

STATEMENT BY SARS COMMISSIONER EDWARD KIESWETTER AT A MEDIA BRIEFING HELD ON TUESDAY 5 MAY 2020

I APOLOGISE UP FRONT BUT WE HAVE QUITE A LOT TO SHARE WITH YOU AS WELL AS THE PUBLIC.

TOPICS TO COVER:

A. SARS response to Current Covid-19 Challenges

1. Working Arrangements
2. Revenue Management

B. Personal Income Tax Filing Season 2020/21

C. A brief 12 month reflection since my appointment on 1 May 2019

Good afternoon and welcome to our media briefing.

So much has changed during the past 2.5 months to bring to a culmination a year that was already characterized with so many challenges ahead of COVID-19 and the investment downgrade. We are already 5 weeks into the new financial year, and the harsh reality is beginning to emerge as Government is trying to balance the health and mortality outcomes on the one hand, with the social and economic challenges on the other.

I would like to start with our current challenges presented by Covid-19, in particular how it has impacted on our work arrangements as well as our initial sense of the impact on tax revenue collections.

1. WORKING ARRANGEMENTS UNDER COVID-19

The world, South Africa and specifically we at SARS are facing unprecedented challenges and literally find ourselves in uncharted waters. At the outset, I would like to say that being in uncharted waters does not mean that you proceed without a plan. It simply means that you proceed with utmost caution, you use the best evidence available, and you remain open to new information and most importantly demonstrate genuine humility, an eagerness to learn, and the agility to adapt your approach as the situation evolves.

This is how we are proceeding at SARS, and I would like to express my unqualified appreciation to my colleagues who have generously stepped up to help develop an appropriate response that SARS adopted in dealing with the current challenges.

Under the Disaster Management Regulations, the SARS Commissioner is authorized to determine which SARS services are considered essential. Many have asked why SARS is essential during this time. Well, if there was ever a time where delivering on our mandate matters, it is now.

More than ever before:

1. Government needs tax revenue to provide much needed relief to businesses and individuals, and especially to keep an army of community health workers, and other medical and frontline workers employed - the current economic environment is already constrained as it is.
2. Many businesses and individuals are desperately in need of refunds that are payable - which requires SARS to perform the necessary verification and assurance work and to manage the risks related to refunds - sadly we are still dealing with abuse of the refund system.
3. Our Customs officials have had to ensure that the essential and legitimate PPE, medical equipment and supplies as well as other permitted cargo can be lawfully moved through our ports of entry.
4. We also had to prepare our core administration systems to administer all the tax relief measures announced by government.

During this time, it remains extremely important for all taxpayers to remain compliant.
This means:

- To register when they are legally required to;
- To submit tax and customs declarations, returns, and relevant submissions when it is required
- To make the necessary payments when they becomes due, unless they have entered into a permissible payment arrangement with SARS.

COVID-19 has meant that we review the way we work. I'd like to share with South Africans that we've had to balance the essential mandate as I've just set out, with the health risk to our employees as well as taxpayers, traders and practitioners.

So what have we done to reconfigure our work?

- We stepped up our efforts to convert more taxpayers to our digital offerings
- We modified our operational rhythm towards a new normal

I will deal with each of these in turn:

2. First, as part of our VISION 2024 we have committed to build a "smart modern SARS with unquestionable integrity, trusted and admired". We have decided to use the COVID crisis to step up our work towards this vision. I am pleased to share that our technology and data management teams have worked tirelessly and added 30 additional functionalities to our digital offering including:

1. **Automated registration for PIT** - almost 6 000 registrations have already taken place
2. **Notice of Registration for VAT** now available on e-filing, allowing VAT vendors to view, print or save their Notice of Registration - almost 5000 have already been facilitated
3. Taxpayers may use the **enhanced e-filing system** to:
 1. Check their compliance status
 2. Review their registration details
 3. Complete proof of registration
 4. Obtain a statement of account – individuals and businesses
4. Non-filers can now **submit supporting documents** via the web - to reduce the need to come to our offices - over 1200 submissions to date
5. We have **suspended the need for VAT interviews** as a pre-registration requirement to post registration - almost 3000 taxpayers have taken this up
6. Developed a **streamlined banking details** verification process by using enhanced data matching and artificial intelligence based verification - 14 800 already completed
7. Enhanced the process for **on-line tax directives** where individual taxpayers or their practitioners may apply via e-filing,
8. We've **integrated our email system** with our automated case management system to allow taxpayers as an exception to send queries via email - this has allowed many of our staff working from home to resolve taxpayer queries - almost 5000 has already been resolved
9. Introduced an **on-line appointment system** for those taxpayers and tax practitioners who remain insistent or unable to convert to our digital offerings - we did this to avoid unnecessary queues at our branches in support of public health and social distancing measures.
10. **Enhanced our websites** with enabling information and FAQ's on our website to assist taxpayers, traders and practitioners - 1,34 million hits, of which 80k were Covid-19 related
11. We are currently **redesigning our website** to enhance navigation and functionality and align it to our refreshed branding which we will launch shortly.
12. We will announce additional enhancements as they are completed.

3. Second, in response the lockdown regulations we modified our **working arrangements** as follows:

1. We introduced four organizational arrangements immediately:
 1. Stepped up **regular communications to our employees**, using multiple media and channels, including personal letters and "fireside" chats from myself, as the situation evolved in order to raise awareness of Covid-19, inform them of work arrangements, and generally to remain in touch and provide them with clarity and ongoing assurance,
 2. Proactively **engaged the leadership of organised labour** to create the opportunity for them to obtain clarity directly from us and empower them to understand the new workplace arrangements, and give us regular feedback where teething problems or employee concerns manifested.
 3. **Established an Operations Bridge** to coordinate daily activities and ensure the appropriate balance between taxpayer demand and our capacity to respond, to ensure a consistent operational rhythm across the organization, and support managers in the front line.
 4. Introduced **daily operational check-ins** to remain agile and responsive to a rapidly emerging "new normal", and support with staff orientation, training, and guidance.
 5. Established a number of **focused work-streams** where design, enabling and support teams could reconfigure and recalibrate the operational platform, as well as adjusting policies and standard operating procedures in support of this "new normal".
 6. **Constituted a Covid-19 Task Team** to study the regulations, survey best practices, assess our workplace readiness, and advise the Commissioner.

2. In addition, we:

- Allowed most of our employees who are not on leave, to **work from home** to honor the letter and spirit of the lockdown,
- Introduced a **rotation schedule** to initially reduce staffing levels at our contact centers to a third of normal levels, and slowly increased the staffing levels in line with our ability to implement social distancing.
- Coaching and assisting taxpayers, traders and practitioners **via our contact centers** to convert to digital offerings, as we encouraged them to “go online”.
- **Limited visits** to our branches by implementing an appointment system, and only staffed up to respond to confirmed appointments.

3. **Employees at home** were provided, where appropriate, with:

- E-mail access and data to connect,
- Access to SARS core system via a virtual private network access.

4. On a demand basis, where employees were required to **physically come to a SARS office**, to conduct essential activities, we:

- Instituted strict public health measures as directed by the Ministry of Health, and more recently the occupational health measures by the Department of Labour.
- Reconfiguring our work and public spaces to apply the necessary social distancing measures.

5. Throughout this period our staffing levels ranged from 15% to 30% during the initial lockdown period, and we are currently increasing these employment levels gradually to ensure we cope with the demand from taxpayers and deliver on our mandate.

6. We remain agile and responsive to a situation that is rapidly evolving.

4. The government announced a number of Tax Relief Measures, and we had to prepare our core administrative systems to ensure a seamless implementation across our organization.

5. During this period SARS also received a number of requests from other government departments for assistance, to leverage our data matching capabilities, especially in support of improving the integrity of the various relief disbursements

In terms of trade facilitation during lockdown, a number of measures were put in place to achieve the twin goals of facilitating permissible trade, whilst adhering to the safety protocols to protect our frontline customs officers. These include:

1. Automated customs declarations allow traders to submit their declarations and permit automated processing to facilitate legitimate trade whilst minimizing manual interaction between Customs officials and Traders.
2. We've implemented measures to protect our customs officers including:
 - Sanitization of work areas
 - Personal Protective Equipment for frontline staff
 - Use of non-intrusive equipment for physical inspections
3. Extensive engagement with stakeholders to clarify lockdown regulations and applicable relief measures.
4. Stepped up our interaction with intergovernmental agencies:
 - To facilitate the movement of cargo and avoid congestion at our ports of entry
 - Ensure efficient movement of goods to and from our neighboring states within the regulatory provisions

We have observed ongoing illicit trade activities and have effected a number of detentions and seizures during April:

- **43 Detentions (everything from cigarettes to masks).**
- **17 Seizures** to the value of R2.6 million mainly cigarettes, alcohol and counterfeit clothing and footwear.

2. REVENUE MANAGEMENT & PERFORMANCE

Tax & Customs Revenue performance was significantly affected during this period. This is an evolving picture and will be continually refined, but will chiefly be a function of:

1. The general state of the South African economy heading into the Covid-19 challenge, but aggravated by the investment downgrades by two ratings agencies
2. The specific impact of Covid-19 Tax Relief Measures
3. Decisions made by government during the various Lockdown Levels that will have a direct impact on economic capacity as well as economic activities
4. The general impact on the Compliance environment

1. General State of the South African Economy, Impact of Downgrade & Covid-19

1. Last week National Treasury pointed to a severe global economic crisis not seen since the Great Depression:
 - Predicting a contraction of around -3% for the current year alone
 - Advanced economies bear the brunt of this contraction at -6.1%, whilst
 - Developing economies projecting a contraction of -1%

- Sub-Saharan economies projecting a contraction of -1.6%
- 2. For South Africa, three scenarios are modeled which predicts GDP outcomes ranging from between -5.4% to -16% for the current financial year.
- 3. Final outcomes will depend on the extent of the pandemic globally, and locally a function of lockdown decisions exercised as government tries to contain the spread of the virus and manage the health and mortality outcomes.
- 4. We concur that there are so many unknowns and indeterminate variables that are confronting all predictive models that are continually being updated.
- 5. We are certainly facing the worst economic performance in recent times, which are aggravated by the structural faults in our economy, which includes:
 - The stubborn legacy of Spatial & Social inequality that has not been addressed since the start of our democracy
 - Still unacceptably poor educational outcomes, which places constraints on future skills
 - Unacceptably low levels of labour intensive growth, aggravating already high levels of unemployment
 - Poorly performing state owned monopolies with huge negative impact on the state balance sheet and administered prices - driving unacceptable debt service costs and price inflation
 - A highly concentrated private sector with limited competition and highly restrictive entry barriers for new and especially smaller players

2. IMPACT ON REVENUE PERFORMANCE

1. Whilst it is early days, our initial view is that revenue performance will be lower than the February Budget announcement by between 15%-20%. This means that revenue under-recovery could move up to R285 billion.
2. From the preliminary assessment of revenue performance of the first month we can report:
 - The under-recovery of around R9 billion for April represents a year on year decline of 8.8%
 - Main drivers for this under-recovery includes:
 1. **PAYE down on prior year by 5.2%**
 - **65 219 employers** who made payments in April 2019, but no payments in April 2020 - tax value of R3.8b
 - **87 137 employers** who made payments in April 2019, made lower payments in April 2020 - tax value R6.1b
 2. **Domestic VAT down on prior year by 4.3%**
 - Number of vendors who filed and paid decreased by 13% from 160 136 in April 2019 to 139 313 in April 2020.
 - 139 313 vendors that paid this year, only 104 996 (75%) are repeat payers (also paid in the PY). Collections from this 75% of vendors that paid in both years contracted by R200m (0.9%). This signifies a strain in the core tax base.
 - Year-on-year monthly payments from those who filed decreased by 20% with a **tax value of R1.1b**
 3. **Import Tax overall down on prior year by 19.7%**
 - Import VAT **down 25%** on prior year - tax value R1.6b
 - Customs Duties down 11.8% on prior year - **tax value R100m**
 4. **Specific Excise Duties** down on prior year by 54.7% - tax value R1.3b (R1.7b lower on alcohol and cigarettes, offset by R0.4b upward correction on Fuel Levy)
 - We have already received requests for payment deferrals from 3 taxpayers in respect of Alcohol, Cigarettes and Fuel
 - We are currently investigating non-compliance in instances of alcohol and cigarettes
 - We have anecdotal evidence that illicit sale of cigarettes and alcohol has continued during the lockdown period - whilst the revenue impact is relatively low as a percentage of total revenue, we raise the criminality thereof as our main concern
 5. **Corporate Taxes down on prior year by 55.4%**
 - April is not a significant month for corporate taxes, but early indications point to a downward spiral in all areas with the exception of electricity, gas and water
 - We expect that the number of companies who will apply for business rescue will grow over the next year
 6. **VAT Refunds 12.5% lower than estimated**
 - VAT refund payments for April is lower as the number of credit returns contracted compared to the prior year for the month of April - refund value of R15.5b compared to R17.7b in April 2019

3. TAX RELIEF MEASURES:

1. The cost of Covid-19 Tax Relief Measures alone is estimated at R70 billion arising from tax deferrals without penalties and interests, Employee Tax Incentive extensions as well as the temporary suspension of the Skills Development Levy.
2. This number:
 - Includes R5 billion for case-by-case applications for deferrals, but we predict this number to be significantly higher, and
 - Excludes a projection of a decline in general compliance simply due to business struggling with cash flow, and unable to repay the deferred payments during the current fiscal year, or simply defaulting and/or failing completely
3. We therefore project that the total impact of the Tax Relief Measures is likely to be much higher than the R70b initial assessment

4. IMPACT ON ECONOMIC CAPACITY DUE TO COVID-19 AND LOCKDOWN

A major concern that we have from a revenue perspective is not only a downward trend of economic activities, but a loss of economic capacity due to businesses closing and job losses. The full impact of this will manifest over the next few months, and also depend on how government manages the phasing in of economic activities.

Many businesses will simply not be able to operate profitably at reduced capacity and will fail completely. Those who have started businesses from scratch, will know how hard it is to start a business - it often takes 100 business ventures to start one successfully! The loss of economic capacity in our economy will have long-term tax revenue implications.

Our initial assessment is informed by the following data points:

1. According to STATSSA report on Liquidations & Insolvencies

1. Liquidations increased by 12.3%, for February 2020 vs February 2019, with an increase in voluntary applications
2. Insolvencies increased by 13.9% for January 2020 vs January 2019

2. According to directives finalised, we can report an increase of 1 622 employees retrenched in April 2020 compared to April 2019 - an increase of almost 9% - Total retrenchment in April 2020 amounted to just over 20 000.

3. STATSSA also conducted a perception survey, targeting VAT registered businesses, with a reference period of 30 March - 13 April 2020, and reported:

- 42% businesses feel they cannot operate through the Covid-19 pandemic
- 54% businesses felt they could survive between 1-3 months
- 46.4% of businesses have temporarily closed their doors
- Only half of the respondents felt their workforce would not be affected
- 36.8% businesses expect that they will definitely decrease their workforce
- 20% of businesses have laid off staff in the short term
- 28% businesses have decreased working hours
- 85.4% businesses reported their turnover below their normal level for the period
- 2/3 businesses feel that the impact will be worse than 2008/9 recession
- Of the 707 businesses surveyed:

(i) Manufacturing – 180

(ii) Trade – 71

(iii) Logistics & Communications – 52

(iv) Real Estate & Business Services – 44

(v) Construction - 39

5. NOW I WISH TO FOCUS ON THE UPCOMING TAX FILING SEASON

More than ever before, we need taxpayers to remain compliant! We have designed the Filing Season 2020 for Personal Taxes with a number of key changes:

PHASE 1: 15 April 2020 - 31 May 2020 - EMPLOYER FILING

6. Compliance by Employers in respect of payroll taxes (PAYE) is very important

- A renewed focus to ensure that all Employers are fully compliant in terms of their filing and payment obligations - We expect all employers to fully comply because this ensures a much lower burden of compliance for their employees in respect of their filing obligations
- Employers, are legally appointed agents on behalf of SARS - We remind employers that it is a criminal offense to collect income tax from their employees, and not pay this over to SARS

7. Compliance by providers of Third Party Information

- We also appeal to Employers, along with other providers of third party information to fulfill this requirement by the end of May 2020.
- Third Party Information allows us to use data modeling and artificial intelligence to perform the final assessment of all standard taxpayers and provide the majority of individual taxpayers with a seamless filing experience.
- Third Party Providers include:

1. Employers

2. Banks

3. Financial Service Companies who administer retirement fund and pension schemes

4. Medical Savings and insurance schemes

- In addition, SARS will interface with the National Population Register, the Companies Register and the Deeds Office

PHASE 2: 1 June 2020 - 31 August 2020 - TAX FILE UPDATES

8. During this period taxpayers are requested to engage with SARS to ensure that their tax files are up to date, in terms of general hygiene checks, banking details, address changes, etc. SARS on-line facilities are available to do most of this. These checks will now be done mainly online before Filing Season.

9. All outstanding third party information will also be followed up during this period to ensure the highest level of data integrity. Third party data providers, including employers, who remain willfully non-compliant will be charged criminally during this period.

10. During this phase a significant number of taxpayers will receive auto-assessments and given an opportunity to confirm their acceptance of the assessment outcome according to SARS.

11. During PHASE 2, individual taxpayers who are required to file but have not been auto-assessed may file early via on-line facilities if their employers & other third party data providers are fully compliant (which includes no PAYE debt without a proper and secure deferment arrangement).
12. Individuals who are not required to file will be informed.
13. Individuals who are required to file during Phase 3 will be informed.

PHASE 3: 1 September - 31 January 2021 - EMPLOYEE FILING

1. Individuals who are required to file will be reminded.
2. Individuals who are non-provisional taxpayers or have not accepted the outcome of an auto-assessment are required to file as from 1 September through to 16 November 2020 and encouraged to file using our on-line channels to minimise visits to our offices.
3. Individuals who are non-provisional taxpayers, who make use of our Branch facility has until the 22 October 2020 to file.
4. Provisional Taxpayers who have not accepted the outcome of an auto-assessment are required to file when they are ready but not later than 31 January 2021.

6. REFLECTIONS AFTER MY FIRST YEAR BACK AT SARS

As I wrap up I would like to reflect briefly on the past 12 months since I started on 1 MAY 2019.

By now it is widely known that SARS has suffered a serious breakdown in governance and integrity and suffered a measurable decline in employee morale, significant damage to its reputation, and an unfortunate loss in public confidence. This was also reflected in a steady decline in revenue performance, levels of compliance and taxpayer morality.

The journey of rebuilding SARS commenced with a review of the integrity and performance of the senior SARS leadership.

Today I can report progress as follows:

14. We have largely addressed issues of leadership integrity
15. We have initiated a programme to re-imagine and rebuild SARS consisting of:
 1. An exciting VISION 2024
 2. A SARS Strategic Intent based on Voluntary Compliance
 3. Today we presented to the parliamentary committees

- a 5-year Strategic Plan
- an Annual Performance Plan

16. In support of our Strategic Intent we have **9 Strategic Objectives**

1. Provide Clarity & Certainty for taxpayers and traders of their Tax obligations
2. Make it Easy for Taxpayers & Traders to Comply & fulfill their obligations
3. Detect non-compliant Taxpayers & Traders, making non-compliance hard & costly
4. Develop a high performing, diverse, agile, engage and evolved workforce
5. Expand the use of data to improve integrity, derive insight & improve outcomes
6. Modernize our systems to provide digital & streamlined services
7. Resource stewardship for efficiency, quality outcomes & performance excellence
8. Work with & through Stakeholders to improve the tax eco-system
9. Build public trust and confidence in the tax administration system

17. We have organized our work to give effect to the 9 Strategic Objectives

1. 3 Cluster Arrangement:

- Taxpayer Engagement
- Design & Enabling
- Enterprise Service & Support

2. A Regional Structure:

- 9 Geographic Regions
- 3 Taxpayer Segments

3. A Revised Leadership Organization and Reporting Arrangement

18. As part of rebuilding the soft infrastructure we have embarked on

- Restoring the Higher Purpose Orientation
- Rebuilding a new Leadership System
- A credible Employee Engagement Programme

19. To enhance Revenue Performance we have introduced

- The position of Chief Revenue Officer

- An explicit focus on revenue from our Compliance Programme
- A focused Revenue Recovery Programme
- A Tax Gap Study under Judge Dennis Davis

20. Rebuilding SARS will require time and consistent efforts.

- The current challenges presented by Covid-19, the investment downgrades, and the most significant economic contraction in recent times, have on the one hand made our work just so much harder, BUT
- At the same time, we are blessed with a solid foundation, many committed men and women, and a crisis which we are determined not to waste.
- We remain committed and inspired to pursue the important work we are privileged to do.

THANK YOU!

EDWARD CHR KIESWETTER
SARS COMMISSIONER
5 May 2020