



#### **7.4 Enhanced human capacity**

SARS is a knowledge organisation and appropriately skilled staff is its key asset. SARS will continue to enhance the delivery of its strategic intent through the efficient recruitment, retention and development of its people. SARS staff should have the right values and attitudes and be inspired by the opportunity to contribute to the nation building process. The inculcation of a team culture is vital to the development of a learning organisation. Attention will continue to be given to achieving better employment equity and enhancing the wellbeing of staff. The development of a suitable cadre of progressive, professional managers is a crucial challenge. Staff must also be imbued with the correct integrity, ethical standards and professionalism.

##### ***Our outcomes for this strategic objective are:***

- A staff complement with the appropriate skills and orientation
- Enhance human resource systems and processes.
- Achieve employment equity and workplace diversity.
- A cadre of progressive and capable managers.
- A well established performance management system

##### ***Our key measures for this strategic objective are:***

	<b>2005/2006</b>	<b>2006/2007</b>	<b>2007/2008</b>
Percentage compliance with equity plan	100%	100%	100%
Percentage closure of skills gap	Establish percentage skills gap	25%	25%
Implementation of new Performance Management Development System	40%	90%	100%
Percentage improvement in management capability	30%	30%	30%



## 7.5 Improved trade administration and border security

Trade, in the form of exports and imports, is a central aspect of any modern economy. The new international trade regime demands that economies develop their export potential. SARS Customs has the task of administering South Africa's trade agreements and commitments to the World Trade Organisation. South Africa is also a signatory to numerous conventions of the World Trade Organisation, for example the revised Kyoto Convention. Customs also has a vital role in protecting South African society and the economy from harmful substances, illegal weapons, terrorist activities and economic fraud, by identifying and mitigating risks related with international trade and travel; to ensure that parties involved comply with all relevant national, regional and international laws, conventions and agreements.

### ***Our outcomes for this strategic objective are:***

- To implement the general annex to the revised Kyoto Convention
- Efficient implementation and management of trade agreements
- Increased ability to detect illicit trade and enhanced anti-smuggling activity
- Visible border control and pro-active deterrence

### ***Our key measures for this strategic objective are:***

	<b>2005/2006</b>	<b>2006/2007</b>	<b>2007/2008</b>
Percentage implementation of the general annex to the revised Kyoto Convention	50%	70%	80%
Percentage documentation compliance with customs regulation coverage and examination success rate:			
• Document coverage	20%	15%	10%
• Examinations	6%	10%	15%
• Success rates	20%	30%	40%
Percentage success of anti-smuggling activities	55%	60%	65%
Percentage achievement of turn-around times for trade processes	90%	95%	97%
Improvement in infrastructure and equipment (border, warehouse and scanner)	5%	15%	20%



## 7.6 Greater operational efficiencies

To ensure organisational efficiency with respect to the most appropriate capability (people, systems, processes, technology, culture, values, leadership) that is deployed in the most efficient manner, resulting in the most cost effective delivery of products and services to meet the expectations of our taxpayers and traders, employees and other stakeholders.

### ***Our outcomes for this strategic objective are to:***

- Optimise throughput
- Maintain/enhance quality
- Establish an operational management system
- Optimise processes
- Improve cost efficiency/value for money

### ***Our key measures for this strategic objective are:***

	<b>2005/2006</b>	<b>2006/2007</b>	<b>2007/2008</b>
Percentage of outputs delivered within standard throughput time	75%	85%	90%
Percentage accuracy of assessments	90%	92%	95%
Percentage reworked as a result of own error	5%	4%	3%
Maintaining success rate in the litigation of appeals in the Tax and higher courts in line with international benchmarks	65%	65%	65%

## 7.7 Promoting good governance

Corporate governance is the system by which SARS is directed, managed, regulated, controlled and held to account. Corporate governance also strives to ensure compliance with internal and external legal and regulatory provisions.

### ***Our outcomes for this strategic objective are to:***

- Entrench our Governance Framework throughout the agency

### ***Our key measures for this strategic objective are:***

The percentage of Governance Framework implemented across the organisation

2005/2006

90%

2006/2007

100%

2007/2008

100%



## 8. PRIORITY AREAS



In the context of the programme, specific priority areas have been identified for 2005, which include, small business development, audits, large business, customs and the SARS Service Charter.

### 8.1 Empowering small business

As noted in the President's State of the Nation Address, Government is serious about creating an environment for small business that is conducive to sustainable growth, job creation and the alleviation of poverty within South African society. The tax environment for small businesses is one of the areas that is enjoying attention, with changes to both tax policy and SARS' administrative model for small businesses to achieve this goal.

The administrative model will take into account business size and will be designed to permit a smooth transition between firm sizes and their matching increases in compliance obligations. It will also encourage informal businesses to migrate to the formal sector.

This approach will reduce the regulatory and compliance costs of small business through small business packages; specialised service channels and support.

Support for small business in terms of the Small Business Programme is contained in a number of interventions that run parallel with each other over the income growth and maturation life cycle of a small business e.g. outreach and education as well as products and services.

Many initiatives falling into the Small Business Programme have already been announced and include:

1. Small Business Help Desks
2. The Small Retailers Vat Package
3. Voluntary Disclosure
4. Accounting and payroll packages for small businesses
5. Reduced number of VAT submissions (dependent on turnover)
6. Quicker turnaround time for Tax Clearance Certificates
7. Community tax helpers



## **8.2 Audits**

Audits are an essential component of the compliance model. It serves as a credible deterrent to non-compliance and will also improve SARS' operational efficiency. Traditionally the focus has been on transaction audits, for example refunds and deregistration audits, and on the audit or investigation of a tax type. Auditors and investigators will change the methodology currently applied to investigating tax entities. Two types of audits will be conducted: risk-based targeted audits and control audits.

The focus in relation to risk-based audits will be for auditors and investigators to understand the industry/business in its totality and address all relevant tax risks accordingly. Such audits will be conducted within the context of the tax gap, the effective tax rates and the compliance culture.

In the case of control audits, a random sample will be drawn from each segment in determine the compliance climate prevalent in that segment. The tax entities s elected will be audited; upon finalisation of each case, the results will be analysed and where necessary, corrective action will be taken.

Enforcement audits will be conducted based on a risk selection methodology. This will be based on the outcome of control activities performed as well as specific risks identified from external sources. The cases will be sourced from across the spectrum of the tax base. The necessary corrective action will be taken based on the outcome of the audit. The audit outcome will also provide input on determining the compliance level of each segment where cases were selected from.

The above implies that there will be a shift from the traditional transaction audits e.g. refunds and deregistration audits to integrated enterprise audits.

Auditors and investigators will change the methodology currently applied towards investigating tax entities. Currently the focus is to audit or investigate a tax type. The focus will be for auditors and investigators to rather understand the business transaction, from inception to completion and address all relevant tax risks accordingly.



### **8.3 Large business**

The Large Business Centre (LBC) was launched in September 2004, as part of the overall strategy of SARS to become more taxpayer and trader oriented. The LBC focuses on large corporate taxpayers, Parastatals as well as High Net Worth individuals, as a one-stop, single point of entry service to high value taxpayers. The LBC is organized into 8 industry sectors to provide:

- Focused and proactive taxpayer relationship management with appropriate industry specific insight;
- Proactive and risk-based approach to tax compliance management, including risk profiling and auditing; and
- Efficient and high quality assessment, query resolution and ongoing account management, using world-class technology support within a CRM environment.

The aim of the Large Business Centre is to create an environment that provides a higher degree of certainty to the taxpayer, and to an experience that is professional, fair, and consistent. Our approach to audits is guided by the following principles:

- Assessing taxpayer behaviour and compliance practices to determine risk;
- Maintaining a prudent level of visibility; and
- The most effective and efficient utilization of our resources.

We intend to intensively audit the top 200 companies across all tax types, using random selection and risk profiling methods. In line with our objectives, 7 of the 8 industry sectors have been activated. The last sector will be activated during April, 2005.

With a focus on the top 200 taxpayers, 13% of the almost 8000 files (VAT and PAYE) have already been transferred to the LBC. Of a senior management complement of 16, we have already appointed 11, including 4 Sector Managers.

Building the appropriate competencies is critical for the success of the LBC. Staffing in general is a challenge, we are currently at 25% of our envisaged complement of approximately 700 staff. We expect a significant take-on in the next three months to take us to a staffing level of at least 35%.



#### **8.4 Customs**

In the Budget Report of the Minister of Finance it was indicated that SARS, as the Government agency responsible for the administration of international trade, is set to implement a number of groundbreaking initiatives with a view to:

- Contributing to trade expansion by securing and facilitating the movement of goods across South Africa's borders;
- Combating economic security breaches and risk; and
- Providing highly-visible and client-specific service delivery.

This statement must be viewed against the background of the changing global trade landscape and SARS' commitment to respond assertively. This landscape is complex, fluid, and highly sensitive to external drivers such as continued initiatives to liberalise trade, more complex trade rules, the proliferation of regional trade agreements, and threats to national security. The volume of goods moved internationally continues to increase and pressure is mounting to facilitate trade. On the other hand, the attacks of 9/11 and elsewhere have exposed the vulnerability of international trade supply chains. Any attack using international trade supply chains would bring international trade to a standstill and could spell disaster for the international economy. At the same time, rogue traders and organized crime syndicates also exploit international trade supply chains through the evasion and avoidance of duties and taxes, the smuggling of goods, money laundering and trade in counterfeit goods. These activities threaten national economic security.

Two major initiatives that will also impact the customs environment are the development of new Customs Supply Chain Security and Facilitation Standards and the negotiation of the World Trade Organization (WTO) Trade Facilitation Agreement.

The 164 members of the World Customs Organization (WCO), which collectively administer 98% of global trade, have developed very effective mechanisms and programmes to enable the international customs community to respond to emerging facilitation and security imperatives. In June 2004 the WCO Council





established a High-Level Strategic Group, chaired by South Africa, to develop a Framework of Global Supply Chain Security and Facilitation Standards. It is expected that these standards will be adopted in June 2005 and all Members of the WCO, including South Africa, will have to implement these standards.

The objectives of the WCO Framework of Standards are to:

- provide supply chain security and facilitation at a global level to promote certainty and predictability;
- enable integrated supply chain management for all modes of transport; and
- promote the seamless movement of goods through secure international trade supply chains.

The WCO Framework of Standards will consist of four core elements. First, the Framework harmonizes the advance electronic manifest information requirements on inbound, outbound and transit shipments. Second, each country that joins the Framework commits to employing a consistent risk management approach. Third, the Framework requires that Customs administrations will perform inspections on behalf of each other and that they should optimize the use of non-intrusive detection equipment, such as large-scale X-ray scanners. Fourth, the Framework defines benefits that Customs will provide to businesses that meet minimal supply chain standards and best practices. The Framework also encourages national Governments to introduce integrated border management. This in essence means that we should manage our border in a smarter and more effective manner. In this regard, the WCO is at the forefront and has established the single window concept in terms of which Customs are the designated agents for other Government agencies.

At bilateral level, programs such as the Container Security Initiative of the United States are already in place to secure international trade. South Africa started to participate in the CSI in December 2003 and the main thrust of this initiative is to facilitate the movement of legitimate trade with a view to strengthening the flow of goods between South Africa and her biggest trading partner. This is accomplished through enhanced cooperation between the Customs administrations of the two countries. Similar initiatives are being planned with our major trading partners.



With respect to the WTO, trade negotiators agreed in July 2004 to launch negotiations in respect of trade facilitation. The WTO negotiations to develop a binding Trade Facilitation Agreement are aimed at stimulating international trade by expediting the movement, release and clearance of goods. The main focus of the negotiations is on measures to simplify and harmonize international Customs procedures.

The combined impact of these developments is that SARS is compelled to implement new international supply chain security and trade facilitation standards. In this regard, our key objective is to promote effective border management that, with minimal disruption to legitimate trade and travel, prevents illegal movement across our borders. In this regard, one of the main instruments that will inform SARS' modernization initiatives is the revised Kyoto Convention. South Africa formally ratified and acceded to this Convention in 2004 and, as a Contracting Party, is obliged under international law to apply the provisions of the Convention. The revised Kyoto Convention is widely regarded as the blueprint for modern and efficient customs procedures. It contains detailed provisions on customs administration such as border control and management and the examination and inspection of goods and baggage at clearly designated points of entry that are regarded as Customs Control Areas.

