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NATIONAL TREASURY TAX POLICY INPUT FOR COMMISSION OF INQUIRY INTO TAX ADMINISTRATION AND GOVERNANCE BY SARS[1] (DRAFT 2)

PREPARATORY OUTLINE • PRETORIA • 29 AUGUST 2018

1. Why do we tax?

The tax system provides the underlying support for development and nation-building. The tax system generates the revenue necessary for Government to provide basic services and enable the functioning of the state. Taxation represents a deep social contract between Government and the people, whereby citizens and residents receive services for the taxes they have paid. Any perception that Government is not fair when raising or collecting taxes undermines the willingness of people to pay their taxes over to Government.

Key principles for the design of the tax system in SA are as follow:

- **Equity:** Vertical equity means that we impose income taxes that increase along with higher incomes (i.e. progressive rates). Horizontal equity means that people in similar circumstances should face similar tax burdens.
- **Efficiency:** Sufficient revenue should be raised in a manner that causes minimal distortion to economic decisions and activity.
- **Tax buoyancy:** The tax system should raise revenue to sustain government's developmental spending through all phases of the business cycle.
- **Transparency and certainty:** The manner in which taxes are calculated and collected should be public knowledge, subject to democratic process and applied consistently. Like the expenditure budgeting process, the tax policy process is *open, transparent and fair*.
- **Simplicity:** Compliance cost, compliance effort and collection costs should be as low as possible.
- **Expenditure efficiency and effectiveness on agreed priorities.** In addition to principles on the tax design, it is even more important that there is full accountability on expenditure. Government must ensure that it is spending the money received from taxes and levies efficiently, effectively and in line with priorities widely expected by citizens and residents (school education, health, social grants, roads and other infrastructure). Any perception that that Government is not spending money properly undermines the tax system and tax morality very directly, and hence leads to lower revenue and resources for the Budget and basic services.

The tax system has 5 main objectives, namely revenue raising, redistribution, correcting market failures, support of economic policy objectives, and behavioural change (e.g. encouraging people to save

[1] **This note does not necessarily represent the official views of the National Treasury. It is a note to inform the Commission on views of tax policy staff in their dealings with SARS.**

or reduce consumption of tobacco). While these objectives often work in tandem, there are times when they do not and involve trade-offs between different objectives. [2]

2. Tax, tax administration and tax morale in our society

The developmental impact of our public expenditure legitimises our system of taxation. Wasteful and ineffective public expenditure not only harms our potential for economic growth and the attainment of our developmental goals, but it also undermines gains in tax morality. It is therefore critical for Government to not only act against corruption, but to do so speedily and strongly enough so that it is also seen to have no tolerance for corruption, waste or maladministration.

Very few people like to pay taxes, and most people do not like tax collectors. **The tax system reaches into every person's pocket – and is likely to elicit strong responses**. Taxation is ultimately a coercive instrument and is therefore imposed through legislation which obligates payments. The adage that there should be *"no taxation without representation"* illustrates that people are more willing to pay taxes if they can hold Government accountable and there is effective oversight. Given the unique role and powers entrusted to a revenue authority, it needs to be protected from unwarranted attacks from those with something to hide and who may have less-than-honest intentions.

The perceived fairness of the tax system is an important determinant of tax morality. For this reason the Tax Administration Act (No 28 of 2011) stipulates in precise terms what the duties and obligations of SARS are – while upholding the right of taxpayers to be treated fairly. The establishment of the Tax Ombud was a further measure to safeguard fairness in administration. A practical reason for the insistence on fairness is that our administrative machinery operates on the principle of "pay now, ask questions later". Since taxpayers are immediately out-of-pocket, there must be a reasonable expectation that further deliberations on the tax liability be procedurally fair and that the outcome of deliberations are not prejudiced against the tax payer (or fiscus, for that matter). The neutrality of tax administration presupposes that the SARS applies its powers without fear or favour, and treats all tax payers equally.

Effective and efficient tax administration requires strong protocols and technically sound staff. While SARS has certainly built a reputation in the past as a capable revenue authority, these gains should be protected. Our system is built on self-declaration of income and expenses. Our base assumption is that the overwhelming majority of South African taxpayers are honest people – and continue to believe that this is true. But, we are not naïve about the very real occurrences of tax evasion, which require strong enforcement capacity, including criminal sanctions. In order to enforce taxes in a manner that supports fairness and equity, it is important to enable the revenue authority to gain as much information as is required to make an accurate assessment of a person or legal person's tax liability. Where that information is offered timeously and accurately by millions of honest taxpayers, the system is designed to work smoothly.

Enforcement powers that are also intrusive are necessary for any tax collection agency. Whilst most taxpayers seek seek to comply, there are cases of taxpayers who are less cooperative when declaring income or have a clear incentive to withhold key facts about the nature of income-generating activities of the person or business. In such cases it is necessary for SARS to have intrusive enforcement capacity to deal with such evasion. A vast body of legislative provisions, Standard Operating Procedures (SOPs),

[2] See DTC macro analysis paper for an extensive discussion.

protocols, guidelines, internal quality control processes, measures to detect conflicts of interest and channels for secure interaction with other law enforcement agencies have been developed to govern South Africa's tax enforcement system. It takes years of experience to internalise the legal, financial and practical enforcement experience to perform this function.

The declining reputation of SARS and its perceived failure to act against tax transgressions has undermined tax morality. Whilst the dealings of SARS with taxpayers are confidential, the recent spate of allegations of impropriety in news reports (even if not true) has impacted negatively on the formidable reputation of SARS. <u>SARS has not only to be fair to all taxpayers but SEEN to be fair as well, and needs to convincingly demonstrate why such allegations are not true</u>. The perceived failures by SARS to act against transgressions – e.g. failure to act decisively against money-laundering and tobacco smuggling, allowing the misuse of mining rehabilitation funds, facilitating payment of VAT refunds to a foreign account when refunds are slow to be paid to many ordinary taxpayers - have significantly undermined the reputation of SARS as acting without fear or favour, and in fact favouring certain politically-connected persons. SARS must be seen to comply at all times with the provisions of the Tax Administration Act (No 28 of 2011), which stipulates in very precise terms the duties and obligations of SARS, whilst upholding the rights of taxpayers. The neutrality of tax administration presupposes that SARS applies its powers without fear or favour, and treats all tax payers equally. The perception of corruption at SARS has had a negative impact on the tax morale in the country, leading to greater tax avoidance and diminishing tax revenues -as evidenced in testimony submitted to the Commission last week about lower compliance indicators.

Over the course of the last 3 years, there have been many calls for and speculation about the possibility of a 'tax revolt' – and increasing resistance to unavoidable tax increases. While the illegality of such actions is undisputed, the long run impacts of deterioration of tax morality are potentially devastating. International literature indicates that loss of tax payer morale can occur rapidly, but rebuilding confidence in the tax system is a slow and arduous process. The experience of capacity building at SARS and improved tax payer compliance and morality in South Africa over the last two decades illustrates the latter process. By 2016 National Treasury tax policy division was already concerned about declining tax morality, as demonstrated by public comments at the Tax Indaba in 2016. Judge Davis also raised the same concern at that conference (where the Commissioner made an opening address).

The tax administration – like Ceasar's wife – should take every care to remain above reproach. It is critical for a tax-collection agency to enjoy the confidence of taxpayers at all times, and hence to continually act decisively against corruption, including against any of its officials accused of corruption.

3. Interaction and cooperation between NT tax policy and SARS staff

The National Treasury is tasked with advising the Minister of Finance on tax policy design, as per the provisions of Chapter 2 of the PFMA. Tax legislation is implemented by the South African Revenue Services (SARS), which is tasked with the collection of revenue from most taxes.

There is regular collaboration and co-operation between National Treasury and SARS over tax policy and administration to ensure that the tax policy formulation process leads to legislation that can be implemented with minimal disruption to the taxpayer and economy. The process of drafting legislation is a collaborative effort between National Treasury and SARS. Tax legislation must encapsulate the policy intent, while ensuring that the tax compliance gap is narrowed and that the opportunities for tax avoidance are minimised. SARS also makes key contributions to the revenue forecasting process.

In its frequent interaction with SARS, National Treasury tax staff have noted a progressive decline in administrative capacity of SARS, related to both a loss of key staff, as well as a loss in capacity in key areas

Many top executives have left suddenly and without any reasons provided. A succession of senior managers have left the employ of SARS without any explanation provided, including those appointed by Commissioner Tom Moyane, like CFO (Mr. Matsobane Matlwa (August 2017), Chief Executive: Customs and Excise (Mr. Jed Michaletos (2018) and Chief Officer of IT (Mr. Kgabo Hlahla in 2017). This is over and the departure of previous Exco members, including Messrs. Gene Ravele (Chief Officer: Tax and Customs Enforcement Investigations), Ivan Pillay (Deputy Commissioner), Barry Hore (Chief Operations Officer), Kosie Louw (Chief Officer: Legal and Policy - retired) and Ms. Sunita Manik (Group Executive: Large Business Centre). This meant that by 2016 the Executive Committee had only one member with the appropriate tax technical experience and insight, namely Mr. Jonas Makwakwa – who was himself suspended for most of the time as he was under investigation for financial misconduct.

Loss of staff from key units like the LBC and customs have had a direct impact in the ability of SARS to deal with illicit financial flows, as it struggles to implement steps to counter transfer pricing and base erosion and profit shifting, and also to complete the customs modernisation process. A case in point is the failure to pay VAT refunds in December 2016, which was initially attributed by the SARS leadership to staff taking leave in December. The quality of SARS participation at parliamentary hearings and response to parliamentary questions were further examples of its leadership not accounting for its actions, including on matters related to the Makwakwa suspension or VAT refunds.

SARS leadership increasingly became intolerant of public criticism over the last four years, even from other key institutions in the public sector. The Commissioner cut off all communication with the Davis Tax Committee, after the Commissioner publicly attacked Judge Davis in a media statement on 10 March 2017. Media statements from SARS also complained in a public statement dated 16 September 2016 about the alleged lack of cooperation from the Financial Intelligence Centre in relation to the Jonas Makwakwa investigation. A letter was also sent to the National Treasury Director-General complaining about Ismail Momoniat, the Deputy Director-General for Tax and Financial Sector Policy.

Atmosphere of fear at SARS dominates. The autonomy of SARS, and the fact that the law makes the Commissioner extremely powerful, without sufficient checks and balances, created an atmosphere of fear and no accountability. Even members of the Executive were either too scared, or lacked the knowledge or experience, to question the hasty rush to restructure SARS, and neuter its intrusive capacity. It appears that key initiatives and challenges were not even discussed at Exco meetings, and most members of Exco were singularly unaware of the reports that appeared in the Press. **The morale of staff at SARS has been weakened, and its reputation and integrity has been seriously undermined.**

4. How the budget process works to determine revenue forecasts

The Minister of Finance makes tax policy announcements only on Budget Day. The annual Budget Review contains three chapters that deal with tax policy and revenue proposals (Chapter 4, Annexures B and C). *Separate attachment to describe budget process and revenue estimation*

5. Revenue shortfalls posed significant risks to fiscal framework and ratings

Also see separate attachment to describe budget process and revenue estimation and undercollection

Since 1997, the twin drivers of lower tax rates and simplified administration worked in tandem to achieve greater compliance.

- **We have been fortunate to be able to decrease direct tax rates over the last 2 decades[3], while keeping indirect rates (particularly VAT) stable**. As far as it is possible, we recommend tax design that broadens bases and lowers rates. This in itself is a major determinant in tax compliance behaviour.
- **Reform of tax administration efforts over the last 20 years focussed on modernising tax administration and making compliance easier for tax payers.** This included simplified filing systems, reliance on self-assessments, moving to risk-based auditing, electronic tax-filing and pre-population of tax forms. This was underpinned by a client-centric and service-oriented approach to taxpayers. The results have been greater tax compliance and improved tax morale – two hard-won gains that should not be taken for granted.

The last three year's budgets present a step-change: our recent tax increases have been the most significant since the start of our democratic dispensation in 1994.

Shortfalls in revenue, low growth and the large unbudgeted expenditure increase to accommodate fee-free higher education jointly led to tax increases in the last two years. "*The 2017 Budget estimate for gross tax revenue in 2017/18 was R1.27 trillion. At the time of the 2017 MTBPS, government estimated that revenue would fall R50.8 billion short of this target. Given some improvement in economic performance over the past several months, the overall revenue shortfall is marginally lower than projected in the MTBPS, at R48.2 billion for 2017/18. The significant revenue shortfall reflects weak economic growth, administrative challenges at SARS, and increased tax avoidance and evasion*".[4]

In the last two budgets, revenue shortfalls also posed a big risk to the fiscal framework and sovereign debt rating. SARS was projected to under-collect R48.2 billion in 2017/18 (including an unexplained shortfall of 20% in tobacco excise collected), which follows on the under-collection of R30.7 billion in the 2016/17 financial year. The current projected revenue shortfall is placing significant strain on the credibility of the projected path of fiscal consolidation, and is likely to be a strong determinant in forthcoming ratings decisions. We also fielded a lot of questions about SARS' capacity to collect the projected revenue and tax increases – a factor that had not previously been raised as a concern.

Unfortunately, it is our view that the administration of tax laws has been a factor in the revenue shortfall. The shortfall in revenue cannot be solely attributed to low economic growth. The restructuring of SARS starting in 2014 led to the dismantling of key structures, like the Large Business Centre, and resulted in SARS seemingly losing its capacity to conduct complicated audits on transfer pricing, controlled foreign companies and high net worth individuals, and thereby failing to prevent illicit flows and collect revenue to the fullest extent possible.

[3] The statutory corporate income tax rate declined from 35% in 1995 to the current 28%. Effective personal income tax rates declined from 1995 to 2015 due to annual tax relief. Please find table in Annexure.

[4] Budget Review, February 2018, pg. 38- 39.

6. How can governance be improved?

Both the Katz commission and the preceding Margo commission recommended greater independence and autonomy of the internal tax administration. The Katz commission into certain aspects of taxation was appointed on 22 June 1994 to review the appropriateness and efficiency of the tax system at the time, particularly in light of the principles and requirements of the then nascent democratic transition. [5]

Revenue authorities should have sufficient managerial autonomy – but we need to balance autonomy and accountability objectives. Internationally one does not find examples of tax administrations that are fully autonomous, there is usually some mechanism for Treasury direction of policy. In EU, OECD and IMF literature this is usually denoted as “semi-autonomous”[6]. The UK has a unique stance, as political oversight of non-ministerial departments (like the HMRC) is viewed as unnecessary or inappropriate. A higher degree of autonomy is usually met with a higher degree of independent oversight (e.g. a board / inspectorate), while tax administrations that have low levels of autonomy (e.g. government department or directorate in Department of Finance) requires little external oversight mechanisms.

- The Commissioner of the **Australian Taxation Office** is appointed by the Governor General[7] for a period of 7 years, along with three Second Commissioners. The current designations for Second Commissioners are Client Engagement, Law Design & Practice, and Chief Information Officer. An Inspector General scrutinises the activities of the ATO, similar to an Ombudsman. The Australian Board of Taxation is an advisory board for the Treasurer, with appointments by the Treasurer for a period of 3 years. This board gives voice to business and community views on tax policy matters[8].
- The ***Secretaria da Receita Federal do Brasil*** is a secretariat under the Minister of Finance. It collects federal revenue, while states and municipalities also have revenue authorities for their revenue.
- The **Canada Revenue Agency** is headed by a Commissioner who is appointed for a renewable 5-year term by the Governor in Council[9]. The Board of Management oversees the organisation and administration of the CRA, including the development of the CRA’s business plan. The Board is appointed by the Governor in Council, and accountable to Parliament through the Minister of Revenue. 11 Board members are nominated by provinces and territories, while the remaining 4 members (including the chair and Commissioner) are appointed by the Governor in Council. Taxpayers can approach the Taxpayers’ Ombudsman with any service complaints. The Ombudsman can approach the Minister of Revenue directly with information of systemic problems.
- The ***Secretaria de Administración Tributaria*** **(Mexico)** has a governing board chaired by the Secretary of Finance. Three board members are selected by the Secretary of Finance from staff of the Finance Department and three (independent) board members are appointed by the President - of which two have to be nominated by the national meeting of tax officials. In addition, the Office of the Taxpayers’ Advocate provides advisory services, consulting, advocacy and representation of taxpayers in disputes.

[5] Relevant sections are referenced in the Annexure.
[6] Find map of typical institutional characteristics in the Annexure.
[7] Queen’s representative in Australia, not the Prime Minister
[8] This is also the case for Russia’s Public Board for the Federal Tax Service.
[9] Queen’s representative in Canada, not the Prime Minister

- **New Zealand Inland Revenue** is a government department headed by the Commissioner of Inland Revenue, who is appointed by the Governor General in Council. The department reports to the Minister of Inland Revenue, but the Governor General may issue binding directions to the Commissioner.
- **Her Majesty's Revenue and Customs (UK)** is a non-ministerial department led by Commissioners appointed by the Queen. Commissioners are compelled to follow directives issued by Treasury. An executive committee manages day-to-day operations and tax affairs; the board offers an oversight structure for challenge, expertise, strategy, assurance and stakeholder views. The board is made of the Commissioners and CFO, and 5 non-executive directors (one of which is the chair of the board). There are 3 subcommittees for audit & risk, charter (service standards) and personnel matters.
- The **Internal Revenue Service (USA)** is a bureau of the Department of the Treasury under legislated supervisions of the Secretary of the Treasury. The Commissioner is appointed for 5 years by the President, with advice and consent of the senate – as are 6 of the board members with terms ranging from 3 to 5 years. The 3 other board members are the Commissioner, the Secretary of the Treasury / designate, and a full-time federal official appointed by the President, with advice and consent of the Senate. Apart from oversight functions, the Board can also recommend appointment / removal of a Commissioner to the President. The President also appoints the Chief Legal Counsel of the IRS, on recommendation of the Commissioner. The Secretary of the Treasury appoints the National Taxpayer Advocate – who submits reports on IRS taxpayer service measures directly to committees of Congress and the Senate. The Treasury Inspector General for Tax Administration reviews information security, IRS compliance to enforcement guidelines of the tax code and debt collection practices.

When the SARS Act was promulgated in 1997 there were provisions for a Board, along with appointment of the Commissioner and Deputy Commissioners by the Minister of Finance. Amendments made in 2002 provided a greater measure of autonomy to SARS, while it also diluted the role of the Board. At the time the pace of decision making in service of modernisation of SARS required more streamlined decision making.

The Minister of Finance and National Treasury is reviewing the Davis Tax Committee report on tax administration and governance. In the first chapter there are a number of recommendations to improve governance, including

- Returning the power to appoint the Commissioner for SARS to the Minister of Finance, or a process of appointment subject to Parliamentary oversight like the appointment of the Public Protector
- Reinstating a Board for SARS

Any recommendations for governance reform should take into account:

- **The Constitution**, which vests the power to introduce money bills with the Minister of Finance, and only the Minister of Finance. Money bills cover both tax and appropriation bills, so it is only the Minister of Finance who is constitutionally allowed to introduce budget bills in Parliament.
- **The intrinsic link between the revenue and expenditure side of the fiscus**, which suggests that the revenue authority should be accountable to the Minister of Finance and policy design should reside with the National Treasury.
- **An even-handed set of checks and balances** should triangulate the interests of the fiscal authority (revenue raising), the tax administration (efficient and effective administration practice) and the taxpaying public (fair, certain and simple taxes). Likewise, the oversight of the President, Minister of Finance and Parliament should be balanced.

- **Oversight bodies should not hamper essential discretionary functions** of the Commissioner. Should a board structure be considered, the delineation of roles and accountability should be crystal clear to avoid delays in decision making. There are no international examples of boards that have any input into tax payer affairs or tax administrative decisions.

Clear criteria for critical appointments could assist in guiding the appointment process, whether procedural in nature or prescriptive in terms of minimum skills requirements.

7. Incentive structure for SARS

While revenue raising is a function unique to SARS, it cannot be the only measure relevant to performance evaluation of SARS. At present, surpassing the revenue target is the major determinant of performance bonuses for SARS staff. National Treasury would recommend that a wider set of service standards and public policy requirements be incorporated in performance management, in addition to revenue targets.

In the face of dwindling staff numbers, remuneration and bonuses paid to SARS staff increased dramatically. This, despite the poor performance relative to budget revenue estimates.

	EXECUTIVE REMUNERATION					
R thousand	Executive remuneration	*% y-on-y growth*	Executive bonus	*% y-on-y growth*	Bonus as % of remun	*Number of execs (incl partial yr)*
2011/12	24,622		5,123		20.8%	14
2012/13	29,237	*18.74%*	5,486	*7.09%*	18.8%	10
2013/14	30,156	*3.14%*	4,025	*-26.63%*	13.3%	13
2014/15	35,322	*17.13%*	4,893	*21.57%*	13.9%	16
2015/16	28,019	*-20.68%*	4,567	*-6.66%*	16.3%	17
2016/17*	32,237	*15.05%*	3,000	*-34.31%*	9.3%	11

	ALL EMPLOYEES									
	Employee costs				Bonus				Bonus as % of remun	
R thousand	Econ Entity	*% y-on-y growth*	Controlling entity	*% y-on-y growth*	Econ Entity	*% y-on-y growth*	Controlling entity	*% y-on-y growth*	Econ Entity	Controlling entity
2011/12	5,560,282		5,502,519		375,504		374,000		6.75%	6.80%
2012/13	5,873,189	*5.63%*	5,821,216	*5.79%*	400,320	*6.61%*	399,000	*6.68%*	6.82%	6.85%
2013/14	5,910,634	*0.64%*	5,862,649	*0.71%*	379,372	*-5.23%*	376,000	*-5.76%*	6.42%	6.41%
2014/15	6,520,946	*10.33%*	6,467,533	*10.32%*	535,916	*41.26%*	532,000	*41.49%*	8.22%	8.23%
2015/16	6,928,862	*6.26%*	6,864,726	*6.14%*	566,515	*5.71%*	561,420	*5.53%*	8.18%	8.18%
2016/17*	7,249,615	*4.63%*	7,174,527	*4.51%*	548,506	*-3.18%*	543,085	*-3.27%*	7.57%	7.57%

8. South Africa needs a path to sustainable tax revenue and improved tax administration…

There is an adage in the tax literature attributed to Milka Casanegra de Jantscher (Former Chief of the Tax Administration Division, Fiscal Affairs Department, IMF) that "**tax administration is tax policy**" – particularly in developing economies. This was indeed proven in the course of the tax 3 budgets.

The role of SARS is critical in the development of our democracy – since taxation lies at the heart of any social contract. President Nelson Mandela noted the following to the National Religious Leaders Forum at their Moral Summit on 22 October 1998:

> *"Our fight against crime has of necessity been a complex one with a wide range of practical measures. It has required the reshaping of a police force formerly oriented and deployed to protect minority interests and suppress resistance. It has meant acting to root out corruption in*

all arms of the criminal justice system; and enhancing the capacity of the police at both managerial and operational level. It has required the building of a partnership of security forces and the communities they serve, and an emphasis on co-ordinating all the operational forces and state agencies in a focused way. It has meant tougher laws to strengthen the hands of judicial officers. All this is leading to more effective law enforcement, as is increasingly recognised.

In the most practical way, the South African Revenue Service is helping restore our tax morality.

Although we can be pleased at the successes that are being registered as a result of such practical measures, they are insufficient. Furthermore the society we are seeking to create is not one in which we are all whistle-blowers and crime-busters fighting the symptoms of a moral crisis. Rather it is one in which such a crisis does not exist."

9. Annexure: Effective tax rates

Table 2.2: Tax relief granted to individuals, 1995 and 2015

Taxable income Rand		Tax at 1995 rates		Tax at 2015 rates	Effective rates: Tax at 1995 rates		Effective rates: Tax at 2015 rates
1995[1]	2015[2]	1995[1]	2015[3]	2015	1995[1]	2015[3]	2015
22 000	72 033	2 385	21 739	240	10.8%	30.2%	0.3%
25 000	81 855	3 225	25 963	2 008	12.9%	31.7%	2.5%
30 000	98 226	4 625	33 002	4 955	15.4%	33.6%	5.0%
40 000	130 968	8 225	47 081	10 848	20.6%	35.9%	8.3%
50 000	163 710	12 325	61 160	16 742	24.7%	37.4%	10.2%
100 000	327 421	33 765	131 556	59 647	33.8%	40.2%	18.2%
200 000	654 841	76 765	272 347	175 548	38.4%	41.6%	26.8%
300 000	982 262	119 765	413 138	306 151	39.9%	42.1%	31.2%
400 000	1 309 682	162 765	553 928	437 119	40.7%	42.3%	33.4%
500 000	1 637 103	205 765	694 719	568 087	41.2%	42.4%	34.7%
600 000	1 964 523	248 765	835 510	699 055	41.5%	42.5%	35.6%
700 000	2 291 944	291 765	976 301	830 024	41.7%	42.6%	36.2%
800 000	2 619 364	334 765	1 117 092	960 992	41.8%	42.6%	36.7%
900 000	2 946 785	377 765	1 257 883	1 091 960	42.0%	42.7%	37.1%
1 000 000	3 274 205	420 765	1 398 673	1 222 928	42.1%	42.7%	37.4%

1. Excludes the Transitional Levy.

2. 2015 based on 1995 taxable income adjusted by inflation.

3. This example assumes no fiscal drag relief over the period 1995 to 2015 (i.e., the tax rates are kept at 1995 rates).

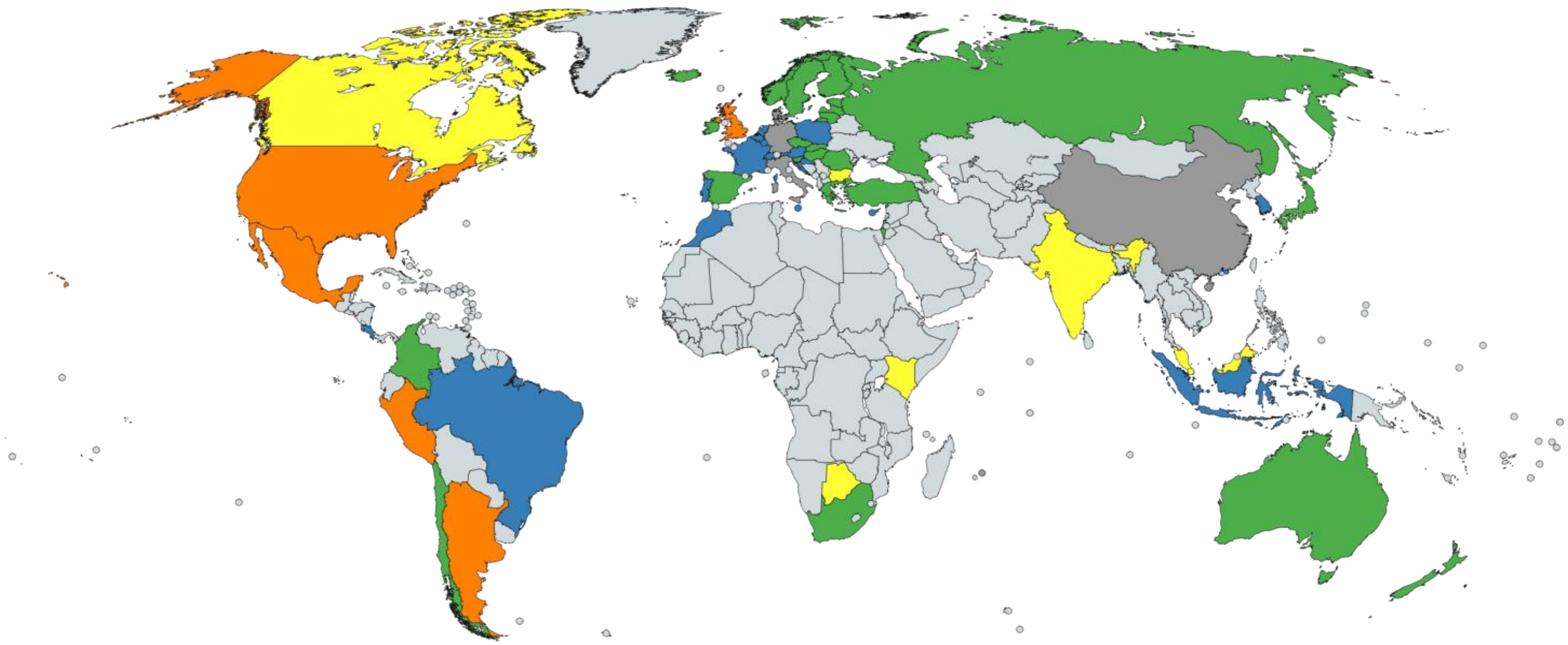
Source for Consumer Price Index (CPI) data: Statistics SA.

SOURCE: Tax Statistics 2016, pg. 35.

10. Annexure: Executive Committee members, as sourced from SARS annual reports and media statements on appointments

Current title	Previous title	2013/14		2014/15		2015/16		2016/17		2017/18	
Commissioner		Mr Ivan Pillay (Sept 2014)	Tom Moyane	Tom Moyane		Tom Moyane		Tom Moyane		Tom Moyane	
Deputy Commissioner			Mr Ivan Pillay	Mr Ivan Pillay (Dec 2014)							
Chief Officer: Business and Individual Tax						Jonas Makwakwa		Firdous Sallie (acting)		Firdous Sallie (acting)	Jonas Makwakwa (Nov 2017)
	Chief Operating Officer	Barry Hore		Barry Hore (Dec 2014)	Jonas Makwakwa (acting)						
Chief Officer: Digital Information Services and Technology						Jonas Makwakwa (acting)		Tau Mashigo (acting)	Kgabo Hlahla	Kgabo Hlahla	Mmamathe Makhekhe-Mokhuane
Chief Officer: Legal Council						Kosie Louw		Kosie Louw (Nov 2016)	Neo Tsholanku	Refiloe Mokoena	
	Chief Officer: Legal and Policy	Kosie Louw		Kosie Louw							
Chief Officer: Customs and Excise							Jed Michaletos (1 Jan 2016)	Jed Michaletos		Jed Michaletos (Feb 2018)	Mr. Teboho Mokoena
	Chief Officer: Tax and Customs Enforcement Investigations	Gene Ravele		Gene Ravele							
Chief Officer: Enforcement						Gene Ravele (May 2015)	Hlengani Mathebula (acting)		??		Mogola Makola
Chief Officer: Governance, International Relations, Strategy and Communications							Hlengani Mathebula	Hlengani Mathebula		Hlengani Mathebula	
	Chief Officer: Strategy, Enablement and Communication	Peter Richer		Peter Richer (Dec 2014)	Makungu Mthebule (acting)						
Chief Officer: Human Capital and Development							Teboho Mokoena	Teboho Mokoena		Teboho Mokoena (Feb 2018)	Luther Labelo
	Chief Officer: Human Resources	Elizabeth Kumalo		Elizabeth Kumalo		Elizabeth Kumalo					
Chief Financial Officer		Bob Head (acting)			Matsobane Matlwa	Matsobane Matlwa		Matsobane Matlwa		Matsobane Matlwa (Aug 2017)	VACANT
	Special advisor to the Minister			Bob Head							
	Group Executive: Large Business Centre	Sunita Manik		Sunita Manik		***Disbanded unit***					
	General Executive: Internal Audit (non-exco)					Refiloe Ramaphakela					
Group Executive: Research (non-exco)	**General Executive: Tax, Customs and Excise Institute (non-exco)**					Randall Carolissen					

11. Annexure: Institutional character of tax administrations



LEGEND:

- Unified semi-autonomous body
- Directorate in ministry (single or multiple)
- Unified semi-autonomous body with decision-making board
- Unified semi-autonomous body with advisory board
- Other institutional arrangement

SOURCE of data: OECD tax administration database, own research.

12. Annexure: References to required level of autonomy in reports of Commissions of Inquiry and Budget Reviews

Margo Commission

"*The Commission fully appreciates the general justification for the procedures laid down by the Commission for Administration and by the Department of Finance, and offers no judgment on the matter, save this: Inland Revenue is a specialist Directorate, with its own highly esoteric requirements, in respect of which* ***its own heads are indeed best qualified to take decisions.*** *Moreover, the CIR [Commissioner of Inland Revenue] and his deputies are among the most responsible of public servants. If, as a special case, it were possible to restore some of its original authority to Inland Revenue in these matters, it would be of positive assistance in resolving some of the present staff problems*."[10]

Katz Commission

*"**Independence and management autonomy**, analogous perhaps to the status of central banks, provides a crucial line of protection of the fiscus from the debilitating erosion of tax morality and administrative efficiency which have accompanied fiscal stress in so many countries… An autonomous administration is able to retain competent and qualified staff through competitive compensation scales, is able to invest in appropriate training, office equipment and working conditions. No less important, an independent office under public scrutiny and subject to rigorous reporting requirements will shed redundant staff or ineffective methods as it adapts its structure and operations to specific objectives and tasks."*[11]

"*Modernisation of tax administration to give effect, inter alia, to the* ***needs for institutional autonomy*** *and a professional personnel corps, requires legal, administrative and organisational reforms which take account of local circumstances. The Commission does not view its task as encompassing detailed proposals on appropriate institutional reforms. The Commission recommend, however, that the following broad principles should inform Government's restructuring of tax administration in South Africa:*

(a) ***Independence of the revenues authorities****, including responsibility for their own budgetary allocation and control, administrative policies and objectives, and recruitment, training, remuneration and codes of conduct for personnel;*
(b) Oversight by statutory boards responsible for Inland Revenue and Customs and Excise, appointed by and answerable to Parliament through the Minister of Finance;
(c) Maintenance of unified Inland Revenue and Customs and Excise departments, with responsibility both to the national and provincial governments for all aspects of tax collections; and
(d) Contracting out, where appropriate, of certain administrative functions, such as computer services, warehousing of documentation and customs merchandise, printing and distribution of tax returns and notices, preparation of tax manuals and documentation and collection of minor taxes."[12]

[10] Report of the Commission of Inquiry in to the Tax Structure of the Republic of South Africa, 1986, pg. 434.
[11] Interim report of the Commission of Inquiry into certain aspects of the Tax Structure of South Africa, 1994, pg41.
[12] Interim report of the Commission of Inquiry into certain aspects of the Tax Structure of South Africa, 1994, pg42.

Budget reviews

As a result, the Minister of Finance announced in the 1995 Budget that *"(t)he Government welcomes the Commission's recommendation that urgent attention be given to the* ***enhancement of the status and the administrative autonomy*** *of the Commissioners for Inland Revenue and for Customs and Excise. This recommendation was also made by the Margo Commission in its report published in 1987, and has the support of, amongst others, the Auditor-General, the Joint Standing Committee on Public Accounts, the Joint Standing Committee on Finance and bodies such as the South African Institute of Chartered Accountants, the Association of Law Societies, the South African Chamber of Business and the Afrikaanse Handelsinstituut."*[13]

"On 18 October 1995 the Cabinet approved the reform of Inland Revenue and Customs and Excise in the Department of Finance into an autonomous revenue service entity to be known as the South African Revenue Service, under a Board of Directors. The Cabinet has indicated that the required degree of autonomy and flexibility should be sought within the disciplines and control of the Public Service…. Negotiations are at present being finalised with the Public Service Commission to give SARS the necessary autonomy and flexibility and to determine the functions of the Board of Directors. SARS will in future be managed according to modern business principles and will control the necessary key resources and services"[14]

"The Katz Commission in its first Interim Report recommended that the ***Revenue Authorities should be granted greater administrative autonomy,*** *be professionally staffed and capable of taking full advantage of modern information technology and organisational principles.*

The first steps in this process occurred with the establishment of the South African Revenue Service (SARS) as a separate Government Department on 1 April 1996, the transfer of the staff of the former branches of Inland Revenue and Customs and Excise to SARS and the appointment of Mr Piet Liebenberg as Chief Executive Officer and Mr Trevor van Heerden as Commissioner shortly thereafter.

Cabinet has approved the framework for administrative autonomy for SARS and legislation to give effect to this will be tabled in Parliament during the second quarter of 1997"[15]

[13] Budget Review, February 1995, pg. 2.27 – 2.28.
[14] Budget Review, February 1996, pg. 2.28.
[15] Budget Review, February 1997, pg. 7.2.