

SA Institute of Tax Professionals: Comment on the 2019 budget speech: Tax Administration.

To the:
Standing Committee on Finance

and the

Select Committee on Finance



By: Piet Nel

What the Minister said:

Revenue collection continues to underperform as a result of weak economic growth and tax administration concerns.

Problems with tax administration, as highlighted in the findings of the SARS Commission, partly explain poor revenue-collection performance.

Improving collections hinges on restoring the efficiency of SARS.

In the short term, such improvements may be more effective in raising revenue than further substantial tax increases.

What the Minister said:



The process to appoint a new SARS Commissioner is under way ...

... and the institution has begun implementing operational reforms to improve its performance.

SARS governance reforms will be considered in amended legislation.

Tax proposals in the budget

SAIT views this year's tax proposals as a holding pattern.

It is clear that the lack of a PIT inflation increase was to cover for the lost revenue SARS should have made.

The budget recognises this.

The appointment of the Commissioner

We applaud the efforts of the Acting Commissioner, Mark Kingon.

In particular, the resurrection of the Large Business Centre, is appreciated.

We support the efforts for the appointment of a new Commissioner.

We are of the view that good tax administration cannot be dependant on persons - it must be institutionalised.

Improving collections

Everyone fully understands that revenue can only be satisfied with proper administration.

The danger is that pressure on SARS could lead to audit aggression. Don't be unfair to the innocent.

Money must be taken from the right sources; not from the most visible.

Artificial revenue activation measures (such as the failure to pay-out refunds) kills the economy and will worsen tax morality.

VAT refunds and paragraph 19(3) requests for provisional tax estimates to be adjusted.

The 21-day rule – a taxpayer misses a deadline to submit supporting documents and an additional assessment follows.

Areas that should be targeted:

Area 1

We should be aiming at parties contracting with government. Corrupt contractors ('tenderpreneurs') often don't pay their taxes (amongst other evils).

Procurement and the tax office may have to work together in this respect.

Are they paying the taxes rightfully due by them, or are they claiming non-deductible expenses.

Are their books matching their income? There is a loss of revenue for the State when they don't report their income.

Areas that should be targeted:

Area 2

Example: the recipient of a bribe receives it as income in respect of services rendered and should, irrespective of its illegal nature, pay tax thereon. The entrepreneur paying the bribe cannot make a deduction thereof in arriving at taxable income – prohibited deduction.

Companies are artificially set-up to get a Government contract, but then simply disappear and the income from the contract is not declared and taxed.

The concern is that otherwise legal taxpayers are simply not reporting correctly or keeping 2 sets of books.

Areas that should be targeted:

Area 3

In terms of illicit flows, the focus should not be limited to tobacco / alcohol (i.e. sales generating excise taxes) but to high net worth individuals that underreport.

This will require forensic audit skills as opposed to financial accounting skills.

Tobacco and alcohol is not simply an excise problem.

It appears that there are many businesses simply operating outside the tax base in this area.

Areas that should be targeted:

Area 4

Cross-border remains a concern but we need to target those parties outside the traditional audit system of SARS.

It appears that we keep coming back to the most visible companies. They are mainly the listed companies who are mainly compliant.

There is a concern that the unlisted companies simply don't care about BEPS enough.

Areas that should be targeted:

Area 5

We need to go after the cash economy.

It is impossible to measure this – simply because no records are kept.

We don't know how much revenue can come from these cash businesses.

The turnover tax is a failure, because it relies on books. We need different types of presumption taxes. A number of African countries have gone the way of a medallion tax – anything other than a requirement to keep books.

VAT refunds

However, net VAT collections have been considerably lower since October, when SARS accelerated payments of VAT refunds.

The 2018 MTBPS announced that SARS would pay out overdue VAT refunds, which rose from R30.4 billion at the beginning of the fiscal year to R41.8 billion in September 2018. In subsequent months, SARS has been working to reduce the VAT credit book, which shows the total amount of refunds owed, by paying out an average of R22.2 billion each month.

The position has certainly increased.

But, there is a concern that the payment of interest due to the delay is not automatic.

VAT refunds

A weak revenue service is a dangerous revenue service. It will target the wrong things to get the revenue. A good example is the failure to pay VAT refunds.

A good example is the failure to pay VAT refunds. This is not just an SA trend but also a developing country trend.

Paying legitimate VAT refunds to taxpayers is not a privilege - it is a right.

Failure to pay legitimate VAT refunds can eat to the death of many small businesses.

Taxpayer morality: if taxpayers are treated fairly, they will pay their taxes.

Amendments to the Tax Administration Act



The Minister of Finance will introduce legislative amendments to implement the recommendations of the SARS Commission and to strengthen tax administration and the capacity of SARS.

We need a slightly stronger Tax Ombud.

The Office of the Tax Ombud should have freedom to investigate without asking for Ministerial approval.

We also believe that the Tax Ombud should be part of the Parliamentary process – when the Tax Administration Act is amended.



Thank you for your attention

Questions