AFFIDAVIT

I, the undersigned,
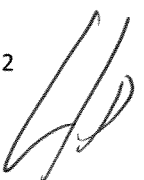
PAULO JORGE OLIVEIRA CARREIRA

do hereby make oath and say:

1. I am currently the Executive for the SARS Innovation Hub. I have over 25 years of experience in SARS operations.

2. The contents of this affidavit are within my personal knowledge, unless the context indicates otherwise, and are to the best of my belief true.

3. I attach to this affidavit a document prepared by me and titled *"Large Business – SARS Commission of Enquiry – Executive Summary of all the Large Business EXCO Presentations"*. This document provides a summary of the salient facts as presented in the presentations to EXCO over the last 18 months.

4. I record that I have provided the Commission with the following documents which I confirm as authentic, contemporaneous documents created for the Large Business Current State Assessment and Conceptual Design proposal(s):

4.1. March 2017 - SARS EXCO Presentation Large Business Current State Assessment

4.2. May 2017- SARS EXCO Presentation Large Business Responses to questions arising from the EXCO meeting of 5 April 2017

4.3. 10 April 2018 - Large Business Proposal: Commissioner's Discussion Document

4.4. 29 May 2018 - Large Business: High Level Stakeholder Design Workshop

4.5. 8 June 2018 - Large Business Proposal: Submission to EXCO for Approval

4.6. 20 July 2018 - Consolidated Large Business Proposal: Current State Assessment and Conceptual Design EXCO Presentation

WORK IN PHASE 2 OF THE RDO

5. I was asked by Ronald Makomva to join the RDO in July 2015. I ran the Tax Collection workstream under Ronald Makomva and Randall Carolissen and worked closely with Mamiky Leolo, Zoe Karl-Waithaka (Bain Consultant), and Onyinye Ibeneche (Bain Consultant).

6. The Tax Collections workstream comprised of two phases:

6.1. Phase 2a in which we completed the detailed Tax Collection diagnostic; and

6.2. Phase 2b in which we implemented a range of RDO initiatives.

7. I resigned from the RDO in April 2016.

COMMENT ON BAIN'S DIAGNOSTIC

8. In my view:

    8.1. The overwhelming majority of issues identified in the Tax Collection diagnostic were known to SARS before the analysis by BAIN.

    8.2. Aspects of the BAIN analysis were insightful (i.e. international tax administration benchmarks). Of particular interest was the insights provided by BAIN on how other tax administrations administered and capacitated their High Net-Worth Individuals (HNWI) and Base Erosion and Profit Shifting (BEPS) capabilities.

    8.3. I felt that the Phase 1 tax gap estimates calculated by BAIN were over-optimistic for the tax collection environment.

COMMENT ON THE IMPACT OF THE NEW OPERATING MODEL

9. The key issues I have observed are:

    9.1. The previous operating model was not perfect, but for the most part worked well. In my opinion, only minor tweaks were required to fix the concentration of power in the Operations division.

    9.2. The new operating model is worse than the previous operating model. This is evidenced in many of SARS operational performance indicators (i.e. increasing inventory levels, decreasing compliance indicators, decreasing employee engagement levels, staff attrition, etc.) which have deteriorated post implementation.

9.3. The operating model replaced one dominant business area (i.e. Operations run by Barry Hore) with another dominant business area (BAIT run by Jonas Makwakwa).

9.4. There are examples where the operating model missed important tax administration business opportunities. (i.e. the introduction of full segmentation, the creation of an end-to-end Estates capability and the creation of a 3rd Party Data Management capability);

9.5. Some functional mandates still remain unclear (i.e. BAIT Taxpayer Strategy vs Enterprise Strategy).

9.6. The Business Architecture function was moved from the Innovation Hub without consultation despite there being a moratorium on operating model changes.

9.7. In my opinion, governance under the new operating model has worsened effectively delaying decision-making without any additional value adding risk mitigation.

THE RE-ESTABLISHMENT OF THE LARGE BUSINESS FUNCTION

Chronology of events

10. Over the last eighteen months I have been involved in the analysis, and design of proposals for the re-establishment of the Large Business function at SARS.

11. On 24 January 2017 the Acting CO: BAIT, Ms Firdous Sallie, requested the Innovation Hub to conduct an operational diagnosis or current state assessment of the Large Business operational environment in order to better inform Large Business strategic proposals.

12. The current state assessment outlining the Large Business findings and recommendations was presented to EXCO on 5 April 2017 after extensive Large Business data analysis and stakeholder interviews.

13. All the Chief Officers were engaged one-on-one by the innovation Hub on the outcomes of the Large Business current state assessment.

14. In response to EXCO's evaluation of the Large Business current state assessment, the Innovation Hub was asked to compile a set of clarifying answers to questions posed by EXCO members. This was presented to EXCO on 3 May 2017.

15. On instruction from EXCO, the Innovation Hub then completed a conceptual design for a proposed Large Business capability which was presented to EXCO on 14 June 2017.

16. An extended EXCO discussion on the Large Business proposal was cancelled on recommendation of the previous CO: BAIT (Mr Jonas Makwakwa) in December 2017 effectively preventing any further activity on the Large Business design.

17. The newly appointed acting Commissioner (Mr Mark Kingon) revived the re-establishment of the new Large Business segment through public announcements on the matter (i.e. Radio 702).
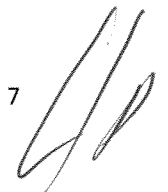
18. A discussion was held with the Acting Commissioner (Mr Mark Kingon) and CO: GISC (Mr Hlengani Mathubula) on 4 April 2018 to discuss the possible Large Business phasing options and next steps.

19. Large Business stakeholder engagement sessions on the future design of the Large Business capability were hosted by the Acting Commission (Mr Mark Kingon) on 15 May 2018 and 6 June 2018.

20. The proposed re-establishment of a Large Business function will essentially revive the pre-operating model Large Business Centre, but with some important enhancements (i.e. Segregation of duties between Case Selection and Audit).

Findings and key data arising from the Large Business Assessment and Proposals

21. I note the following data in respect of the Large Business sector. This information as included in the presentations prepared for and presented to EXCO as part of the Large Business Current State Assessment and Conceptual Design proposal(s):

    21.1. The Large Business Centre (LBC) had 499 staff members on 1 April 2016 prior to transitioning.

    21.2. The LBC had 488 Multi-National Enterprises (MNE), 5243 subsidiaries and 31,387 ring-fenced taxpayer registrations in February 2017. Active taxpayer registrations included 15,832 Income Tax registrations, 9,115 VAT and 6,205 PAYE registrations (Source: Data Analytics – 20170207).
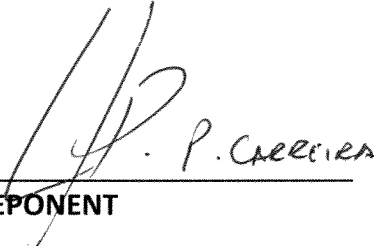
21.3. Between 2015 and 2017 Large Business revenue (2.8%) grew significantly less than the Small, Medium and Micro Enterprise (SMME) revenue (10.2%) and nominal GDP (6.7%) (Source: TC&E Institute LB Revenue).

21.4. The percentage of outstanding Large Business Income Tax returns increased by 48% in the period between 1 January 2015 to 1 January 2017. 35% of Large Business Income Tax returns were outstanding at the end of the 2016/17 financial year-end (Source: Data Analytics – 20170217).

21.5. Between April 2016 and March 2017 the Large Business debt book increased by 58%. The debt book reduced by R9.3 billion in the period between February 2017 and April 2017 when a Large Business Co-ordinator and a Large Business settlement specialist were seconded to Large Business (Source: Data Analytics – LB Debt History 20170626).

21.6. As at 25 Jun 2017, 80% of the R45 billion Large Business debt book was owed by 14 entities. 95% of these Large Business audit assessments were disputed, and can take multiple years to resolve. Large Business audit disputes are often the result of legislative interpretation, and are usually resolved through negotiated settlements or litigation.

21.7. The average number of Large Business cases completed per month in the period between January 2015 and December 2016 remained largely constant.

21.8. The average turn-around time per month of Large Business cases reduced significantly by 28% in the period between January 2015 and December 2016.

22. The following findings were presented to the SARS EXCO:

22.1. The current Large Business definition considering SARS' limited capacity is too broad, allowing for a large and diverse group of large businesses (31,387) to form part of the Large Business segment.

22.2. The Large Business segment is not effectively co-ordinated, with end-to-end accountability lacking across the different Large Business functions.

22.3. The Debt Management, Account, Portfolio and Assessment Maintenance and Legal Disputes operational functions do not have dedicated Large Business teams and manage Large Businesses in the same way they manage all other segments / inventory leading to a mismatch of skills and prioritisation.

22.4. The Case Selection, Audit and Relationship Management functions all have dedicated Large Business teams. It is evident that there is a disparate approach to the Large Business segment by the different functional areas.

22.5. The generic SARS operational processes in the functional areas continue to not adequately cater for the end-to-end specialised nature of Large Business.

22.6. SARS has a critical shortage of Large Business specialists, aggravated by resignations, transition movements and a general shortage of these skills in the South African Market.

22.7. While the Relationship Management division continues to have a dedicated function to manage Large Businesses the following operational issues are of concern:

22.7.1. Service cases referred to other divisions for resolution are not attended to timeously.

22.7.2. When attended to are often not resolved due to a lack of dedicated Large Business segment skills.

22.8. The Relationship Management function is finding it increasingly difficult to resolve referred Large Business cases due to their reliance on other SARS operational functions (i.e. Account Maintenance, Debt, etc.) and their unique case priorities.

23. The following recommendations were presented to the SARS EXCO:

23.1. Consider reviewing and refining the Large Business definition.

23.2. Consider the establishment of a dedicated and co-located end-to-end Large Business capability.

23.3. Consider establishing a centralised Large Business accountability with dedicated management focus.

23.4. Consider the optimisation of the Large Business processes, system and standard operating procedures.

23.5. Consider expanding SARS' Large Business specialist skills in the BEPS, Mining, Financial Services, Legal Settlements, etc.) environments.

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DEPONENT

The Deponent has acknowledged that he/she knows and understands the contents of this affidavit, which was signed and sworn to or solemnly affirmed before me

at *Brooklyn* on this the *21* day of *August* 2018, the regulations contained in Government Notice No. R1258 of 21 July 1972, as amended, and Government Notice No. R1648 of 19 August 1977, as amended, having been complied with.

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COMMISSIONER OF OATHS
Full Names:
Capacity:
Designation:
Address: