

CONFIDENTIAL

TM first 100 days

May 26th 2014

Objectives of the session

- **Identify the “big items”** (programs, highly leveraged activities,...) that will be fundamental to medium-term SARS transformation that need to be launched at the beginning, **plus some possible “quick-wins”**
- **Discuss and prioritize the most important factors** that will drive and determine the success of SARS transformation and your personal success as a Commissioner
- **Deep-dive on the key components of a 100 day plan** (and the items to be addressed even before that)

Proposed new Vision and Ambition for SARS – A new Transformation Agenda must be set up

SARS Transformation Agenda

Mission & Vision

SARS 2.0

Transform SARS in an innovative revenue and custom agency that enhances economic growth and social development, and supports the country's integration into the global economy in a way that benefits all South Africans

KPIs

Targets, Metrics & Incentives

- Revenues linked to outcomes
- Customer advocacy metrics
- Program performances monitoring

Imperatives

Increase economic value

- Reach tax collection full potential:
 - High net worth individuals
 - Corporates
 - Customs
 - Enforcement
 - Cost to contribution optimisation

Integration & collaboration

- Maximise SARS impact through increased collaboration with:
 - Relevant SA Ministries
 - Social security entities (UIF, SASSA, NSFAS, ...)
 - International counterparties

Transparency & Fairness

- Guarantee maximum transparency and fairness to taxpayers through:
 - Fair treatment of all cases based on clear rules and procedures
 - Zero corruption at all levels

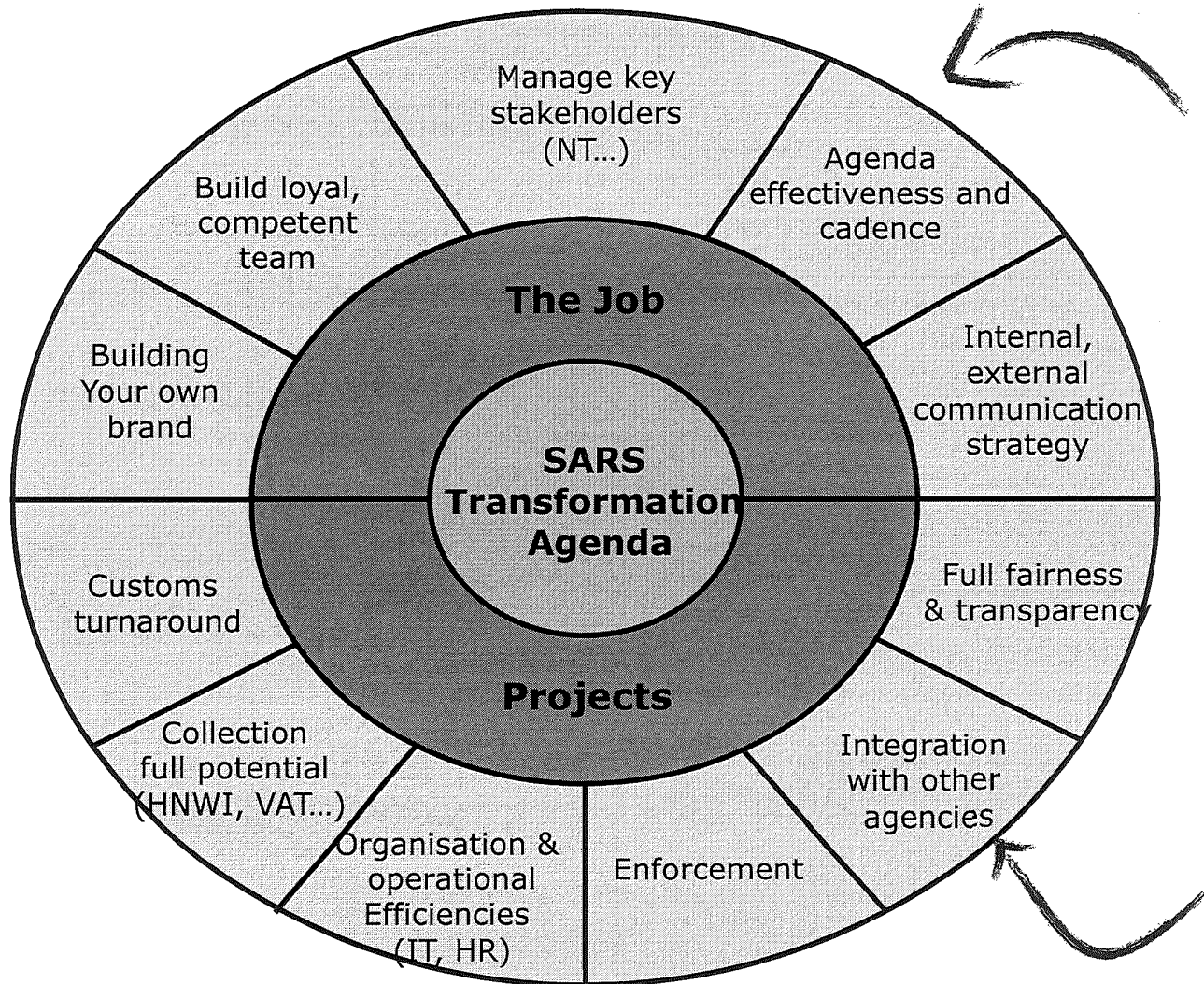
IT systems – Enhanced SA data base – Phoenix ecosystem

Enablers

Enforcement – Structures & tools

Organisation & capabilities

Your agenda should be a balance between “hard” projects and the soft day-to-day activities of the job



The Job

- Day-to-day running of the Institution including building loyalty and key relationships, building your brand of leadership internally and other “soft” tasks
- Your brand, your diary, your people and your legacy

The Projects

- Important ventures that you will undertake during tenure, including new strategic activities and restructuring functions

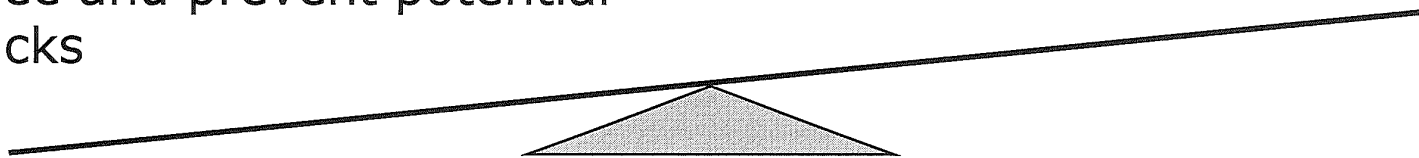
SARS Commissioner is a tough job!

You must

- Reinforce values and set standards
- Attract and retain top management team
- Deliver financial results in a demanding environment
- Communicate a clear vision (sustainable, accountable)
- Foresee and prevent potential setbacks

While dealing with

- Greater focus on short-term results
- Less tolerance for real/perceived standards violations
- Increasing demands from employees
- Greater public scrutiny



First 100 days: framework and key actions – for discussion

1- KEEP THE BALL ROLLING

- Create the fact base / baseline of current SARS performance:
 - Collections
 - Operational efficiency
- Require activities / current projects review (accelerate, stop, merge)
- Launch IT diagnostic
- Allocate specific tasks and short term objectives to existing leadership
- Testing BH and assessing performance of different components of COO perimeter

2- GAIN THE HIGH GROUND

- Review previous SARS strategic plan and assess reality of achievements
- Define SARS 2.0 detailed transformation agenda:
 - Collection full potential
 - Operational efficiency
 - Fairness & transparency
 - International integration
- Engage / communicate with stakeholders:
 - Staff
 - Media
 - Unions
 - Government entities

3- TAKE CONTROL

- Proactively manage hand-over period
- Forensic
- Clarify unconditioned mandate and governance from NT and assess Board composition and role
- Exec team assessment and reshuffle
- Define operational cadence (regular meetings and forums)
- Review Delegation of Authority and decisions rights (procurement,...)
- Set up transformation programme office



Not started

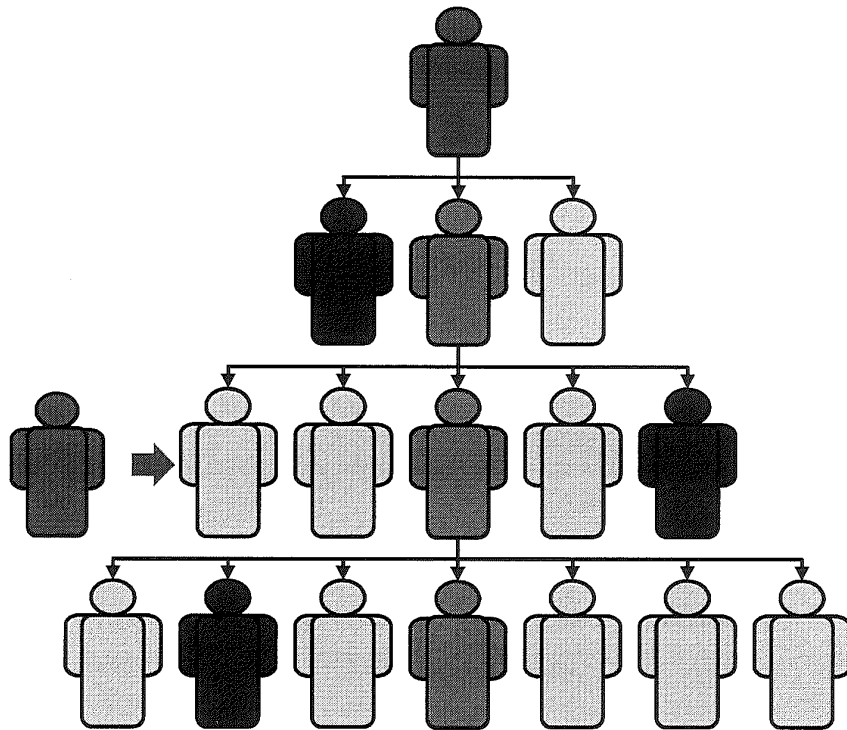


Delayed

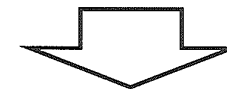


On track

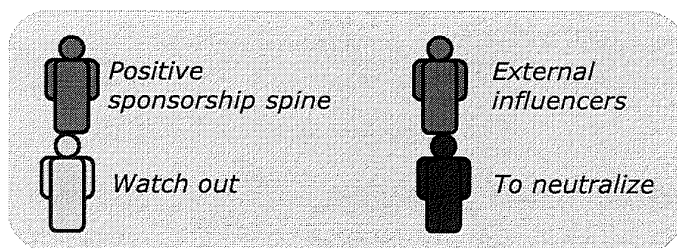
Build a healthy sponsorship spine to accelerate change and identify individuals to neutralize



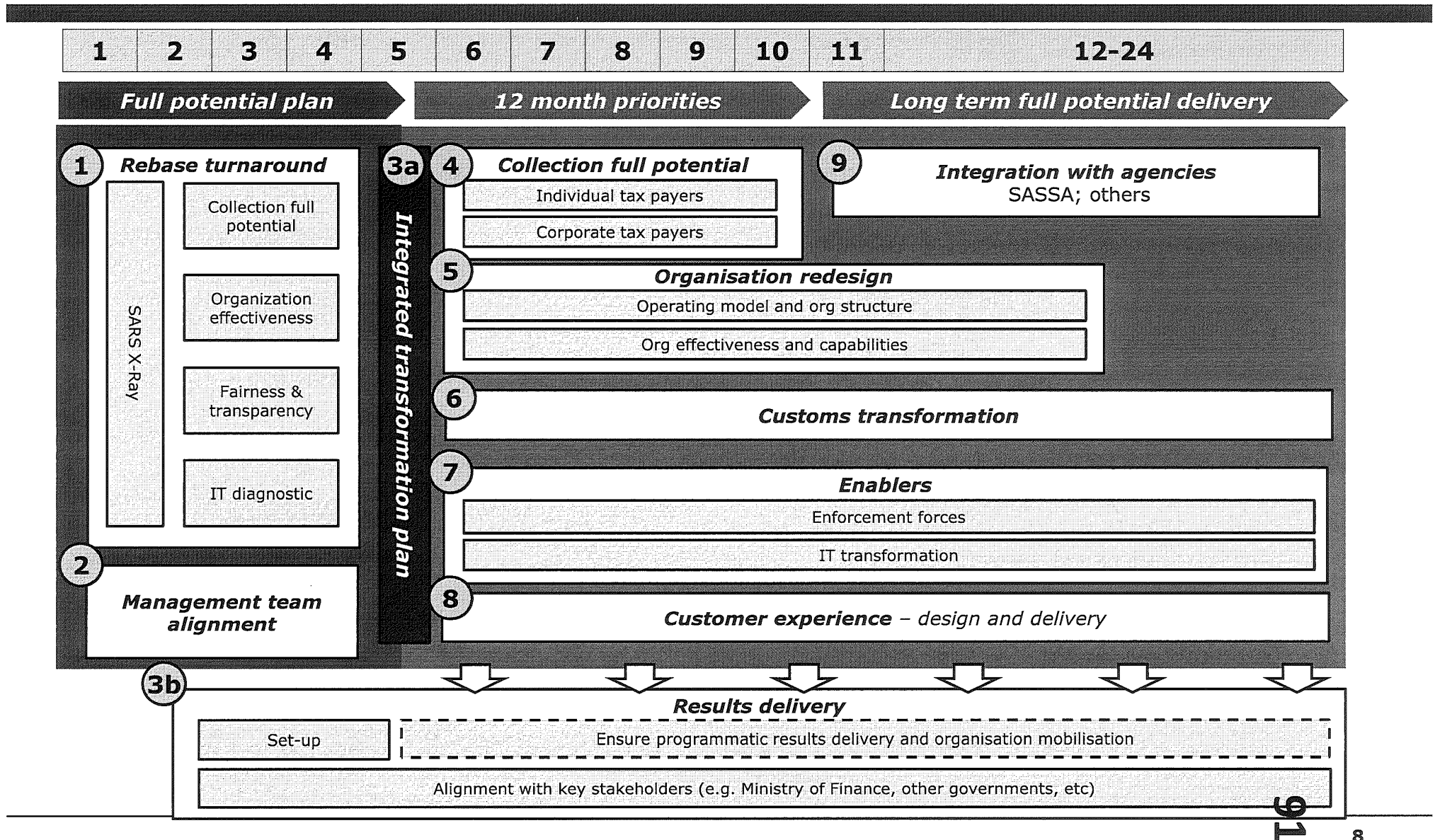
- Identify positive change sponsors bottom-up
- Leverage external influencers
- Identify individuals that could hamper change:
 - Watch outs
 - To neutralize



Quickly build and maintain a healthy sponsorship spine, while addressing obstacles to change



Potential integrated transformation plan



Agenda

- Appendix

➔ SARS profile

- Details on transformation initiatives

SARS point of departure

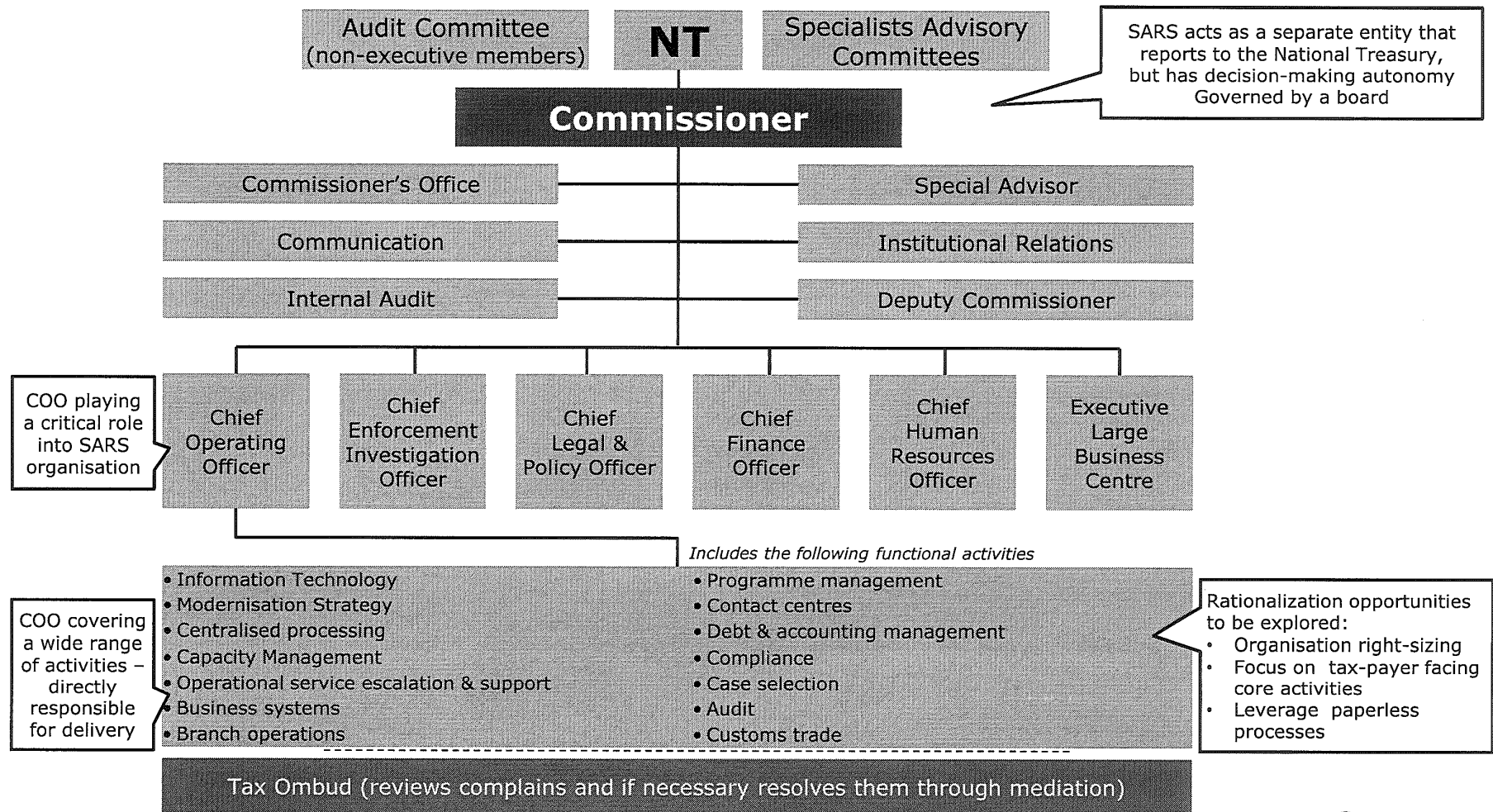
***In the decade,
SARS
modernisation
program has
delivered
results...***

- SARS has made a number of changes through the first *Modernisation Program*, eg.:
 - Relevant increase of individual & corporate taxpayers
 - Successful adoption of eFiling to facilitate collection process (>90% in SA)
 - Managed to run operations within the allocated government budget
- But **significant challenges still need to be addressed:**
 - Even if eFiling is a great innovation, it **did not help to reduce cost of revenues ratio** (high compare to peers at 1.1%). Moreover questions arise on **potential discrimination** (access to internet) and need to be addressed
 - **Key SARS programs**, such as **Customs**, **still need to be delivered**
 - critical initiatives and structures to be put in place to support economic value creation, making customs a revenue machine (eg. US or Australia).
 - **Illicit economy not under control**

SARS is structured as an independent body, reporting directly into NT and with a separate audit committee

SARS profile

SARS GOVERNANCE MODEL



Source: SARS, OECD

Budget to SARS based on estimated expenditures (not performances) – rationalisation opportunities may exist

SARS profile

1.14 Government grants

SARS' main source of income is an annual grant from Parliament for its services, based on estimated expenditure for performing any specific act or function on behalf of Government in the collection of administered revenue.

- SARS was **sustainable** for the past year (**R880M surplus**) and **over time (R2.8B of accumulated surplus)**, but **important questions arise**:

SARS P&L* (2012/13 RM)

FUNDS AVAILABLE		FUNDS ALLOCATION	
National treasury grants	9,149	Employee cost	5,873
Rendering of services	16	Administrative expenses	1,494
Other income	282	Professional and special services	751
Interest received	146	Depreciation and amortisation	509
		Impairment loss	71
		Finance cost	15
Total revenues	9.593	Total costs	8,713

Operating surplus[^]: R880M

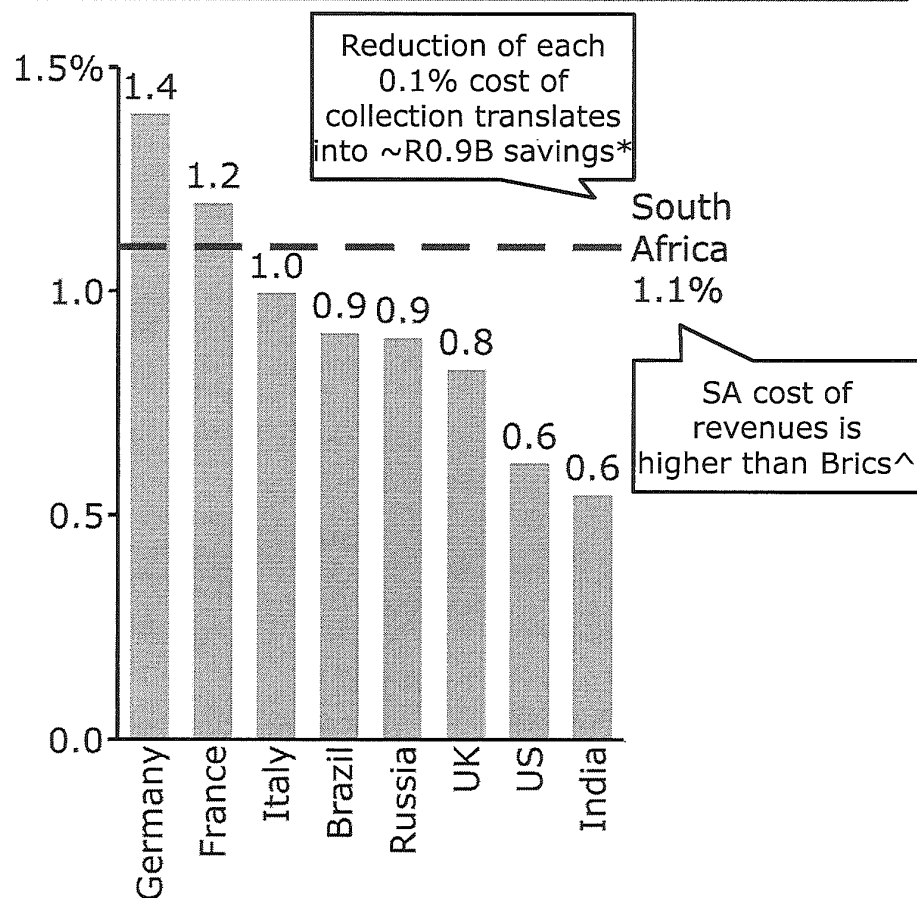
- Funds allocation should be based on **tangible outcomes, generating economic value for SA**
- SARS organisation should be **incentivised to generate value efficiently and in a fair way**
- **Costs optimizations exist and need to be implemented**
 - Employee costs are the most important cost bucket
 - Wide & inefficient branch network
 - IT capability not at full potential (further cost savings through dematerialisation)

Note: * refers to the Economic Entity; ^ Actual surplus for the year of R872M after deduction of surrender of surplus funds, loss on disposal of assets and taxation; ** SARS 2013/14 budget
Source: SARS Annual Report 2012/13

SARS has higher costs for revenues ratio – Fixing the costs to contribution equation is a priority

SARS profile

COST OF REVENUES – SA VS. GLOBAL PEERS 2012



SARS REVENUES TO COSTS KEY EQUATION

Ensure streamlined operations while delivering operational improvement and increasing effectiveness of SARS

Costs

(cost of SARS)

Revenues

(tax contribution)

Ensure that ALL taxes are paid by contributors in a fair and transparent way

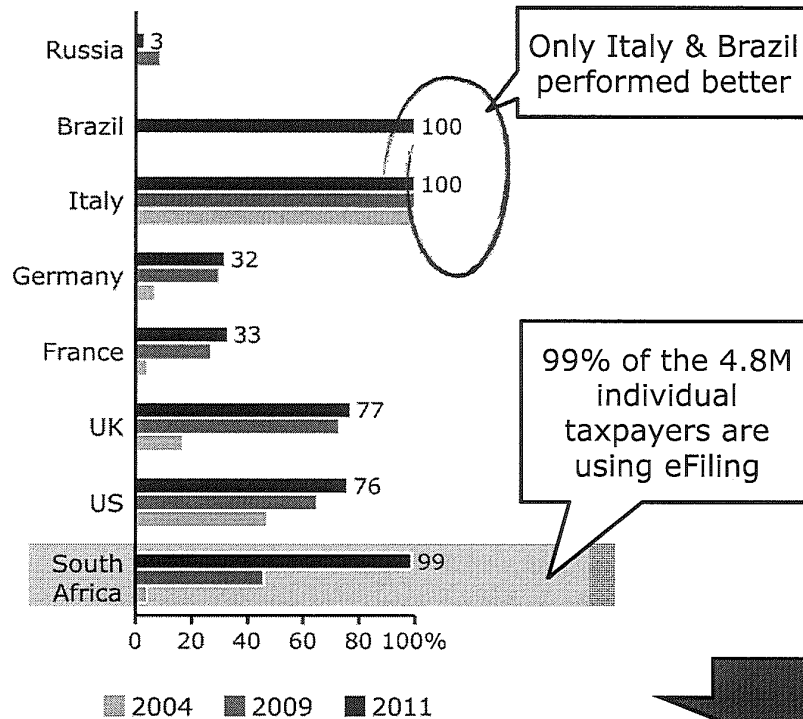
Note: *Calculation based on reverse engineering of total cost as % of revenues reduced by 0.1%; ^Excluding China (not reporting data)
Source: SARS, OECD

Even if eFiling represents 90% of total filing, there are doubts about its real efficiency to drive tax collection

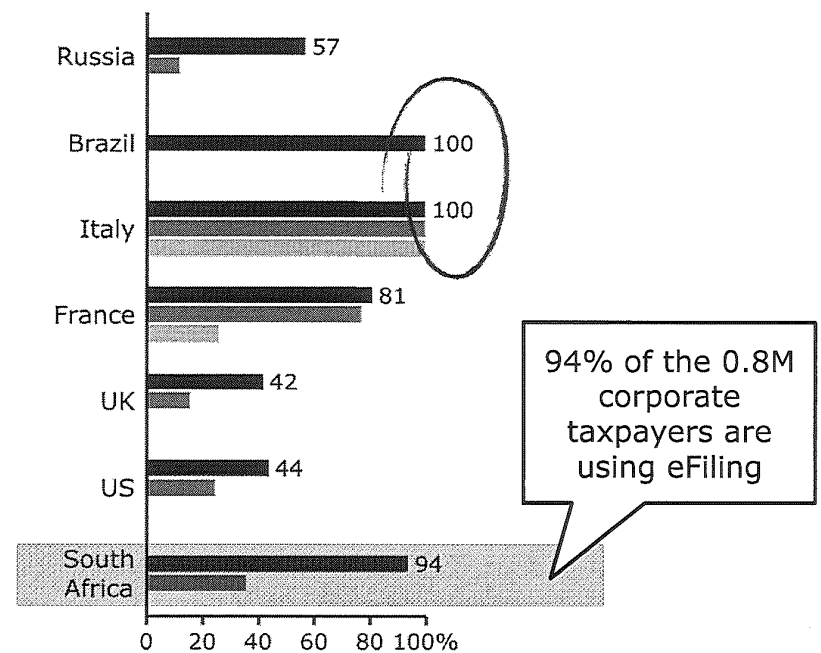
SARS profile

% OF EFILING OVER TOTAL FILING

PERSONAL INCOME TAX



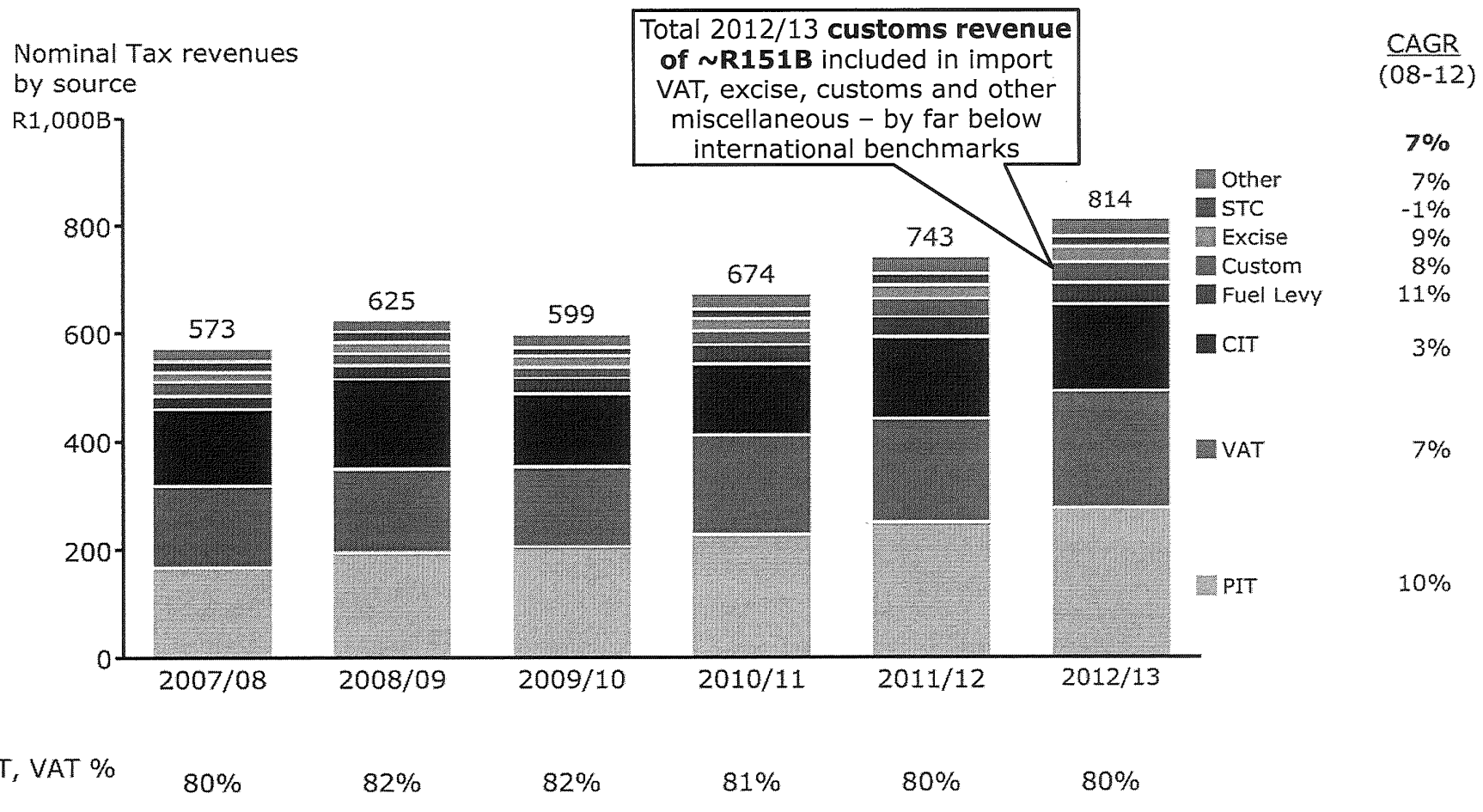
CORPORATE INCOME TAX



SARS needs to go beyond the collection process, and focus on driving tax collection effectiveness

...but relevant aspects such as Customs are not delivering the expected economic results...

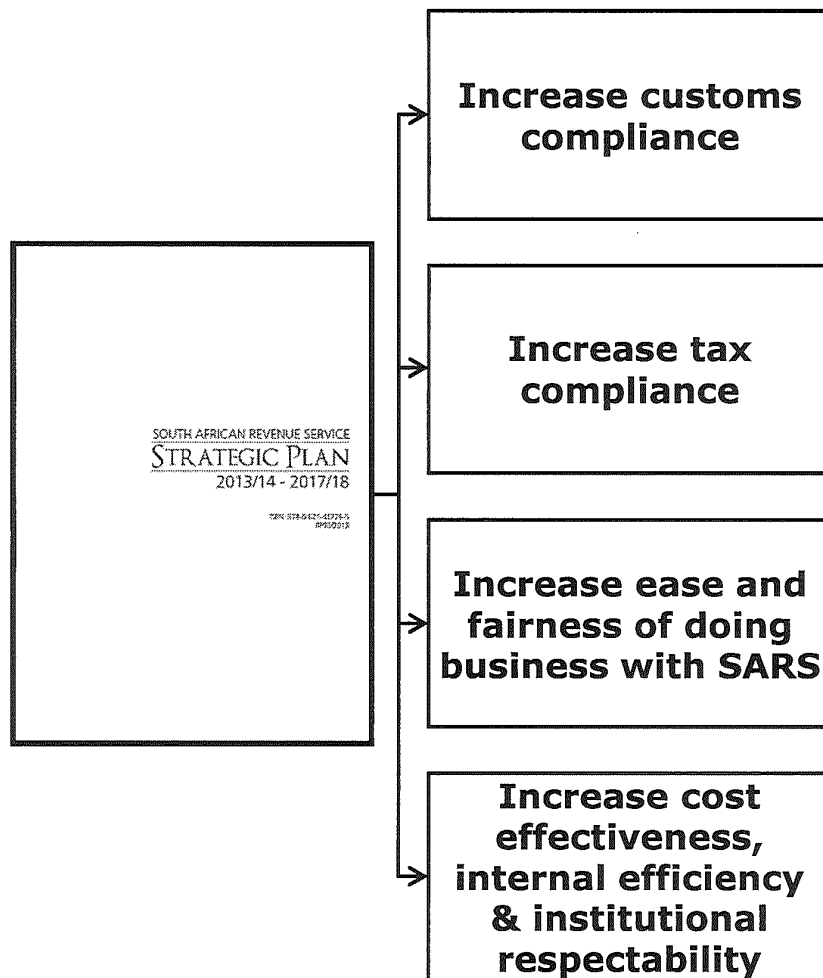
SARS profile



Source: SARS 2012 Tax Statistics; SARS 2012/13 Annual Report

2013-2018 new strategic plan is challenging – Quality of execution will be a critical success factor

SARS profile



- To complete the initial Modernisation Program, SARS defined an additional program for the 2013-2018 period
- The new 2013-2018 plan will:
 - **Perform the uncompleted tasks** from the initial Modernisation Program (eg. Customs) and
 - **Focus on new strategic initiatives** (eg. Fairness of doing business)
- New plan is **challenging in terms of delivery** (24 major work stream to be ran parallel). Budget allocated to external support in the next 3 years seems not to be sufficient to sustain it (from R710M in 2013 down to R375M in 2016)

Today SARS tracks many KPIs, focusing on outcome and process compliancy

SARS profile

The measures and targets for 2012/13 are

Measures	Baseline ¹	Annual Targets 2012/13	Quarterly Targets			
			Quarter 1	Quarter 2	Quarter 3	Quarter 4
Customs revenue collected (R bn)		Actual collections for 2011/12	As per agreed target with Minister of Finance			
Total revenue (excluding Customs revenue) collected (R bn)		Actual collections for 2011/12	As per agreed target with Minister of Finance			
% PIT filing submitted in returns required						
Cash received						
% Audit compliance						
% in-depth CIT, VAT/EX						
% Increase						
Debt book						
% CIT filing submitted in returns required						
Tax compliance						
% VAT filings						

Measures	Baseline ¹	Annual Targets 2012/13	Quarterly Targets			
			Quarter 1	Quarter 2	Quarter 3	Quarter 4
% Uptake in electronic filing, declaration and payment submissions for all tax products (No. of electronic filing, declaration and payment submissions vs. total filing, declaration and payment submissions)	93	94	93	93	93	94
% Uptake in electronic customs bills/declarations (ED)	96	96	96	96	96	96
Average processing turnaround time for PIT returns (working days)	0.54	<1.0	<1.0	<1.0	<1.0	<1.0
Average processing turnaround time for CIT returns (working days)	1.92	<2.0	<2.0	<2.0	<2.0	<2.0
Average processing turnaround time for VAT refunds (working days)	45.82	21	21	21	21	21
Average processing time for VAT registrations (working days)	Not defined currently	Develop measure and baseline	N/A	N/A	N/A	Develop measure and baseline
% First contact resolution in contact centre and branches	Not defined currently	Develop measure and baseline	N/A	N/A	N/A	Develop measure and baseline
% Reduction in escalated service queries	Not defined currently	Develop measure and baseline	N/A	N/A	N/A	Develop measure and baseline
Taxpayer and trader compliance burden	Not defined currently	Develop measure and baseline	N/A	N/A	N/A	Develop measure and baseline

¹Baselines provided are 2011/12 3rd quarter actual

- KPIs track all relevant metrics for each outcome set by SARS

- Yet, more specific and financial KPIs should be tracked:



- Gap between actual vs full potential collection, to monitor the effective contribution to SA economic value creation
- Performance against cost allocations towards new projects and initiatives
- Customer satisfaction and advocacy to ensure buy-in of taxpayers and improvements on service delivery

Agenda

- Appendix

- SARS profile

-  Details on transformation initiatives

SARS 2.0 – achieve new ambitions to make a difference for SA

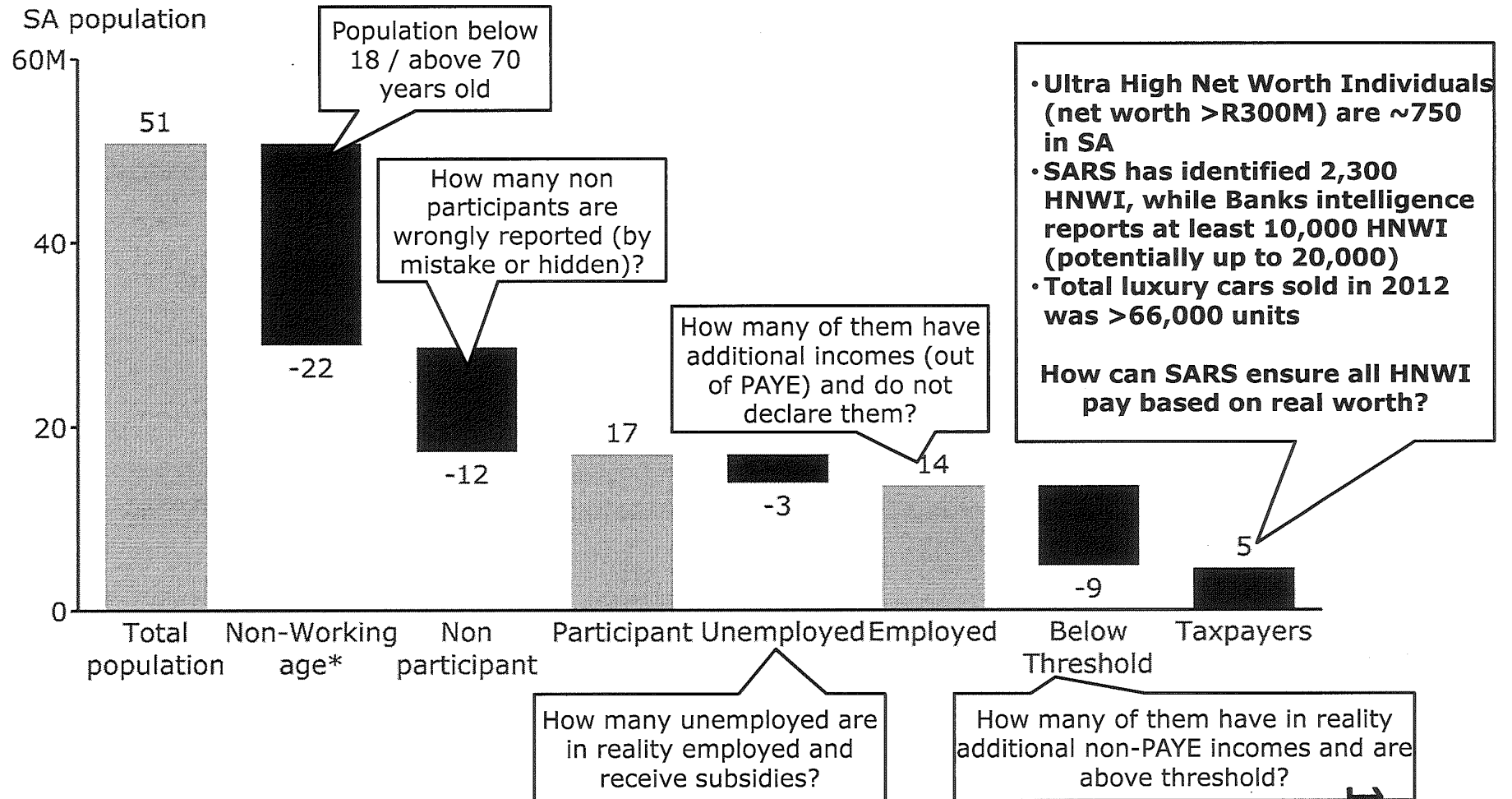
To achieve SA ambitions and make a difference, SARS needs to address key strategic concerns

- In order to **transform SARS into an innovative revenue & custom agency**, SA government will have to run a **profound strategy refresh** and **focus on execution to reach SARS real full potential**:
 - Define **clear KPIs to guarantee SARS focus** on relevant drivers
 - Deliver on the **3 main imperatives**:
 - ▶ **Increase economic value** for South Africa
 - ▶ **Integration and collaboration** with national and international counterparts
 - ▶ Full **fairness and transparency** to taxpayers
 - Develop the **critical enablers to support imperatives deployment**:
 - ▶ **IT systems**, and more specifically the **enhanced SA Data Base**, incorporated in the **Phoenix Ecosystem**
 - ▶ **Enforcement structures and tools** to support day-by-day imperatives respect
 - ▶ **Organisation and skills**

Increase economic value: ensure all tax payers contribute adequately (1/2)

Increase economic value

INDIVIDUAL TAXPAYERS

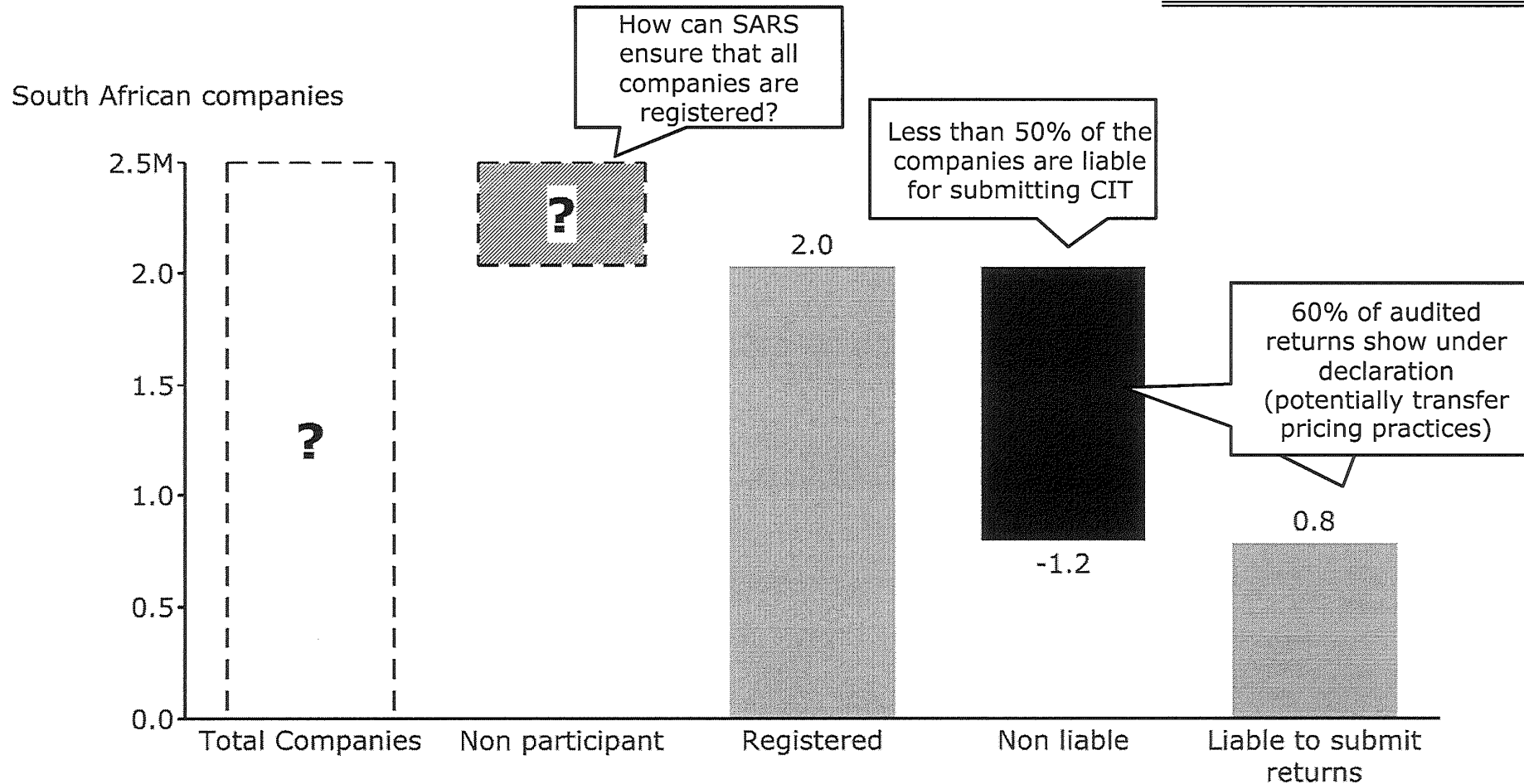


Source: Wealth X, StatSA, Lit research

Increase economic value: ensure all tax payers contribute adequately (1/2)

Increase economic value

CORPORATE TAXPAYERS



Note: No relevant source is able to estimate the total number of companies in South Africa
Source: SARS

Increase economic value: critical Customs program to be accelerated

Increase economic value

CUSTOMS PROGRAM

- SARS customs program active since 2009 but **still not effectively fighting against fraud, corruption & illegal imports**
- Customs service delivery is still **substandard** making the **process of importing / exporting very confusing & unattractive**

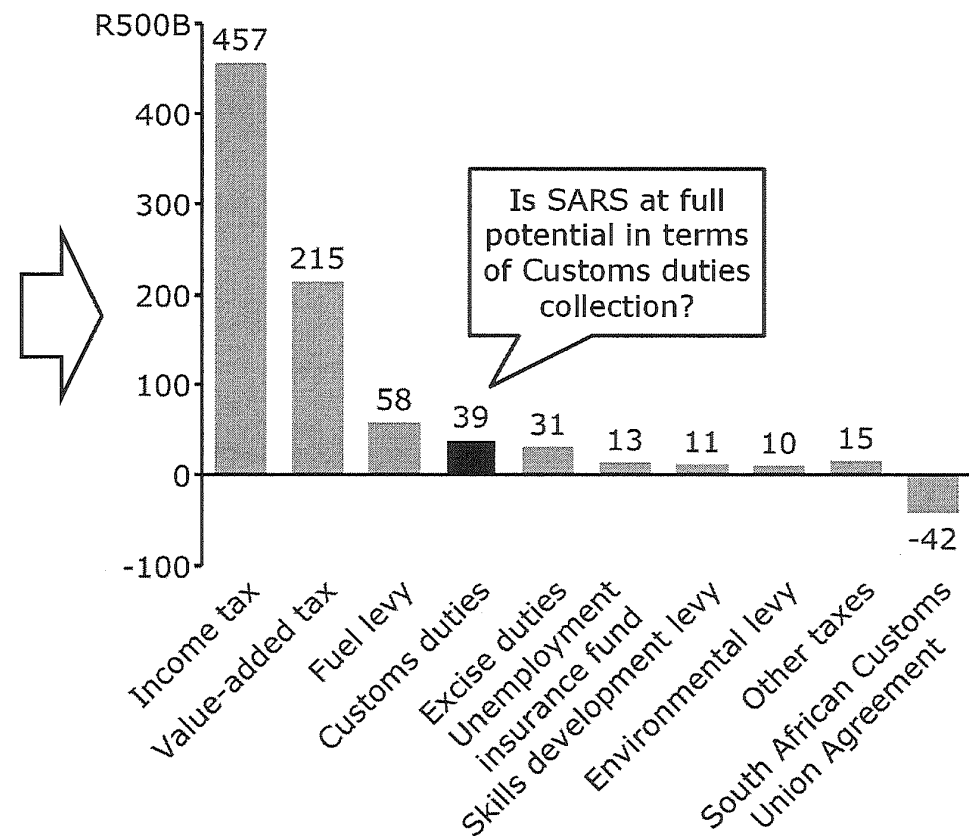
"Current law does not provide SARS with adequate information to determine any possible safety, security, fiscal and economic risks in relation to these goods. No value is declared [...]. This lack of information does not promote the application of efficient and effective customs controls and risk management at the port of entry"

All Africa on new Customs Bill submitted to Parliament, August 2013

"We, at [multinational company] haven't yet figured out how to quickly process imports and we still get double-taxed when we export in Africa through South Africa"

Marketing director, Multinational company

2012/13 SARS administered revenues

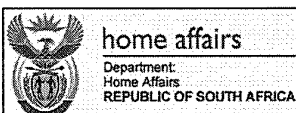
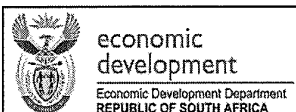
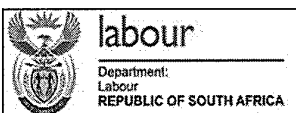
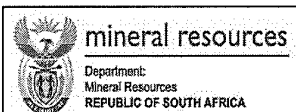
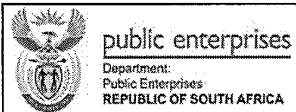
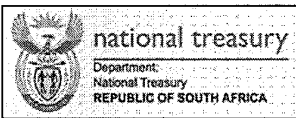


Source: Lit research

Integration & collaboration: SARS is a key player with a core role to play in delivering SA's ambition

Integration & collaboration

SA ministers

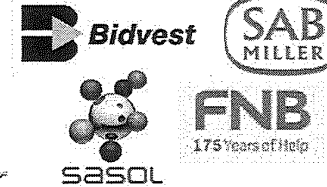


Civil Society



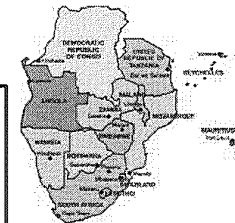
- Single view of taxpayers (including Social security contributions, dividends)
- Full access to financial information (including dividends, shareholdings, etc.)

Corporates



PRELIMINARY
ILLUSTRATIVE

International counterparties



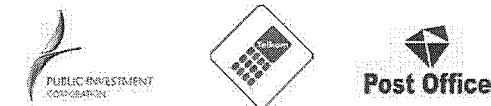
- Bilateral & multilateral agreements
- Increased control on financial trades
- Increased control on merchandise shipments

- Utilisation of specialised skills to deliver Phoenix

SA government agencies



State owned enterprises



- Efficient & centralized collection of info on taxpayers
- Efficient
- Centralized collection of taxes
- Greater control on levies (regulation and forecast)


Transparency & fairness: critical to on-board taxpayers and gain credibility


Transparency and Fairness

TRANSPARENCY

- Critical for tax bodies to report on service performance measurements and transparency of actions to citizens
 - Citizens want to know how well their efforts are utilised for a better South Africa
 - Listening to the voice of customers can unleash opportunities to better service customers and therefore increase taxpayers compliance
 - **Today SARS does not survey taxpayers to understand what can be done better and differently**

International examples

 **New Zealand:** customer satisfaction helps understand how effective customer think the revenue authority is in delivering timely and appropriate services


 **Netherlands:** Revenue authority made significant improvement in turnaround times as this was perceived weak by customers

Source: OECD; Lit research

FAIRNESS

- Ensure that ALL taxpayers make their fair contribution to South Africa
 - While there has been an overall increase in taxes paid as a result of simplifications, there are still some individuals / companies trying to go around the system
 - A more professionalised enforcing towards those individuals / companies raises the overall level of fairness of the taxation system
 - **SARS first compliance report in 2012, but no information on gaps**

International examples

 **Italy:** Italian tax authority is supported by the "Guardia di Finanza" which is a national police special body dealing with financial crimes (tax evasion, customs protection, drugs trade)

- GdF has tools and budget to ensure prevention, investigation and reporting of financial evasion and violations

Enforcement: need specific units to fight illicit economy & tax evaders

Enforcement

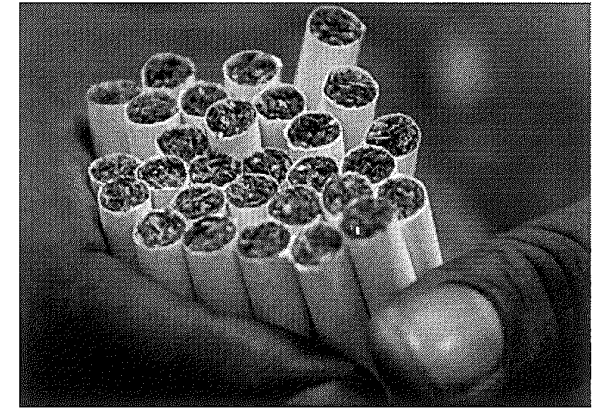
BORDER UNITS



ANTI-DRUGS UNITS



ANTI-COUNTERFEIT GOODS UNITS



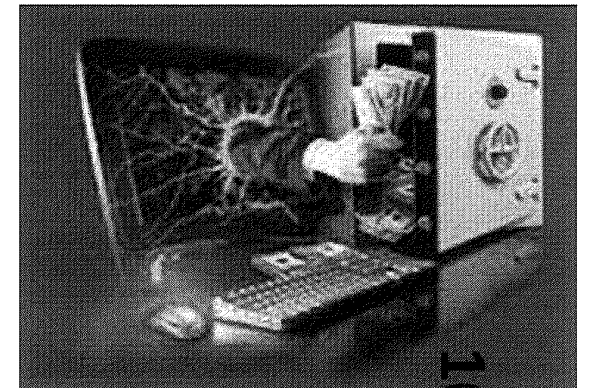
MARINE, AIR & GROUND UNITS



FINANCIAL FRAUD UNITS



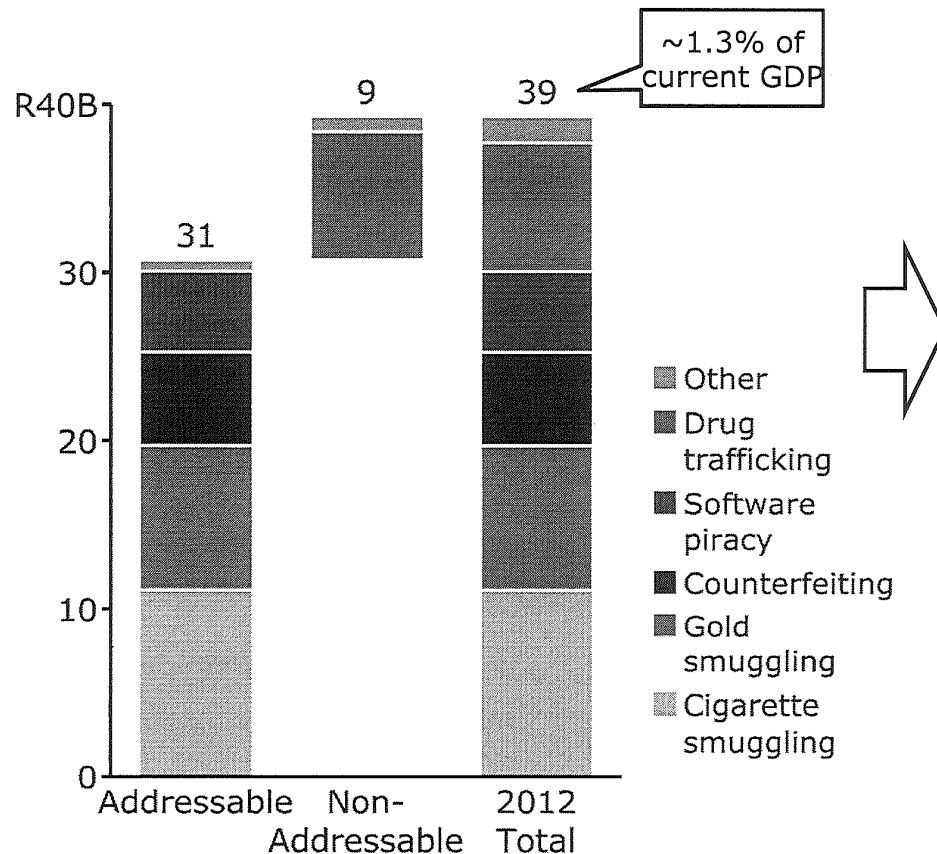
ELECTRONIC / MOBILE FRAUD UNITS



Illicit economy estimated at R40B, tax loss superior to R6B. Opportunity to be measured & recovery plan to be launched

Increase economic value

ESTIMATED VALUE OF SA ILLICIT ECONOMY (RB)



- Considering Tax to GDP of ~28% this means a loss of R11B taxes
- Considering that:
 - Drugs are illegal -> 0 tax revenue
 - Cigarette tax rate includes excise (effective tax rate of ~45% in 2001, most likely higher now)
- **Total real loss for the country is ~R6.1B tax revenues** (after cost of collection)
- **This figure represents ~0.7% of taxes collected today**

Source: Havoscope

Border control needs to be efficient (to increase trade) and effective (to decrease illicit trades)

Increase economic value

FRENCH GOVERNMENT INCREASED EFFORTS TO PLAY A KEY ROLE AS A HUB FOR EUROPE

- One of the main goals of the French border control ("Douane") is to **increase European trade flow through France**
 - Become the hub for global merchandises entering Europe, making sure that procedure in place facilitate business
 - Ensure this comes in a sustainable way in order to allow only legal merchandise to enter

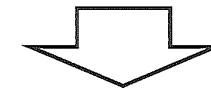


South Africa can play similar role for SADC / Sub-Saharan Africa

AUSTRALIAN GOVERNMENT ACTIVELY MANAGES BORDER CONTROLS TO FIGHT ILLEGAL IMPORTATIONS



- One of the main goals for Australian border control is to **protect Australians from illegal migration and merchandise smuggling**
 - Protect environment from alien diseases
 - Preventing the entry of people who are a direct or indirect threat to the Australian community
 - Significant income for the country derived from fines applied to illegal importations

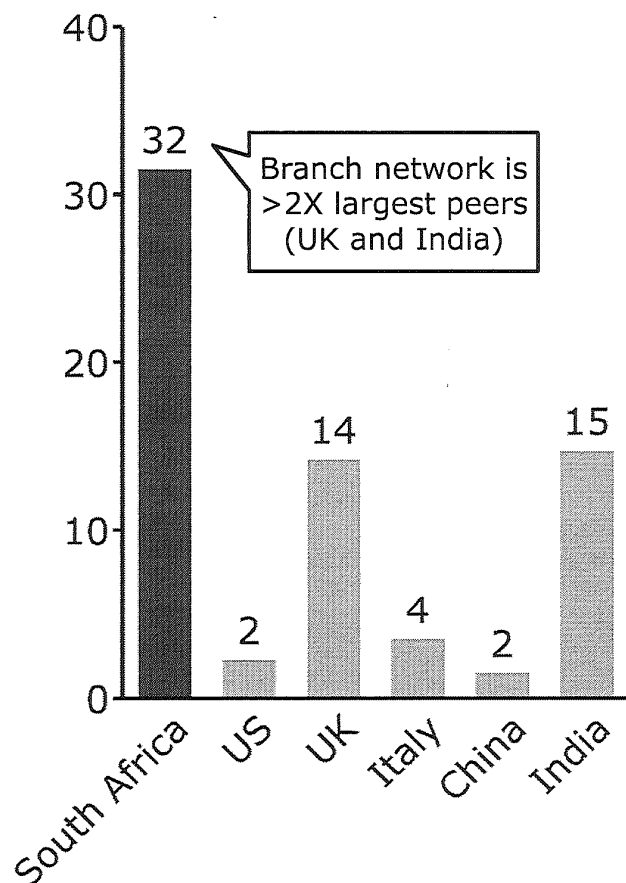


SARS can decrease illegal trade inflow /outflow and "earn with punishments"

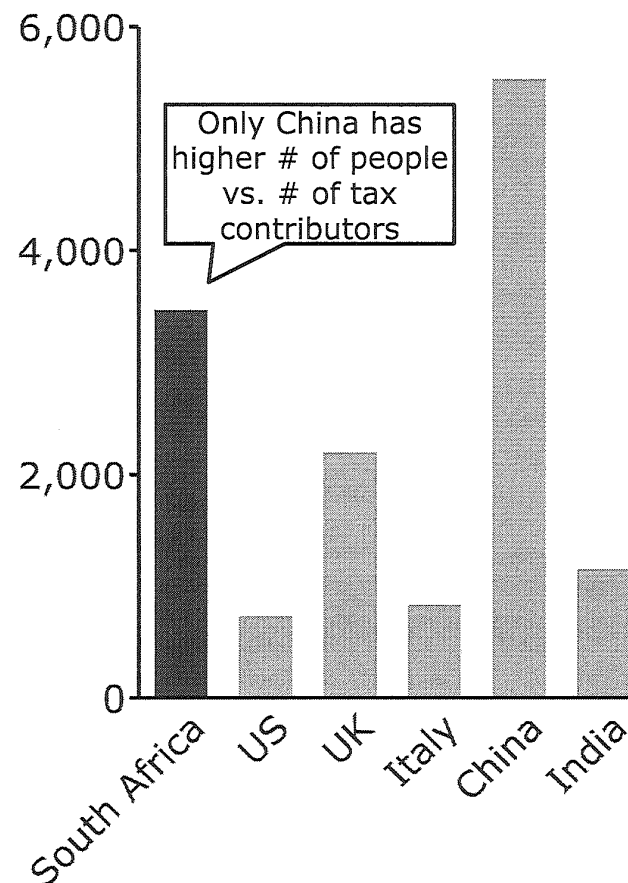
Even if eFiling usage is high (>90%), SARS branch & FTEs are substantially higher than peers

Increase economic value

of branches per million active taxpayer (2012)



of FTEs per million active taxpayer (2012)



Note: calculated as total number of branches / FTEs per million taxpayers
Source: Lit research, IMF, OECD

For example, integrating Social Security Contribution into SARS can deliver significant upside

Integration & collaboration

TYPICALLY THE MERGE HAS LONG TERM ADVANTAGES

- **Commonality of core processes**
 - Identify and register contributors
 - Systems to collect information from employers
 - Withholding taxes from employers
 - Effective collection systems
 - Audit of accuracy of data
- **Efficiency of resources**
 - Economy of scale as the marginal cost for additional analysis is minimal
- **Core competencies of tax and social organisations**
- **Lowering government administration cost**
- **Lowering taxpayers and contributor compliance costs**
- **Unique tax data base**

YET IN THE SHORT TERM THE TRANSITION IS PAINFUL

- Implications to the registering, calculating and recoding systems may cause **difficulties due to new procedures** and the **introduction of new forms**
- Calculation of charges are different and require a **specific skill set**
- Typically before merge the taxpayers are registered with different codes and requires **reconciliation** of relevant tax information

International examples

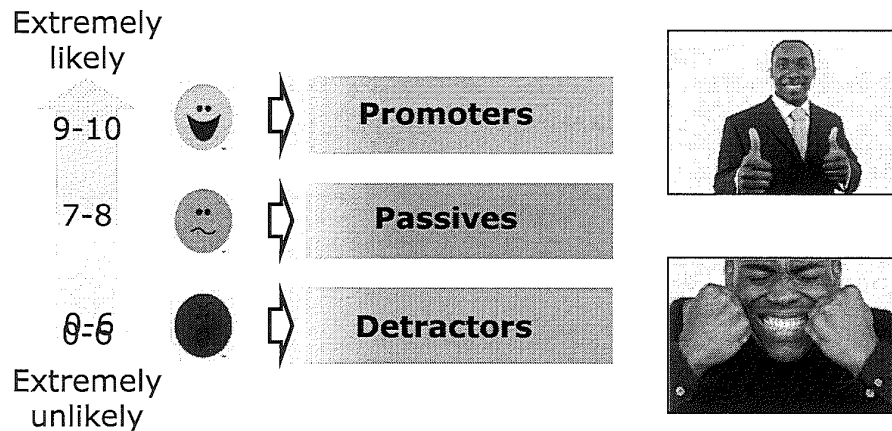
- 🇬🇧 UK: elimination of administrative duplications; simplification of taxation and social security frameworks
- 🇳🇱 Netherlands: simplification of social security collections; reduction of overall employees

Source: OECD

New relationship model with taxpayers - Leveraging their feedback and rewarding their compliance with rules

Transparency and Fairness

LEVERAGING TAXPAYER FEEDBACK



- Tracking and leveraging taxpayer feedback will drive substantial changes into SARS organisation and employees behaviours.
- A better knowledge and understanding of taxpayers experience will allow to improve the relationship at all critical touch points

TAXPAYER HISTORICAL RATING TO REWARD LOYALTY

SARS Corporate Compliance Rating			SARS Citizen Compliance Rating		
	👍	👎		👍	👎
• 2010	<input checked="" type="checkbox"/>	<input type="checkbox"/>	• 2010	<input checked="" type="checkbox"/>	<input type="checkbox"/>
• 2011	<input checked="" type="checkbox"/>	<input type="checkbox"/>	• 2011	<input checked="" type="checkbox"/>	<input type="checkbox"/>
• 2012	<input checked="" type="checkbox"/>	<input type="checkbox"/>	• 2012	<input checked="" type="checkbox"/>	<input type="checkbox"/>
• 2013	<input checked="" type="checkbox"/>	<input type="checkbox"/>	• 2013	<input checked="" type="checkbox"/>	<input type="checkbox"/>

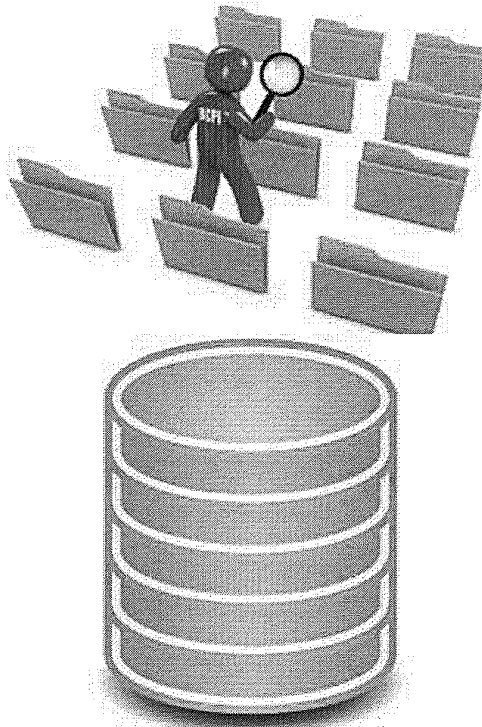
- SARS should recognise and reward individual & corporate taxpayers constantly compliant across time with SA tax regulation
- Recognition may result into lower tax rate or preferred treatment in case of litigation with SARS
- Repeat fraudsters will be traced and severely treated

Different bodies can contribute to the creation of an enhanced SA database - SARS can leverage it

IT systems – Enhanced SA DB

ILLUSTRATIVE

South African National Centralised Database (citizens and companies)



PHOENIX ECOSYSTEM

Taxpayers

- SARS individual tax records
- SARS companies registration database (CIT, VAT, customs, etc.)

Social Security

- Unemployment status
- Social security grants
- Studies support
- Etc.

Assets registration

- Real estate holdings (within city councils)
- Car registrations (Motor Vehicle Department)

SA citizens / Home Affairs

- Household data (passport, marital status, demographics, etc.)
- Courthouse legal records (e.g. frauds)
- Foreigners data

Financial holding assets

- Cash holdings (Post Office bank accounts)
- Stock / bond holdings (JSE)
- Other financial assets (IFAs / banks registry)

Private company's holdings

- Intellectual properties registrations (CIPC)
- Industry Ministries (e.g. DTI, Agriculture, etc.)

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BACK UP

TM's agenda: Do you agree with the key battlefields in the medium to long-term?

FOR DISCUSSION

		2014	2015	2016
SARS 2.0 program	• Master plan	→		
	• Monitor program execution			→
Customs turnaround	• Improve customs collection to global standards levels		→	
Collection full potential	• Individual tax payers (HNW)		→	
	• Corporate tax payers (VAT and income tax)			→
Organisation & operational efficiencies	• Review organization to drive accountabilities	→		
	• Optimize infrastructure (IT, geo. coverage, staffing model...)			→
Enforcement	• Set-up enforcement force (in sync with other forces)		→	→
Integration w/ other agencies	• SASSA integration opportunity		→	
	• Other agencies			→
Fairness & transparency	• Internal "Zero tolerance" program	→		
	• Engage with SARS customers to improve service		→	
...?	• ...?			

First 100 days

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