

JOINT COMMITTEES

SCOF & SeCOF

BUDGET 2025

PUBLIC HEARINGS – RESPONSE



South African Revenue Service

Edward Chr Kieswetter
Commissioner
28 March 2025

OUTLINE

1. Strategic Clarity – Giving effect to the SARS Mandate
2. Unpacking the SARS Funding Situation
 - Funding Trends
 - Impact of underfunding
 - Areas where we are underinvested
3. Opportunities for improving Tax Administrative Efficiencies & Effectiveness
 - Significant non-compliance prevails
 - Leveraging the additional funding allocation
 - Short-term Plan
 - Medium-term Plan
4. Responses to various other questions and statements

FEEDBACK ARISING FROM PUBLIC HEARINGS

***THANK YOU FOR YOUR FEEDBACK
WE HAVE HEARD YOU!***

OUR MESSAGE HAS BEEN CONSISTENT...

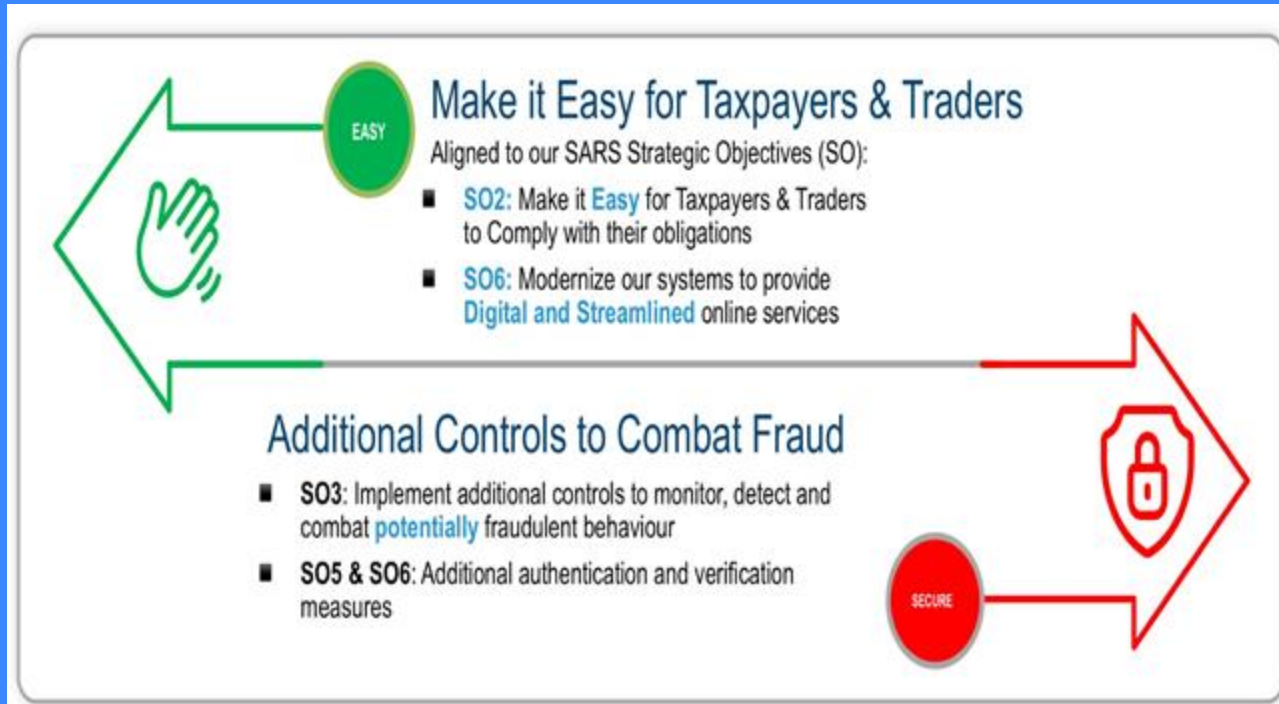
***“WITHOUT A WELL FUNCTIONING TAX & CUSTOMS
ADMINISTRATION, OUR DEMOCRACY WOULD BE UNFUNDED,
WE SHOULD NEVER TAKE THIS FOR GRANTED!”***



“THE STORY OF SARS IS A STORY ABOUT PEOPLE: EVERYTHING WE DO IS ABOUT HAVING TRANSFORMATIONAL IMPACT ON THE WELL-BEING OF THE LIVES OF PEOPLE - ESPECIALLY THE MOST VULNERABLE AMONG US”

Commissioner Edward Kieswetter

SERVICE



RISK

FINDING THE RIGHT BALANCE!

UNPACKING THE SARS FUNDING SITUATION

- **Funding Trends**
- **Impact of underfunding**
- **Areas where we are underinvested**

OUR FUNDING ALLOCATION HAS NOT KEPT UP WITH THE TREND IN THE GROWTH OF OUR CASE LOAD

1. R1bn reduction in SARS allocation in 2014/15, which has not been fully addressed ever since
2. Workload increased by 260% since 2014/15
3. Reduction in staffing by $\pm 22\%$ (3079 positions) from 2014/15 to 2024/25
4. Notwithstanding
 - Gross revenue has grown at 7.22% CAGR
 - Refunds has grown at 9.08% CAGR
 - Net revenue has grown at 6.82% CAGR
5. The under funding significantly compromises SARS ability to address the Tax Gap

SARS FUNDING TREND

IMPACT IN REAL TERMS

1. By our estimate SARS is currently underfunded by at least R3bn for the FY25/26 and R12bn over the MTEF
2. Decline in cost to revenue ratio:
 - Actual cost to revenue declined from 1.1% to 0.7% since 2014/15
 - OECD benchmark 1.0%
 - Katz Commission 1st interim report noted the ratio at the time was under 0.8% and proposed that about 1.2% would be an appropriate norm for South Africa

NB! Before our additional allocations announced in the Minister's Budget Speech.

AREAS SIGNIFICANTLY UNDER RESOURCED

1. Tax & Financial Crime
 - Illicit and Illegal Trade flows
 - Syndicated Tax & Customs Crime
2. Large & International Businesses
 - Aggressive Tax planning
 - Base Erosion and Profit Shifting (BEPS)
3. Individuals with High Income and Wealth
4. Ports of Entry
5. Managing of Debt and Outstanding Returns
6. Leveraged Products (dispute prevention)
 - Advance Rulings & APAs
 - Cooperative Compliance
 - Authorised Economic Operators (AEO)

OPPORTUNITIES FOR IMPROVING TAX ADMINISTRATIVE EFFICIENCIES & EFFECTIVENESS

“To make provision for the efficient and effective administration of the revenue collecting system of South Africa”

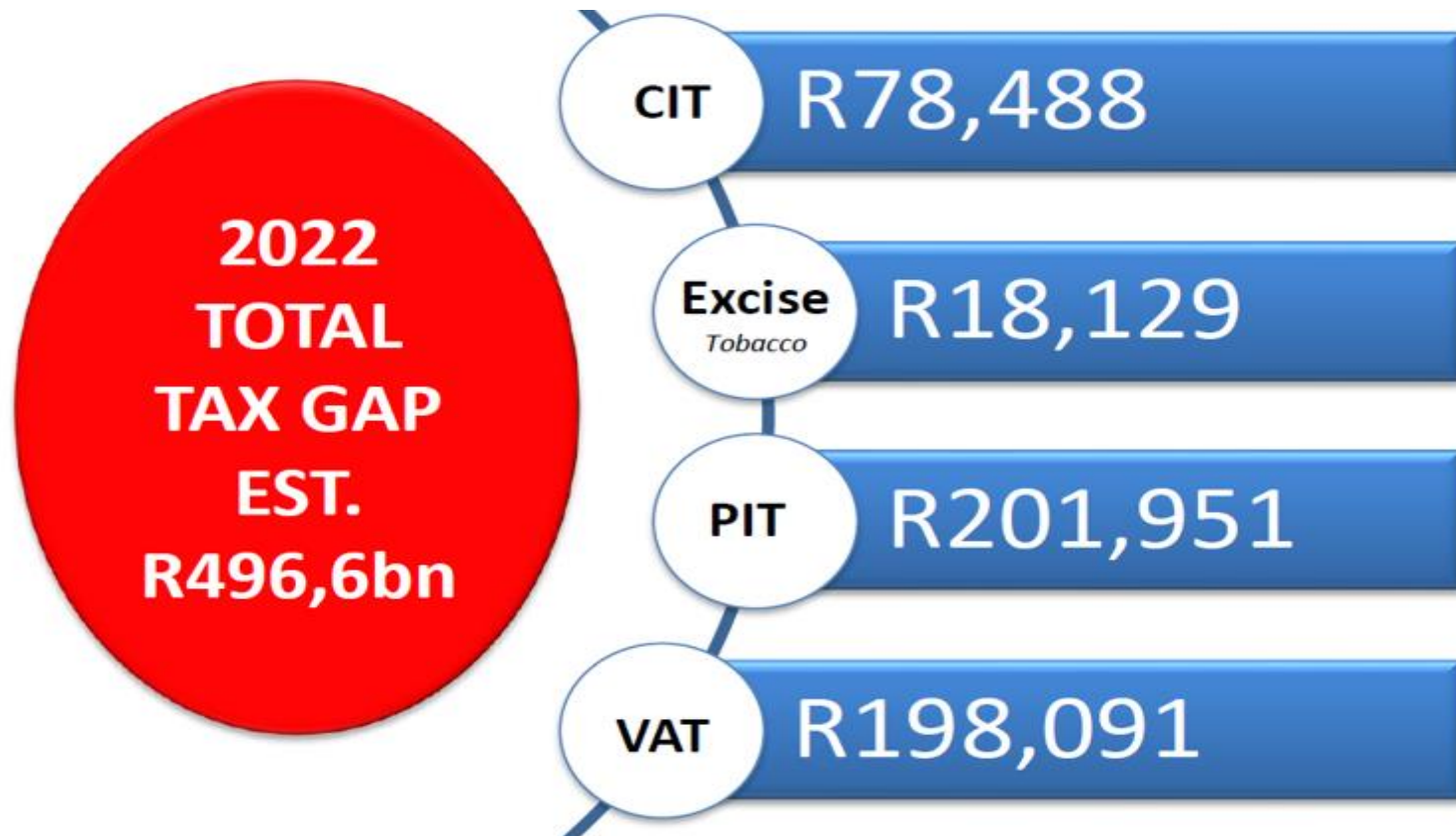
UNPACKING THE ESTIMATE OF R800 BILLION

OPPORTUNITY LANDSCAPE – HEADLINE INDICATORS

OPPORTUNITY LANDSCAPE	CURRENT STATUS
1. Voluntary Compliance Index	65.92%
2. Tax Gap Assessment (theoretical)	R320 – R500 billion
3. Outstanding Returns	54 million returns
4. Undisputed Debt Outstanding	R422 billion
5. Disputed Debt Outstanding	R107 billion
<i>Nb. Revenue Opportunities available in concluding pending Litigation and Settlements.</i>	

OUR ESTIMATE R700 TO R800 BILLION

SARS TAX GAP ESTIMATION



NB! Study concluded in 2024 based on datasets from 2018 to 2022.

TAX ACCOUNT RECONCILIATION AS AT 31 MARCH 2024

Estimated True Tax Liability Due

R2.541 trillion
100%

Total Taxes Paid Voluntary & Timely

R1.480 trillion
58%

Gross Tax Under Recovery

R1.061 trillion
42%

**SARS
Compliance
Programme
R261 bn**

10 - 15%

**Under Recovery
Tax Revenue**

R800 billion

32%

COMPLIANCE PROGRAMME

REVENUE RECOVERY PROGRAMME

COMPLIANCE PROGRAMME THEMES OVER THE MTEF

In order to maximise revenue collections several focus areas guide our work:

Reducing the Balance Sheet:

- Debt Cash Collections
- Outstanding Returns Collections

Tax Gap Themes:

- Tax base broadening (Formal & Informal Economy)
- International Taxes: focus on BEPS and Digitalisation
- Trade Based Money Laundering & Illicit Financial Flows: Tobacco, Fuel, Gold
- Trade Mispricing & Undervaluation Fraud
- e-Commerce: focus on small parcels
- High Wealth Individuals
- Cryptocurrency
- Syndicated Tax and Customs Crimes (incl. VAT Fraud and other tax crimes)

MOST NON-COMPLIANT SECTORS

THROUGH THE LENSE OF THE TAX PRODUCTS

1. Mining and Quarrying (VAT, PAYE, and CIT);
2. Construction: Bricks, Ceramics, Glass, Cement and similar (VAT, PAYE, CIT);
3. Transport Storage and Communications (VAT, PAYE, self-employed individuals)
4. Agencies and Other services (VAT, CIT and self-employed individuals);
5. Agriculture, Forestry and Fishing (VAT, PAYE and CIT);
6. Clothing and Footwear (VAT, PAYE and CIT);
7. Personal and Household services (VAT, PAYE, CIT);
8. Transport Equipment (VAT, PAYE, CIT)

DEBT DEFAULT RECOVERY PROGRAMME

DEBT DEFAULT RECOVERY PROGRAMME

Revenue Recovery Programme – Insights from Project:

- Employed 848 ring-fenced resources
- Total Cost was R318 million (15 months)
- 615 334 cases finalised with cash collected totalling R25.2 billion

PROPOSED DEBT DEFAULT RECOVERY PROGRAMME

R2 BILLION FUNDING PER YEAR

Drawing from the project insights we propose in 2025/26

- Step up FTEs from 858 to 2500
- Ambition to collect R5.6bn per month
 - 3 month ramp up
 - At a 75% confidence level an average R4.25bn per month
 - Full year projection of R20bn to R50bn

Nb. Over the outer years of MTEF, the additional revenue is expected to remain in the range of R20bn – R50bn

OTHER ADMINISTRATIVE EFFORTS

***OVER THE MEDIUM-TERM REQUIRES MORE TIME AND
MUCH MORE SIGNIFICANT INVESTMENT INTO
MODERNISATION***

NB! R500 MILLION PER ANNUM MODERNISATION INVESTMENT OVER MTEF

USE CASE 1

NOT REQUIRED TO FILE

PREDICTIVE MODEL “NOT REQUIRED TO FILE”

SARS developed an AI powered machine learning model – the Not Required to File model is designed to detect taxpayers that have a non-filing behaviour though have significant economic activity through the correlation SARS data and 3rd Party Data sources.

1. 115 506 taxpayers has been detected that are “Not Required To File”, but have substantial economic activity (e.g. assets, bank flows, ...)
 - 54 800 audit cases have been executed
 - With assessments to the value of R5.56 billion been raised
 - Cash collected to date of R1.36 billion
2. *NB! Current resource constraints limits progress of this project!*

USE CASE 2

UNREGISTERED TAXPAYERS

PREDICTIVE MODEL “UNREGISTERED TAXPAYERS”

SARS developed an AI powered machine learning model – the Unregistered Model is designed to predict individuals who are not currently registered for tax. It leverages bank inflow data in excess of R1 million (p.a.), and several other 3rd Party Data sources to detect taxpayers that should registered for PIT.

1. 36 000 cases has been detected that are not in the PIT tax base (register), but have substantial economic activity (e.g. assets, bank flows, ...)
 - 14 110 individuals have been registered on the PIT tax base
 - R29,98 billion assessment value has been raised which taxpayers have disputed
 - R140 million cash collected
2. *NB! Current resource constraints limits progress of this project!*

USE CASE 3

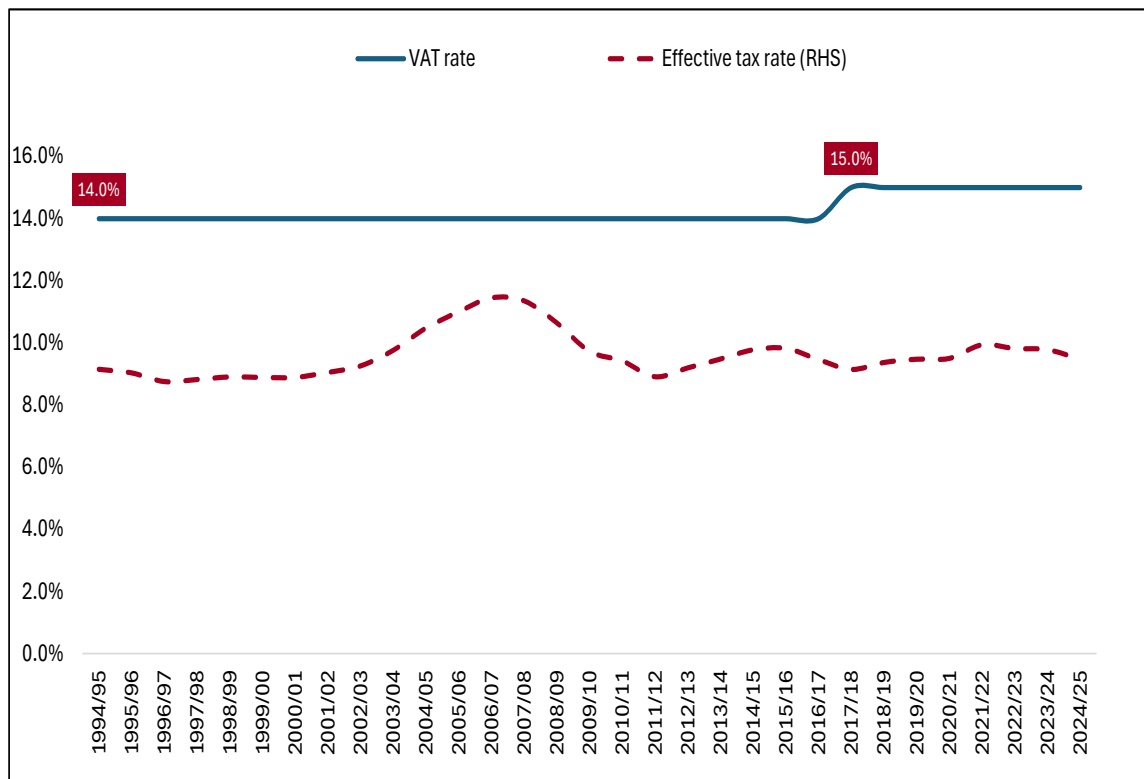
VAT MODERNISATION

ADDRESSING THE TAX GAP STARTING WITH

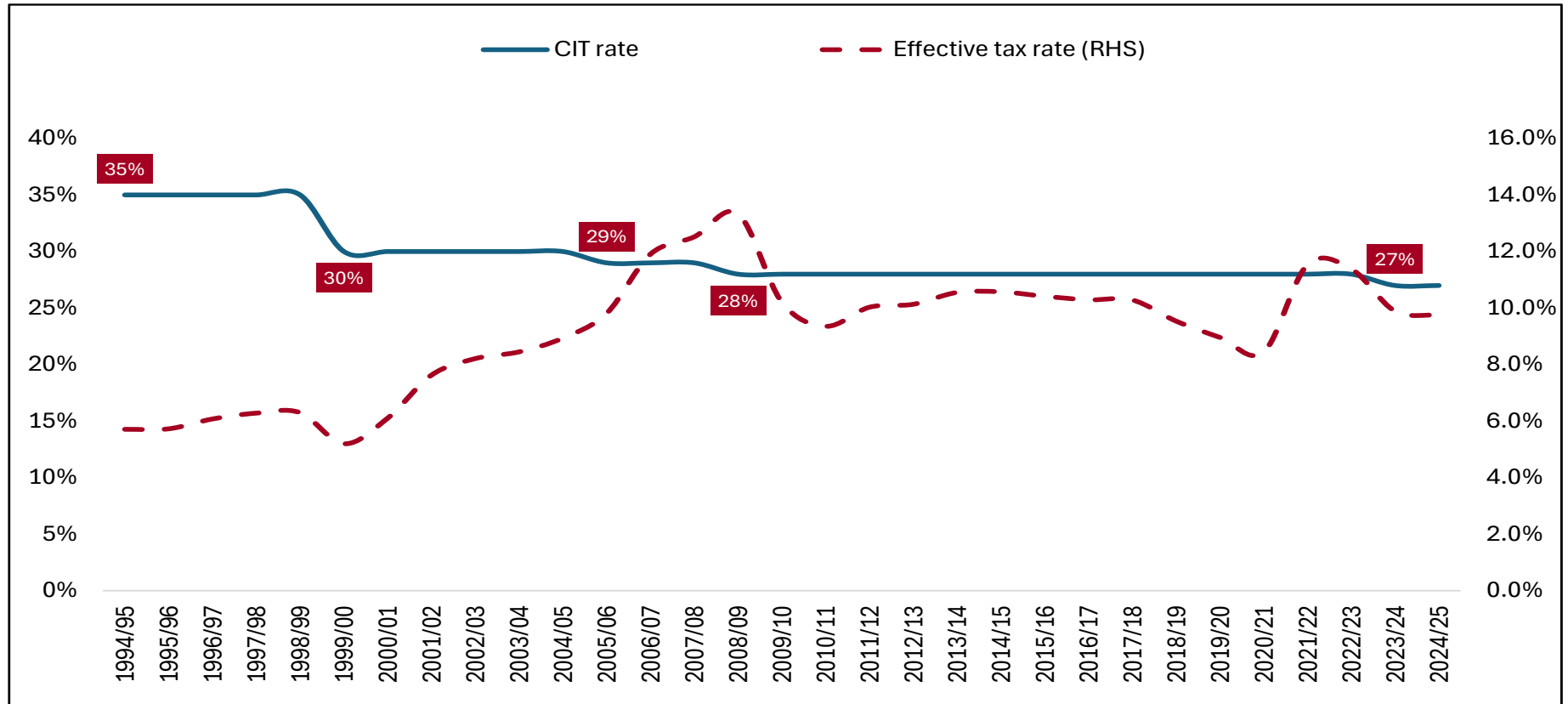
VAT R198 billion

VAT EFFECTIVE TAX RATE

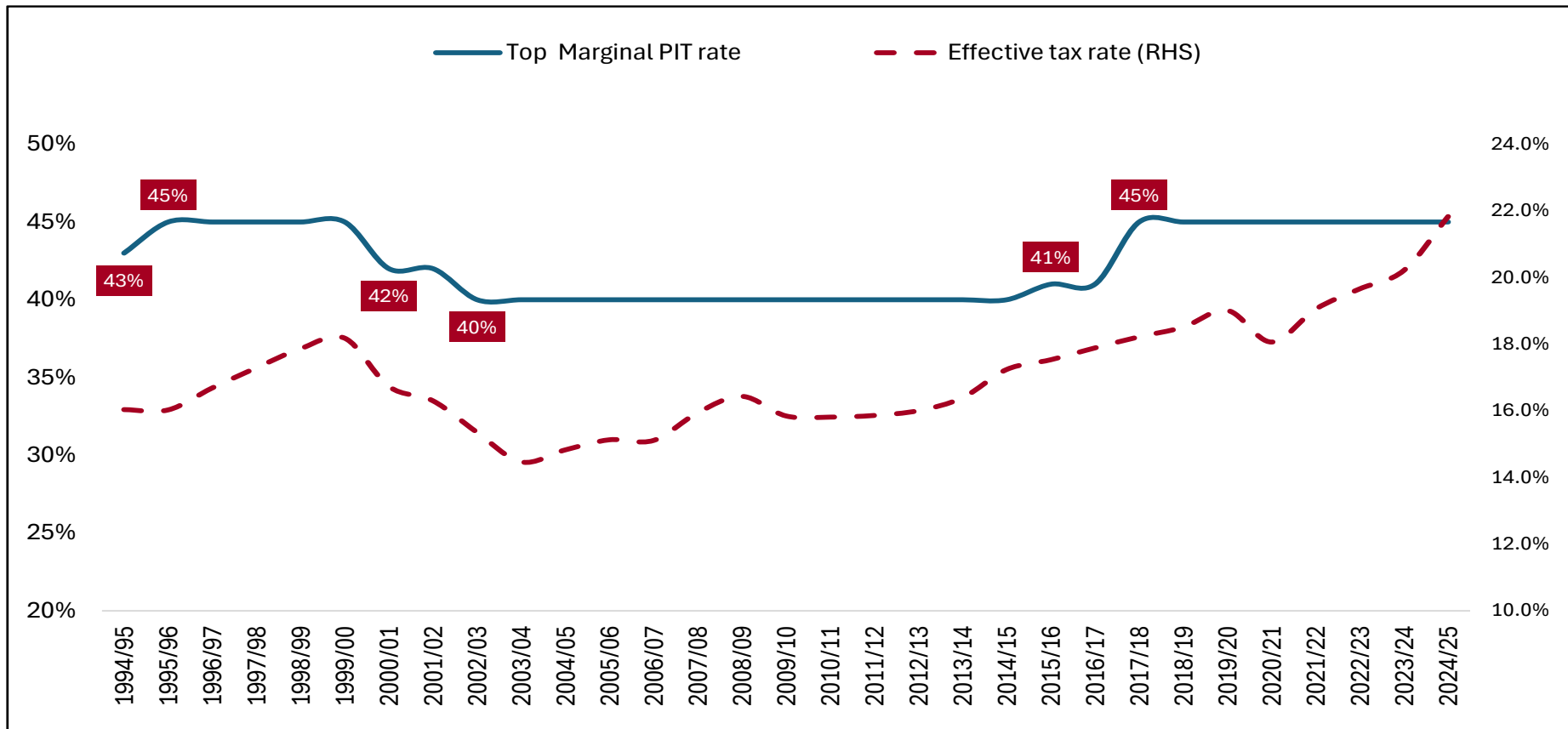
- Significant opportunity gap in VAT according to our own studies (R198bn), supported by external studies and ripe for modernisation
- VAT is also the tax product where a high level of abuse is prevalent particular to gain access to the refunds system
- 1% rate change in 2018 did not realise an increase in the overall effective tax rate



CIT EFFECTIVE TAX RATE



PIT EFFECTIVE TAX RATE



AREAS REQUIRING MODERNISATION:

- 1. VAT ADMINISTRATION**
- 2. CASE MANAGEMENT**
- 3. DEBT MANAGEMENT**
- 4. CUSTOMS & EXCISE**
- 5. AUTOMATION OF ROUTINE WORK
(AGENTIFICATION)**

SARS MODERNISATION 3.0

THE AGE OF ARTIFICIAL INTELLIGENCE

CO-EXISTING WITH
AI



(NB! SUBJECT TO ADEQUATE FUNDING AND RESOURCING...)

THE PURPOSE IN BUILDING A SMART DIGITAL TAX ADMINISTRATION PLATFORM, EMBEDDED IN DATA SCIENCE, ARTIFICIAL INTELLIGENCE & ENABLING TECHNOLOGIES, IS TO

*FOSTER TRUST, PROMOTE EFFICIENCY, AND ENSURE
TRANSPARENCY*

BY REVOLUTIONISING THE WAY
TAXPAYERS/TRADERS AND SARS ENGAGE TO
ACHIEVE VOLUNTARY COMPLIANCE

SARS 8 STRATEGIC PROGRAMMES

1. PREPARE AND UPSKILL OUR STAFF TO COEXIST WITH AI

- Aimed at transforming SARS employee community: competent steward leadership and a workforce ready for an Agentic AI future, within a culture of professionalism and integrity beyond reproach.

2. ESTABLISH A UNIQUE DIGITAL IDENTITY SYSTEM

- Strengthening the integrity of taxpayer and trader identity verification by collaborating with the Department of Home Affairs, SARB, and other stakeholders to reduce identity fraud.

3. CREATE A COMPREHENSIVE TAXPAYER ACCOUNT (SINGLE TAXPAYER ENTITY VIEW)

- Consolidating taxpayer data into a single view to ensure a seamless service experience, whilst managing risks to the fiscus

4. MODERNISING THE CASE MANAGEMENT SYSTEM

- Incorporating AI and data science to enhance operational efficiency, enabling effective case management and compliance tracking.

SARS 8 STRATEGIC PROGRAMMES

5. EMBED AN “ENTITY-BASED COMPLIANCE” MODEL

- Transitioning from a declaration-based compliance approach to an entity-based model, using advanced analytics to and AI to profile taxpayers and traders for compliance risk and enhance case selection.

6. BUILD AN INSTANT PAYMENT SYSTEM (IN PARTNERSHIP WITH SARB)

- Establishing a national instant payment system to facilitate seamless transactions, reducing reliance on cash and improving financial inclusion.

7. MODERNISE VAT ADMINISTRATION

- Automating VAT administration to reduce administrative burden, enhance service and improve compliance.

8. MODERNISE CUSTOMS & EXCISE ADMINISTRATION

- Enhancing physical and technological infrastructure at ports of entry to streamline trade processes, improve risk analytics, and reduce inefficiencies

VARIOUS OTHER QUESTIONS AND STATEMENTS

RESPECTING TAXPAYER RIGHTS

- SARS has a risk profiling system that makes use of artificial intelligence, machine learning algorithms and, in more complex cases, specialist risk profilers to identify cases for verification or audit, so there is a clear segregation of duties between the two sets of processes. SARS staff are expected to engage with taxpayers in a fair and courteous manner. Cases where this does not occur are considered seriously by SARS senior management, as a commentator highlighted in their oral submission.
- In addition, the Tax Administration Act, 2011, provides for specified processes that must be followed in raising assessments and collecting the resultant debt. As part of these processes, notices are issued to taxpayers via automated systems. In the verification space there is no letter of findings but the assessment (ITA34) that is issued notes the amendment and indicates that the taxpayer can dispute the outcome/decision.
- Where these processes are not followed, recourse may be made to SARS' management, the Tax Ombud, alternative dispute resolution or, ultimately, the courts to address the issue.
- Equally, taxpayers are expected to provide accurate and truthful information, within the required timeframes, so as to avoid compliance action by SARS. It is unfortunate that many taxpayers fail to respond to communications from SARS and only react when assessments are issued or compliance actions are implemented. Taxpayers picked up by SARS initial “not required to file” and “unregistered taxpayers” work are often aggrieved by SARS requests to explain the economic acidity that SARS has detected and SARS' actions when they do not.

VAT RATE INCREASE & ADDITIONAL ZERO-RATED FOOD ITEMS

Transition

- SARS has issued a Pocket Guide and a comprehensive set of Frequently Asked Questions on its website to assist vendors in dealing with questions like:
 - The need to immediately reprice individual items in a store. (Vendors may do so or display prominent notices that the price will be adjusted at the till, including an example of how this will work. The second option is available until the end of August 2025.)
 - How the VAT rate increase will impact on various type of transactions and contracts.
- The additional zero-rated food items will impact on vendors, such as supermarkets and general retailers, that are already familiar with the concept of zero-rating but will also impact on butchers that only sell raw meat products and may not be.
- SARS will be launching a communications campaign in April 2025 to assist vendors with all the changes.

Additional Zero-Rated Food Items

- The issues raised by commentators with respect to the proposed VAT zero-ratings have been noted.
- Draft legislation has been published by both National Treasury and SARS for public comment by 31 March 2025.
- It is the intention to issue revised draft legislation in the week of 6 April 2025.

***THANK YOU
SIYABONGA
BAIE DANKIE
REA LEBOGA
ENKOSI KAKHULU***

