges. The main elements of the SARS business approach are:

- a) An outward focused approach that emphasises environmental awareness and knowledge of our taxpayer and trader base.
- b) A risk based audit methodology that directs enforcement activity to high risk areas;
- c) A compliance model which balances education, service and enforcement;
- d) A strategy to undertake a series of campaigns that raise levels of awareness among taxpayers, traders and tax practitioners and that encourages a culture of compliance.
- e) Increased control of smuggling and illicit trade;
- f) Increased operational efficiency;
- g) People development;
- h) Synergy between tax and customs;
- i) Partnerships and accords.



**Figure 1: Business approach**

### **(a) Understanding the tax base: becoming more “outward-looking”**

Fundamental to developing a sound business approach is a keen understanding of the South African tax base and the broader environment within which SARS operates. In the MTEF period ahead SARS will undertake in-depth analysis to develop a more sophisticated understanding of the tax base. The result will be a more definitive segmentation scheme both in respect of the major categories of





taxpayer (for example small business, large business and salaried individual) and sectors within these categories (for example agriculture, labour brokers and services).

**(b) Risk based profiling**

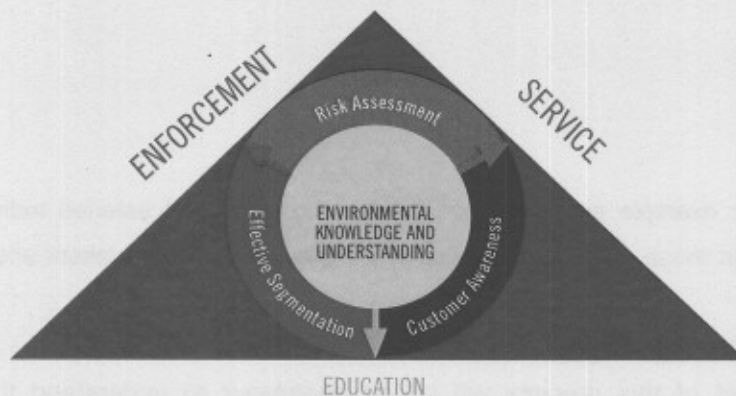
A key aspect of this process will be an endeavour to understand the specific taxpayer and trader behaviours and preferences with a view to improving the services offered to them. At the same time, there will be an assessment of risk in each sector which will inform the development of appropriate mitigating strategies. In time, increased use of electronically accessed third party data and enhanced data mining will also complement our ability to proactively identify high risk areas.

**(c) SARS compliance model**

The SARS compliance approach was developed on the basis of approaches adopted in this area by sister administrations elsewhere in the world. South Africa's own specific historical and social context has informed the adaptation of the compliance model that we will implement.

The model is premised on the following:

- a) The majority of taxpayers will prefer compliance over non-compliance provided that they are aware of their obligations and are educated about tax and filing processes;
- b) Taxpayer behaviour must determine the nature of SARS' administrative responses;
- c) The behaviour of taxpayers will vary from compliant to "accidental" non-compliance to gross evasion;
- d) The response and treatment of each type of behaviour must be commensurate with the degree or extent of non-compliance. The sanction must be proportional to the offence.
- e) In the South African historical context, the vast majority of citizens were economically marginalised and awareness of tax was low, and even non-existent, in many sectors. As far as tax awareness is concerned, this legacy persists and it is vital that tax education campaigns be undertaken to redress the issue;
- f) Easy access, simple systems and facilitation of compliance through better service are important contributors to improved compliance; and
- g) Credible, legitimate and firm enforcement with appropriate sanctions is a strong disincentive to non-compliance.



**Figure 2: The SARS Compliance Model**

In the coming period, greater efforts will be made to popularise this approach within and outside the organisation. SARS' activities and programmes will also be consistent with this approach.

#### **Educating our taxpayers and traders**

In order to improve the levels of compliance and entrench a culture of compliance it is necessary to increase awareness among our citizens of the reasons for paying tax, as well as making it easier for them to clearly understand their obligations. To this end SARS will be proactive in reaching out to taxpayers to assist them. Through these efforts we will improve our knowledge of the taxpayers and traders base and improve our risk assessment model. In addition, this will reduce the number of interventions by SARS. A priority in the short term is to inculcate a culture of compliance to new taxpayers/traders by directly assisting in nurturing their business, for example small businesses.

#### **Providing improved levels of service**

SARS will be taxpayer and trader centric, proactive and accessible in its approach to improving levels of service and providing additional channels of interaction to taxpayers and traders. Specific services and channels will be developed to meet the needs of our various segments with an emphasis on large businesses and small businesses.

#### **Undertaking enforcement activities**

We will develop and adopt an equitable coverage model in respect of segments, tax types, sectors, types of non-compliance and geographical areas. This will allow a risk-based approach to audit case selection. Where there is a general risk of non-compliance, we will ensure that a credible threat of detection exists. Where there is a specific risk of evasion or aggressive tax structuring we will ensure that non-compliance is met with relevant punitive action.