

BEFORE THE COMMISSION OF INQUIRY INTO TAX ADMINISTRATION AND
GOVERNANCE BY THE SOUTH AFRICAN REVENUE SERVICE
HELD AT PRETORIA

AFFIDAVIT

I

STEPHANE TIMPANO

the undersigned, do hereby make oath and state

1. I am an adult male and a partner of Bain & Company South Africa, Inc. (**Bain & Company**).
2. The facts contained herein, unless otherwise stipulated, fall within my personal knowledge and are, to the best of my knowledge, true and correct, unless otherwise stipulated or proven by context.
3. This Affidavit is structured as follows:
 - 3.1. Purpose;
 - 3.2. Meetings with Tom Moyane (**Moyane**); and
 - 3.3. Meetings with former president Jacob Zuma (**Zuma**).

PURPOSE

4. I depose this Affidavit wherein I provide an account of meetings attended by Vittorio Massone (**Massone**) and me with either Moyane or Zuma.

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MEETINGS WITH MOYANE

5. I have, after consultation of records at my disposal and due reflection of past events, only met with Moyane once, which meeting occurred as follows:
 - 5.1. Although I cannot recall the exact date of the meeting, I recall attending a face-to-face meeting with Moyane, Vittorio Massone (**Massone**) and me, during which meeting we discussed the 'outside-in' document entitled "SARS 2.0 dated 13 October 2013 and prepared by me, and answered some questions forthcoming from Moyane regarding the business of the South African Revenue Service (**SARS**).

6. To the best of my recollection after having consulted my records, my involvement in producing the documents for these meetings was as follows:
 - 6.1. A document (**Annexure ST1**) dated 13 October 2013 entitled SARS 2.0, which I prepared at the request of Vittorio Massone when I was still a principal (i.e. before my promotion to partner) for the meeting that took place around this time;
 - 6.2. A document (**Annexure ST2**) entitled TM 100 days (I do not have the date), which was prepared by Alexis Bour (**Bour**) and I supported him on. This is the classic "first 100 days" deck we commonly do for any future CEO; and
 - 6.3. A draft structure chart (**Annexure ST3**) that was prepared by Bour. I have this document in my files only because it was shared with me shared with me by Alexis, who asked me to "sense check" it was in consistent with previous work we had done on SARS (it was).

Background and Context to documents

7. If it is helpful to the Commission, I would be happy to provide the background as to how the outside-in documentation I have produced for these meeting was prepared.

8. Consultants (not only at Bain, but the industry in general) often produce 'outside-in documents' to better understand organizations, in particular their structure, ways of working and performance. Consultants do that for a number of reasons, such as the called 'outside-in' due diligences. An outside in diligence is a very traditional consulting project where we are tasked to understand how an organization works and performs without engaging with their management and having access to privileged information.
9. As per its name, an outside-in document is prepared using publically available information, which are typically contained in several sources:
 - 9.1. reports published directly by the organization;
 - 9.2. industry reports;
 - 9.3. benchmarks studies; and
 - 9.4. experts networks; and
 - 9.5. previous codified and sanitized knowledge from the consulting firm experience, which at Bain means information from the GXC (our global knowledge resource)
10. The preparation process can take up to 5 to 10 days of work of a small team composed typically by 1 partner (10% of his time) a Manager (50% of his time) and a couple of consultants (100% of their time). The preparation process follows a standard and rigorous flow:
 - 10.1. The entire team meets and agree on what the 'outside-in' reports is focusing on (main areas of focus and what data and analysis is required).
 - 10.2. Once the focus has been agreed, the manager and the consultants start collecting the publically available data and perform the first set of analysis.



- 10.3. The entire team, including the partner, meets several times (usually once every day, 60 minutes, to check progress, quality of the output, and agree on next steps)
 - 10.4. The final version of the 'outside-in' report is then approved by the partner and used as required.
11. In the specific SARS 2.0 document preparation, the same process applied. More specifically, when it comes to the sources used, we did not use 'newspapers' or unqualified materials, but only reliable sources such as:
- 11.1. SARS annual reports and statistics, published by the organization, and available online. At the time of the study, several SARS annual reports were available online and used to describe the organization and its performance;
 - 11.2. OECD reports, most of them available online and with very rich and reliable databases allowing to compare performances of difference tax collection authorities around the world (<http://www.oecd.org/tax/>; note that the website may have been different at the time, but data bases and reports were available online);
 - 11.3. IMF reports (International Monetary Fund; <https://www.imf.org>) on tax collection with rich database and reports comparing the various tax and customs organizations;
 - 11.4. Other Tax Authorities web sites to access annual reports to access the data relative to their organizations, ways of working and performances;
 - 11.5. Other available reports for independent sources sharing perspectives on SARS and similar organizations;

As a matter of fact, we rarely use newspaper articles as a data source for this kind of report. This is because they often report incomplete data, non-verified sources and unsubstantiated allegation as fact.

12. Outside-In reports are helpful in that by cross-referencing different sources of publicly available data, it can be possible to obtain insights and ask questions that even the subject company itself might not have thought of. For instance, the majority of the SARS 2.0 document (approximately 90% of it) is Bain reporting on the data collected and analysed from these publically available reports (e.g. from p3 to p9). But in a few specific parts of the document, Bain is asking questions regarding the performance of the organization because compare to international benchmarks and available data, SARS' real performance is capable of being put into questions. For example:

12.1. on p.7, the document is questioning the real efficiency of collection, saying that the very good e-filing statistics are focusing on the process, but not on the real expected outcome of the organization, which are the collection volumes. Put differently, good e-filing statistics should not be an end in themselves, but rather a means to drive better collection results and it wasn't evident in the data that this was being achieved.

12.2. on p.12 and 13, the document is using the official SA government numbers and extrapolating the fact that several individuals and corporate tax payers may have been missed by SARS in the previous years.

MEETINGS WITH FORMER PRESIDENT JACOB ZUMA

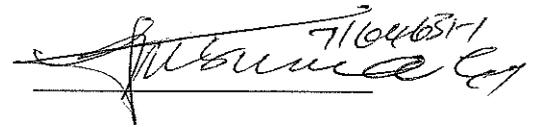
13. I have never attended a meeting in which Zuma was an attendee.



STEPHANE TIMPANO

Signed and sworn before me at Rosebank on this the **17th** day of **September 2018**.

By appending my signature hereon I, the Commissioner of Oaths, certify that the deponent has acknowledged that he has personal knowledge of and understands the content of this Affidavit, that the deponent has no objection to taking the prescribed oath, and that the dependent considers the prescribed oath to be binding on his conscience.



COMMISSIONER OF OATHS

Full names: Madivane Mosema

Capacity: Constable

Address: 13 Gerber Avenue Rosebank

Office: Rosebank.



Annexure "ST01"

CONFIDENTIAL

SARS 2.0

Sunday 13th October 2013



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SARS 2.0 – Executive summary

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

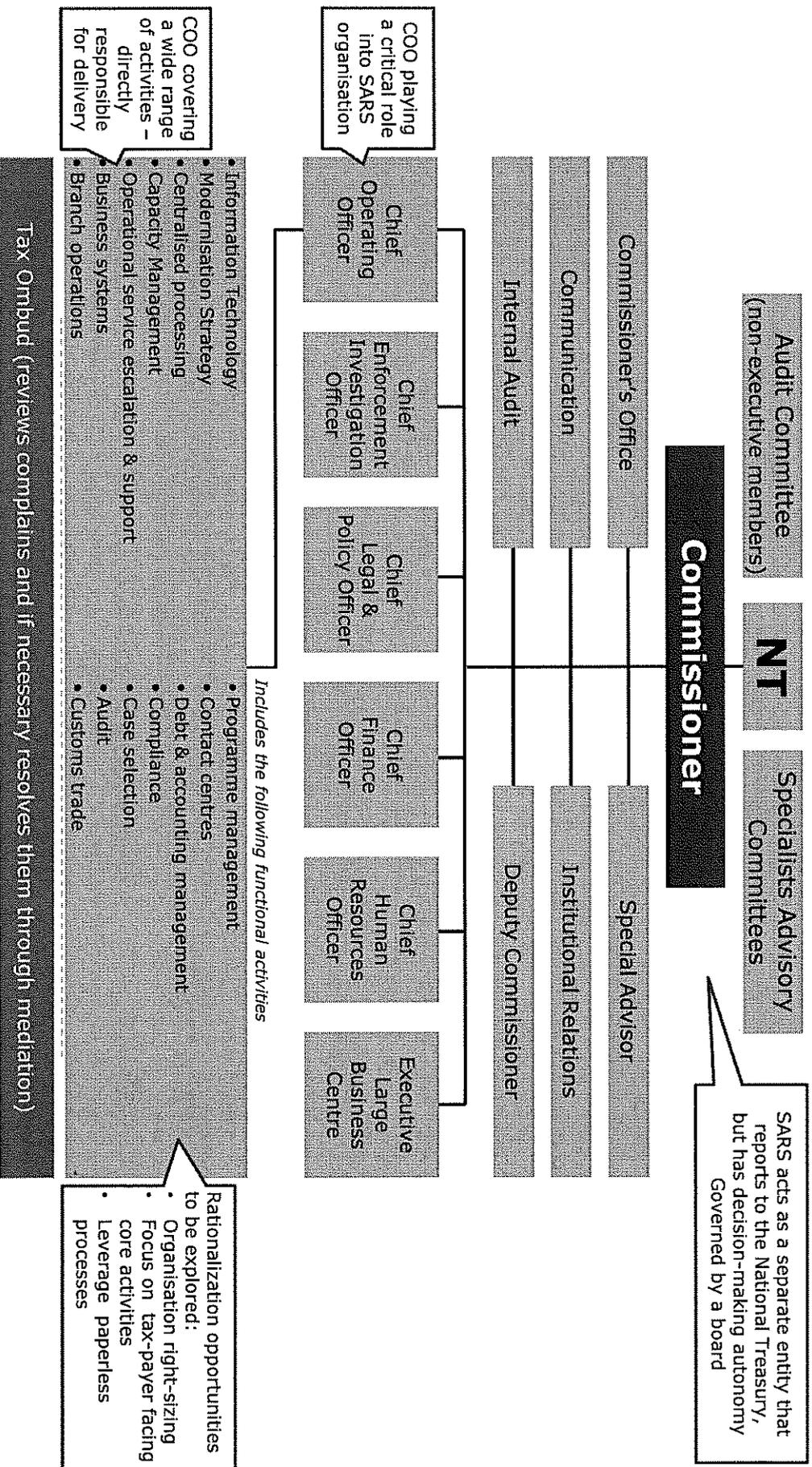
***...but to achieve
our ambition
and make the
difference,
SARS needs
to address
key strategic
concerns***

- 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**
- 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**

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

SARS profile

SARS GOVERNANCE MODEL

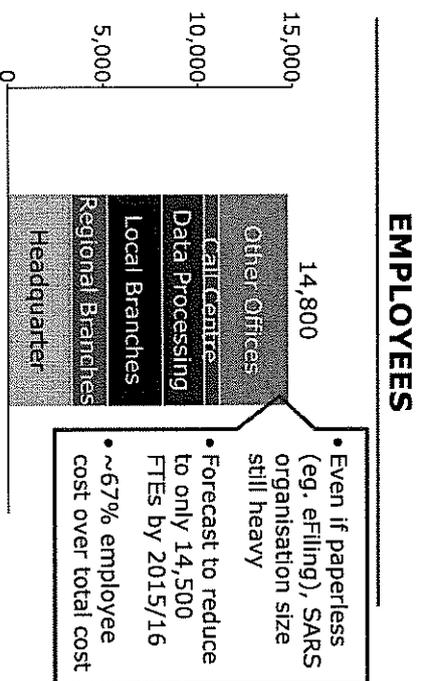
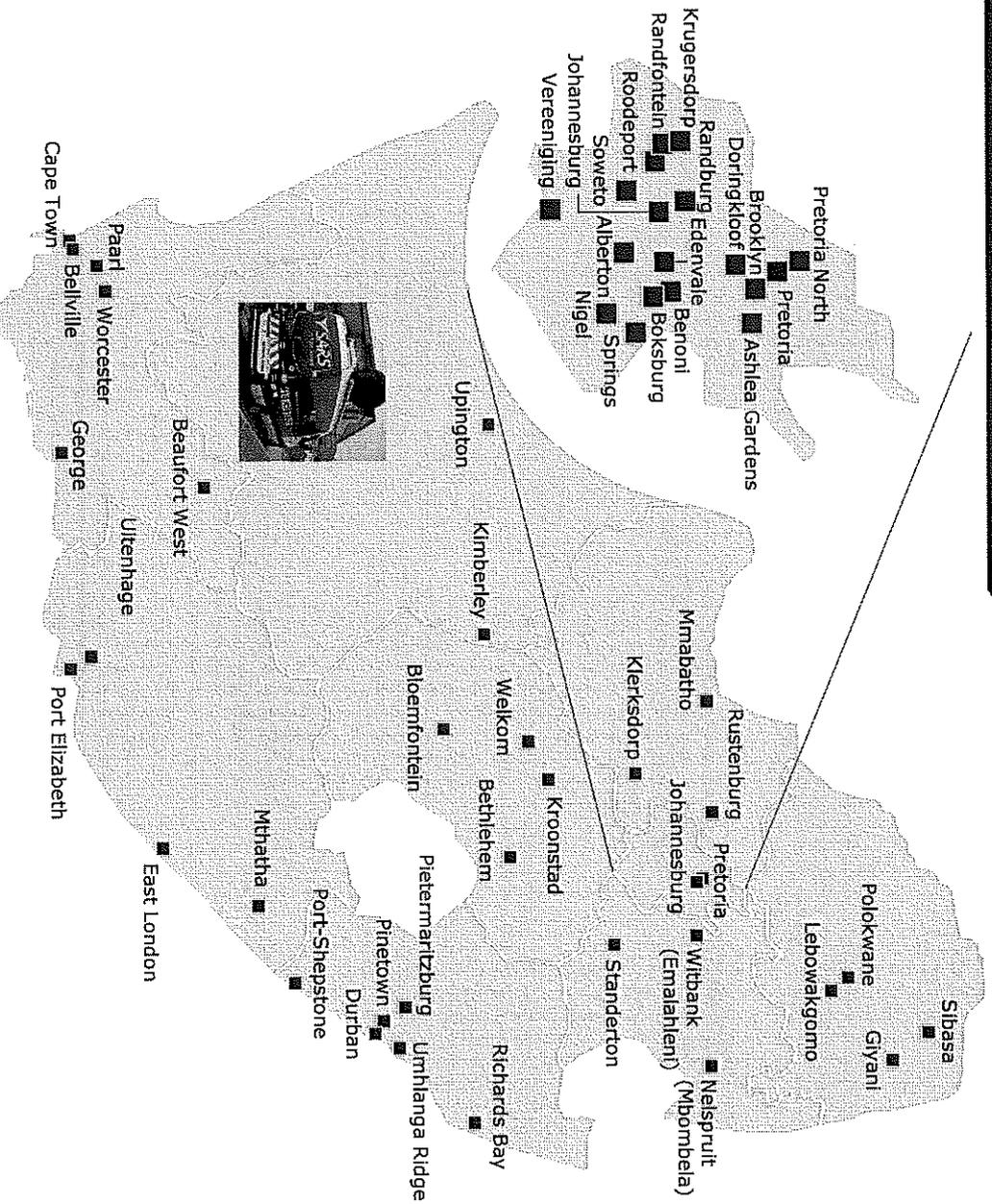


Source: SARS, OECD

SR

Today SARS has a wide territorial presence in South Africa, through branches, mobile units and technical sites

SARS profile



- Headquarter: Pretoria
- Regional offices: 40 nationwide
- Local/branch offices: 35 nationwide
- 7 national data processing centres
- 4 call centres
- 49 other (including Mobile Tax Units and Large Business Centres, Tax Practitioner Units)

- Headquarter
- Branch
- Large Business Centre
- Mobile Tax Unit
- Tax Practitioner Unit
- Call Centre

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 P&L* (2012/13 RM)

FUNDS AVAILABLE	FUNDS ALLOCATION
National treasury grants	Employee cost
9,149	5,873
Rendering of services	Administrative expenses
16	1,494
Other income	Professional and special services
282	751
Interest received	Depreciation and amortisation
146	509
	Impairment loss
	71
	Finance cost
	15
Total revenues	Total costs
9,593	8,713
Operating surplus^: R880M	



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

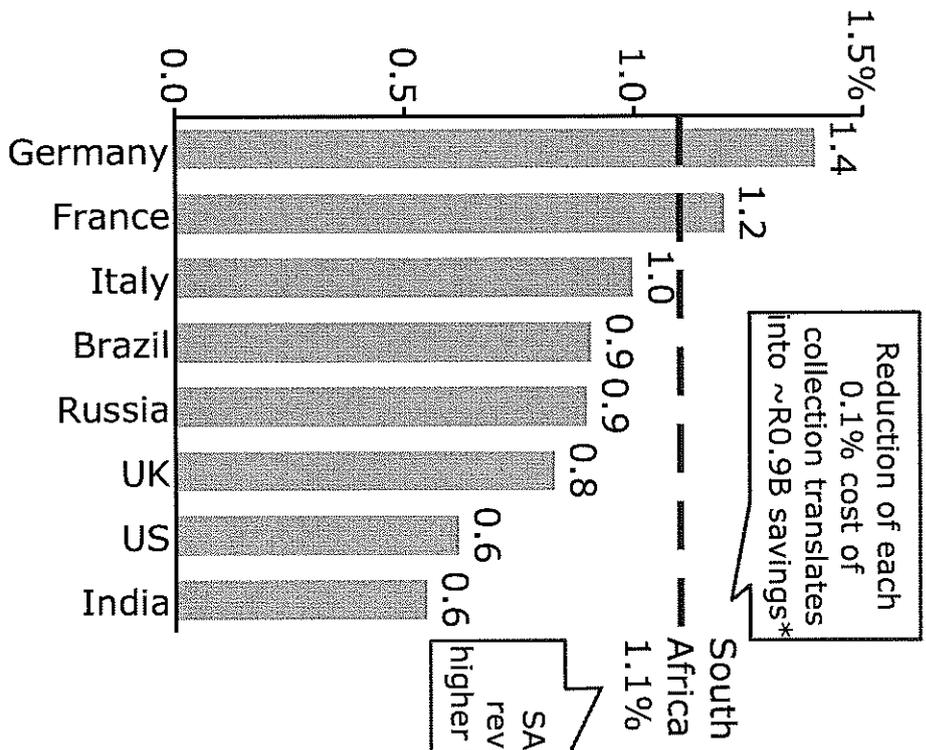
- Funds allocation should be based on **tangible outcomes, generating economic value for SA**
- SARS organisation should be **incentivised to generate value efficiently and in a fair way**
- **Costs optimizations exist and need to be implemented**
 - ▶ Employee costs are the most important cost bucket
 - ▶ 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

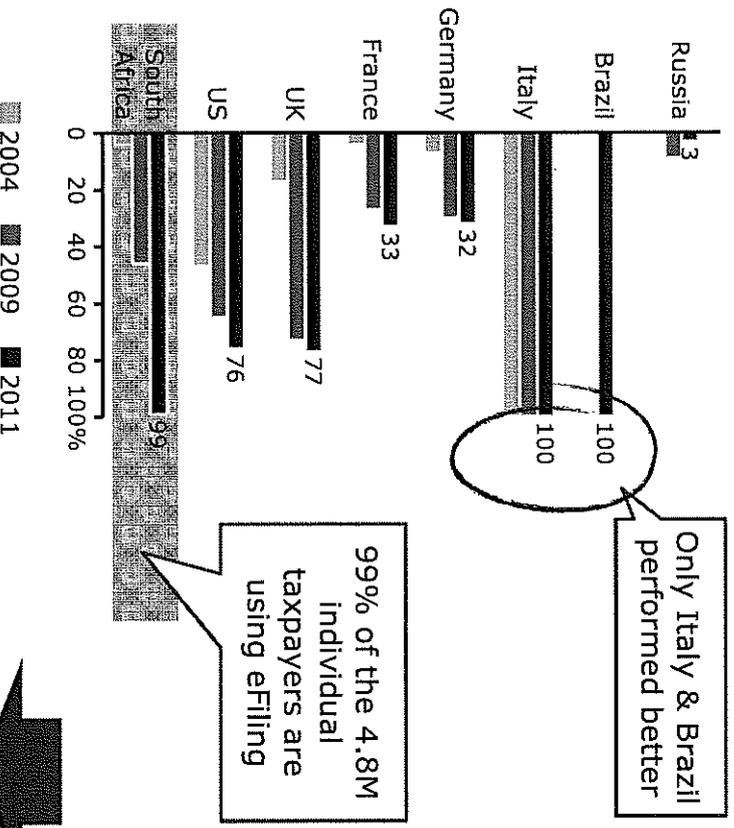
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Even if eFiling represents 90% of total filing, there are doubts about its real efficiency to drive tax collection

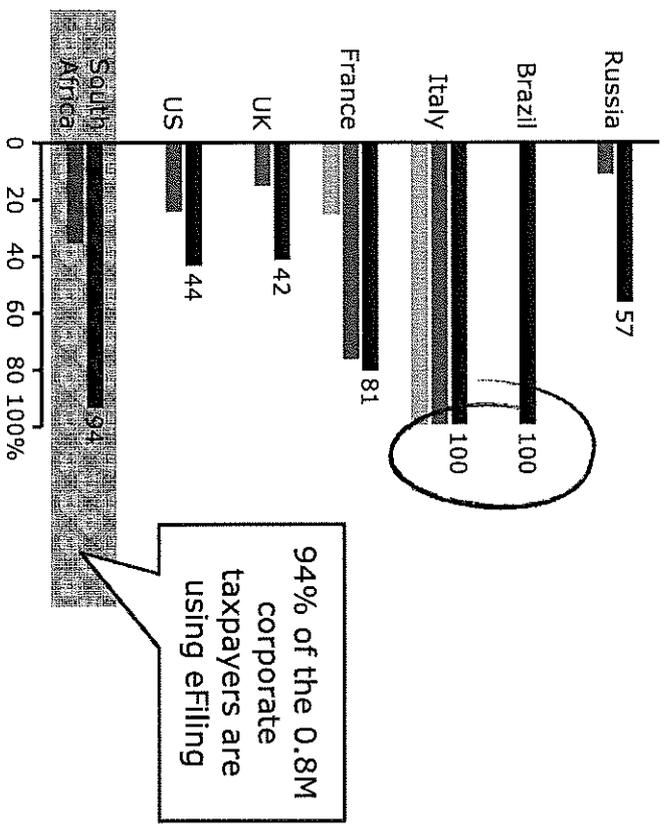
SARS profile

% OF EFILING OVER TOTAL FILING

PERSONAL INCOME TAX



CORPORATE INCOME TAX



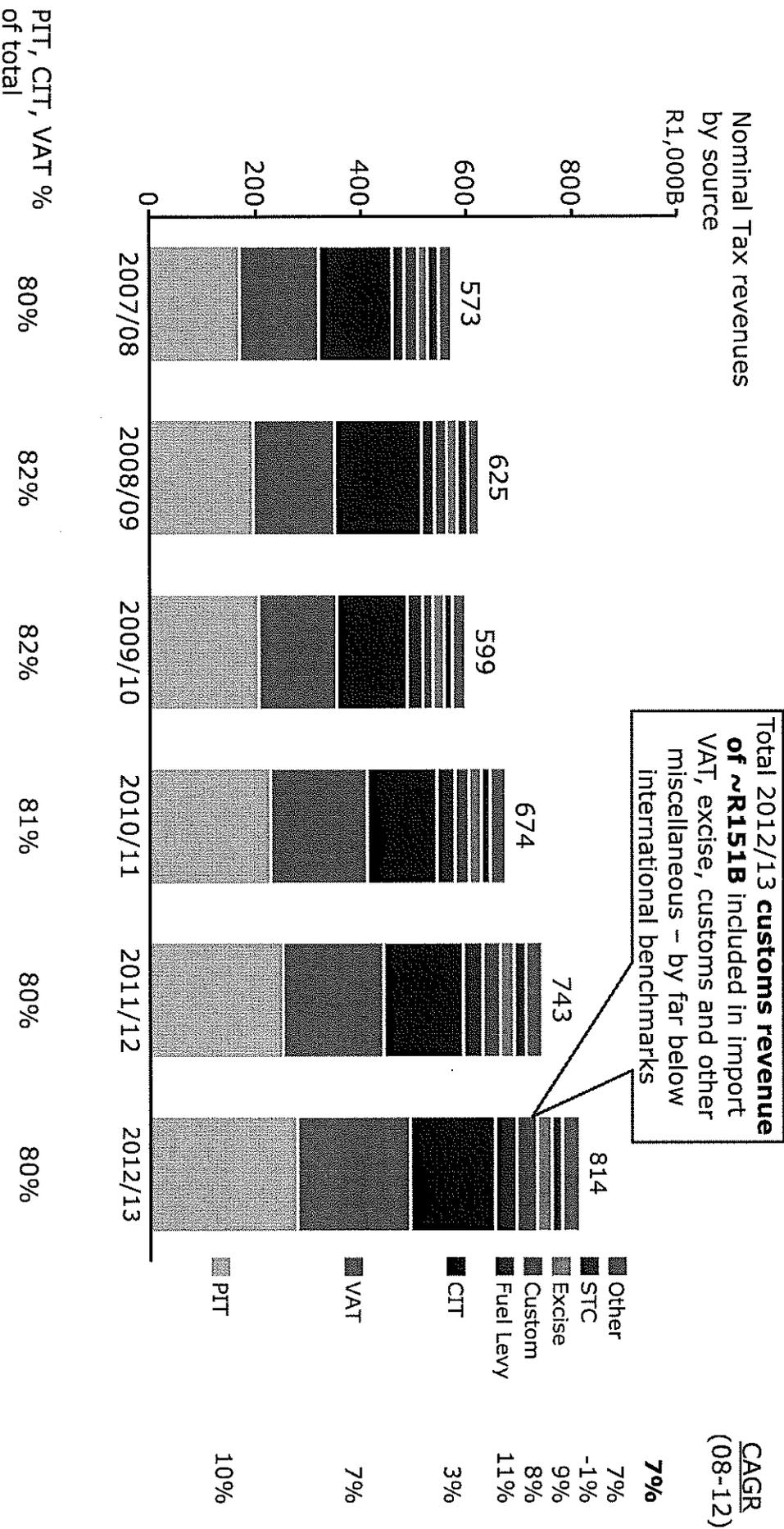
SARS needs to go beyond the collection process, and focus on driving tax collection effectiveness

Source: OECD

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

SARS profile

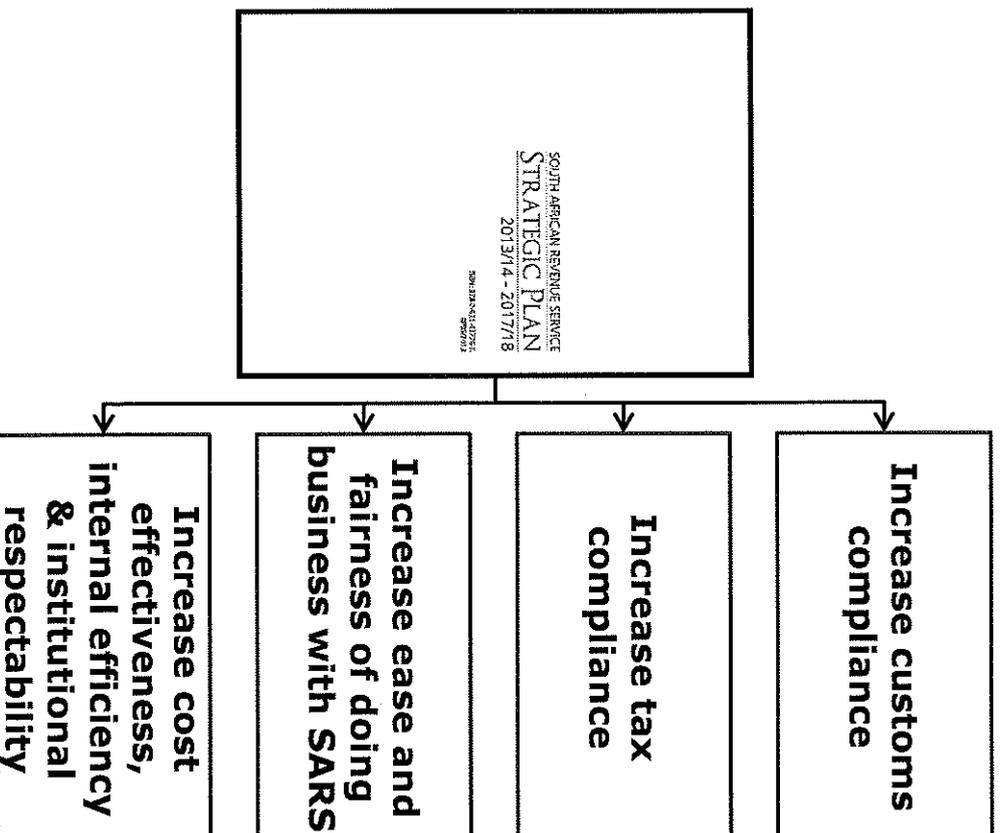


Source: SARS 2012 Tax Statistics; SARS 2012/13 Annual Report

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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)

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

SARS Transformation Agenda

SARS 2.0

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

Mission & Vision

KPIs

Targets, Metrics & Incentives

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

Imperatives

Increase economic value

Integration & collaboration

Transparency & Fairness

- Reach tax collection full potential:
 - High net worth individuals
 - Corporates
 - Customs
 - Enforcement
 - Cost to contribution optimisation
- Maximise SARS impact through increased collaboration with:
 - Relevant SA Ministries
 - Social security entities (UIF, SASSA, NSFAS, ...)
 - International counterparties
- 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

Enforcement – Structures & tools

Organisation & capabilities

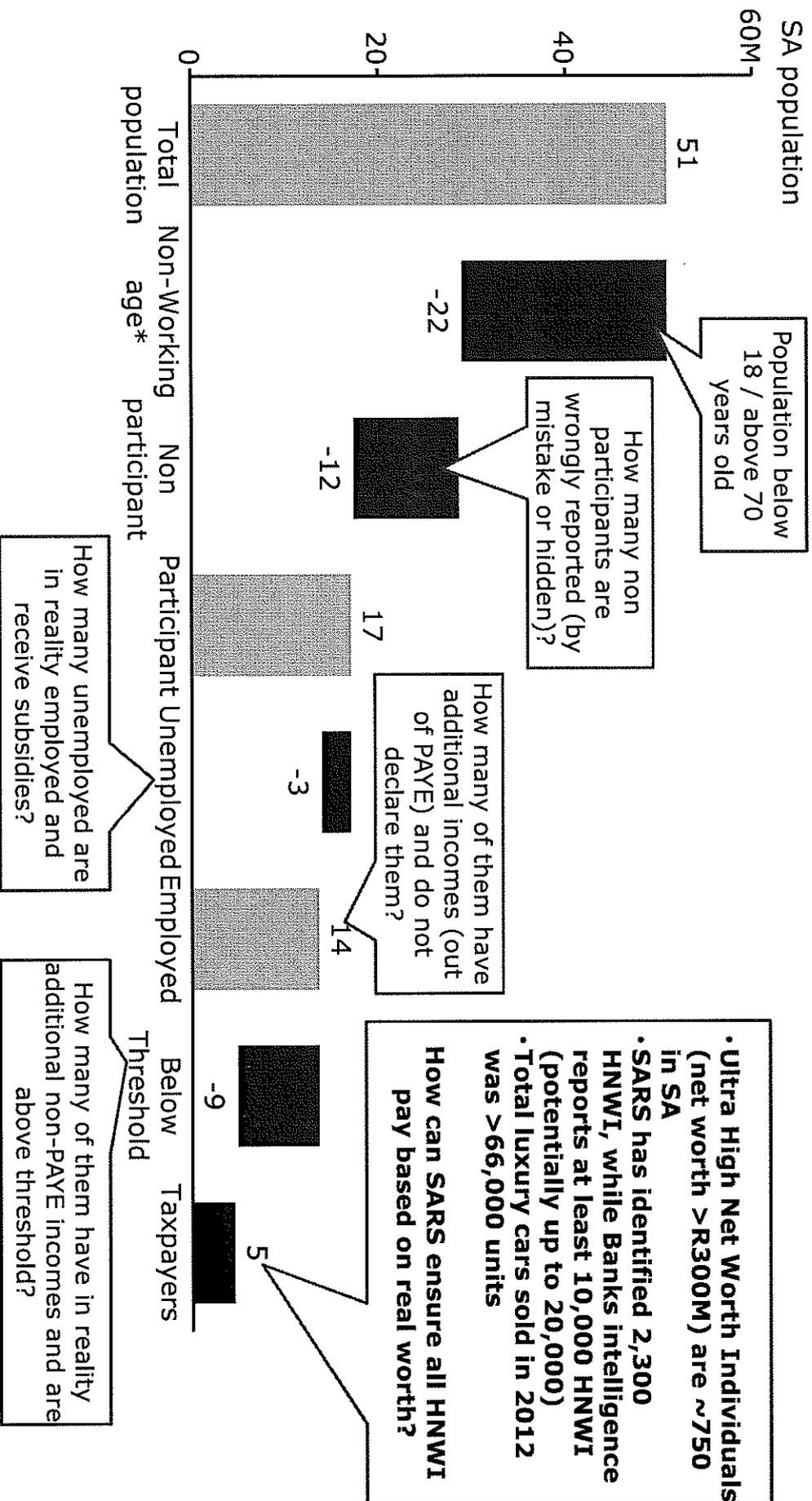
Enablers

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Several questions arise regarding taxpayers compliance – Can SARS increase his real individual taxpayers base?

Increase economic value

INDIVIDUAL TAXPAYERS



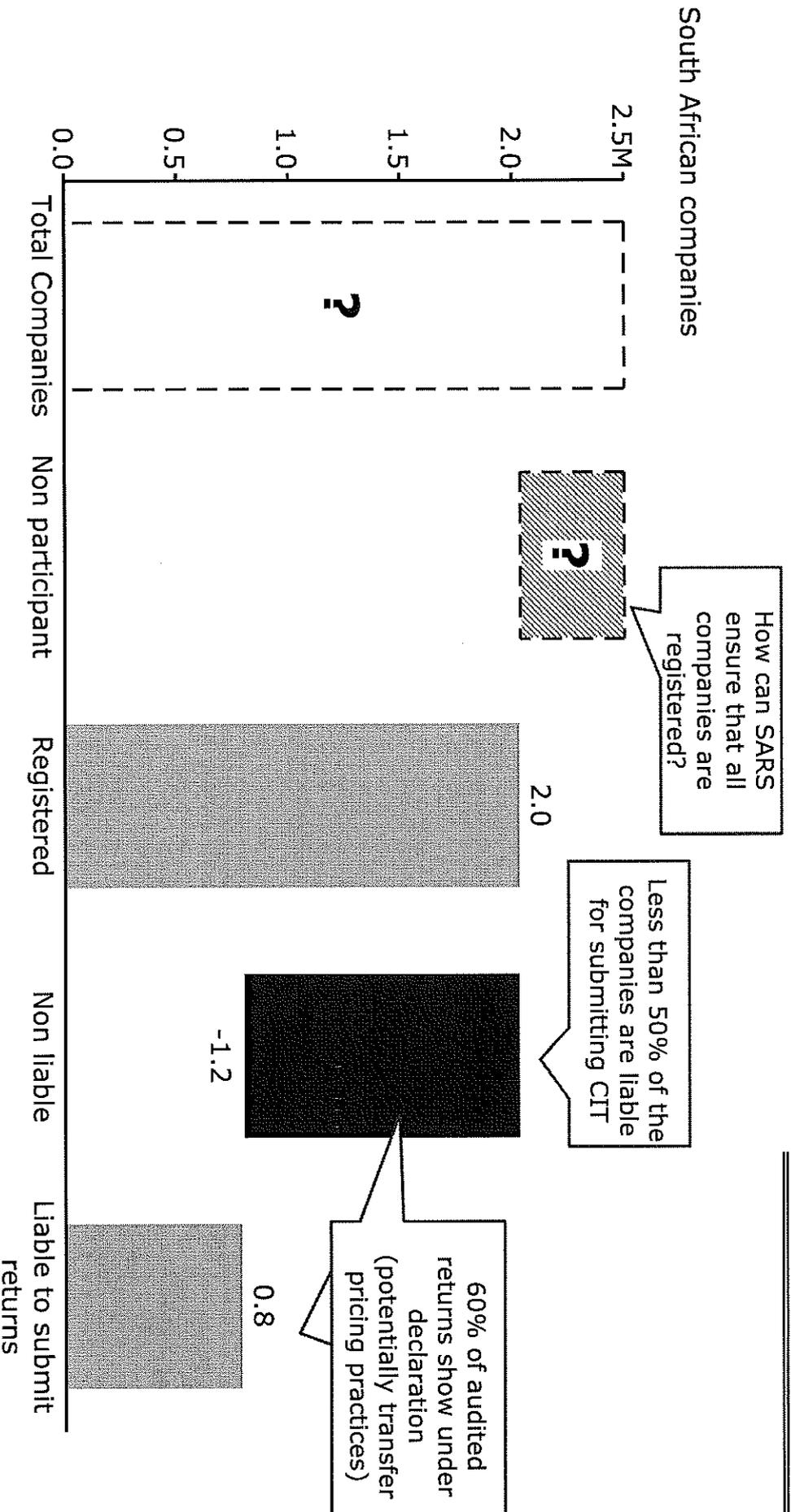
• Ultra High Net Worth Individuals (net worth >R300M) are ~750 in SA
 • SARS has identified 2,300 HNWI, while Banks intelligence reports at least 10,000 HNWI (potentially up to 20,000)
 • Total luxury cars sold in 2012 was >66,000 units

Source: Wealth X, StatSA, Lit research

Several questions arise regarding taxpayers compliance – Corporate taxpayers show clear tendency to under declare

Increase economic value

CORPORATE TAXPAYERS



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

Critical programs such as Customs are behind completion - Short term opportunities to generate revenues for SA

CUSTOMS PROGRAM

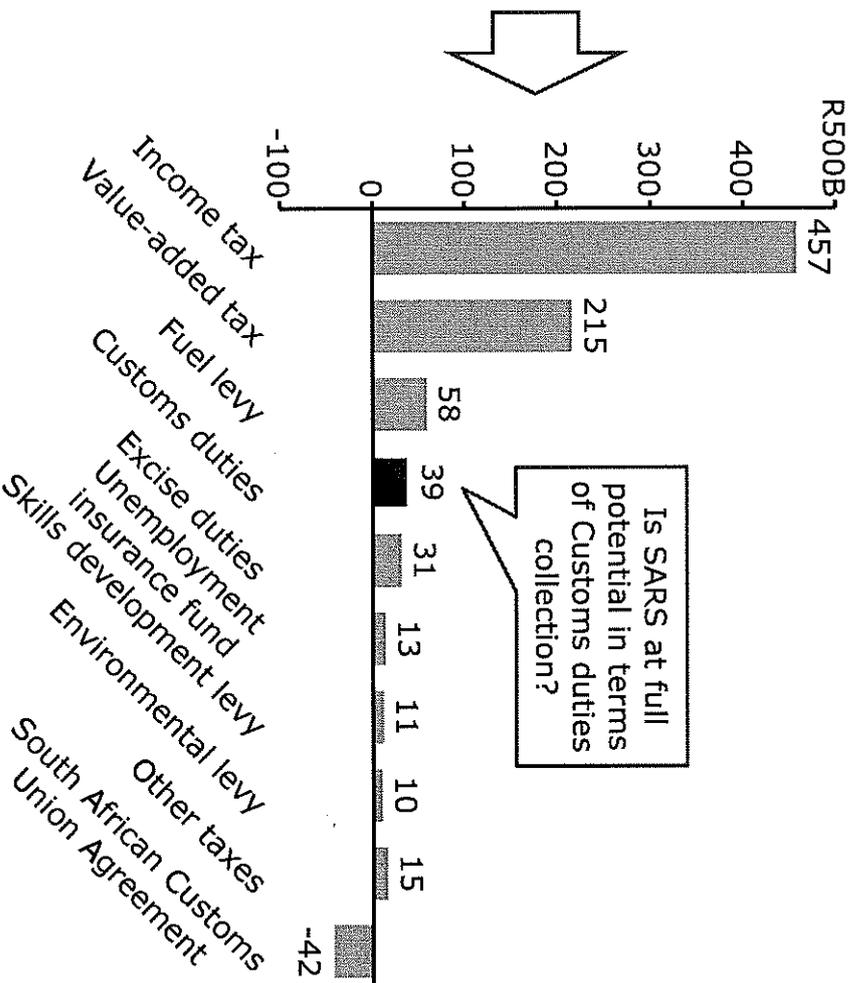
- SARS customs program active since 2009 but **still not effectively fighting against fraud, corruption & illegal imports**
- Customs service delivery is still **substandard making the process of importing / exporting very confusing & unattractive**

"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

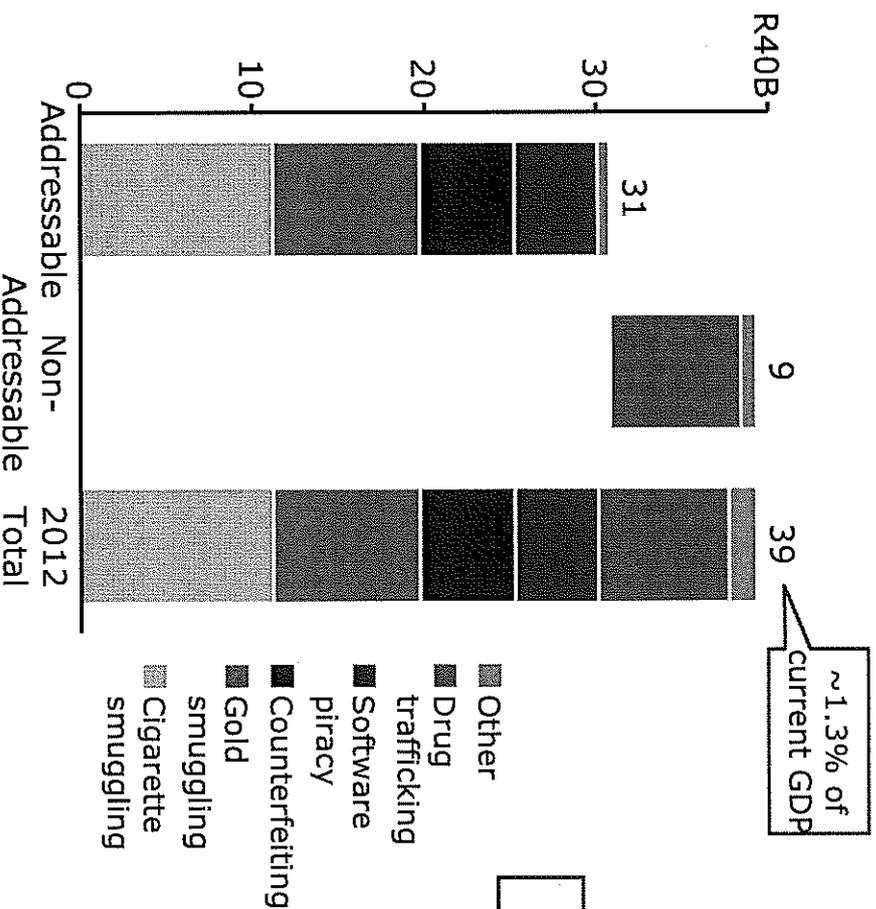
2012/13 SARS administered revenues



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**

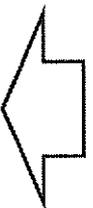
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Border control needs to be efficient (to increase trade) and effective (to decrease illicit trades)

Increase economic value

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

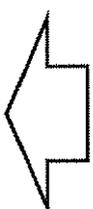
- One of the main goals of the French border control ("Douane") is to **increase European trade flow through France**
 - Become the hub for global merchandises entering Europe, making sure that procedure in place facilitate business
 - Ensure this comes in a sustainable way in order to allow only legal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

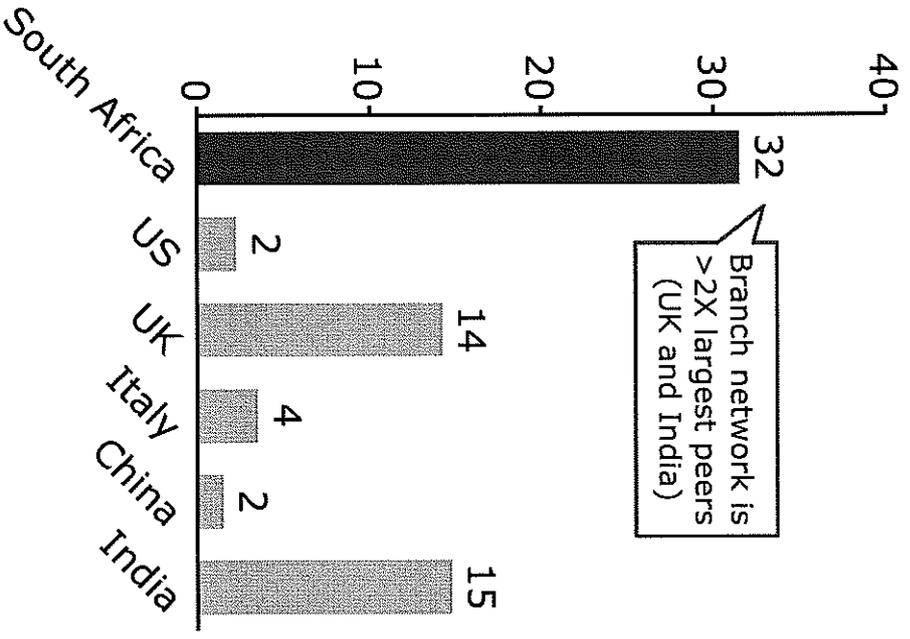


SARS can decrease illegal trade inflow /outflow and "earn with punishments"

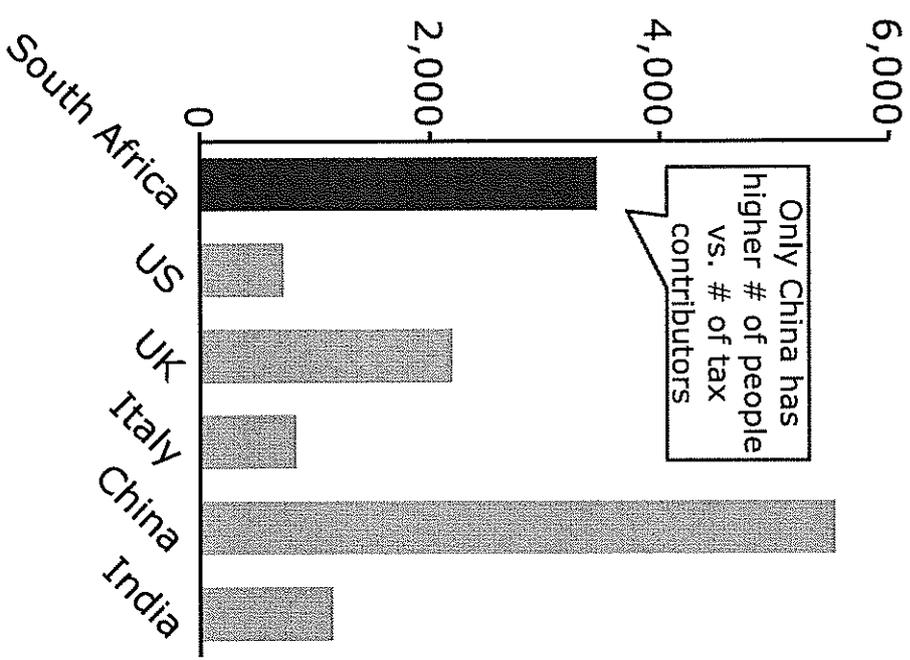
Even if eFiling usage is high (>90%), SARS branch & FTES are substantially higher than peers

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

SARS is a key player in the wider Government ecosystem - effective collaboration & integration to be further pursued

Integration & collaboration

SA ministers

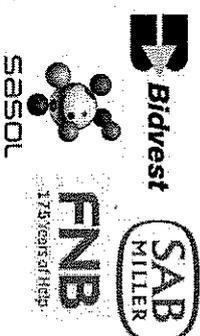
 Department: National Treasury REPUBLIC OF SOUTH AFRICA	national treasury
 Department: Trade and Industry REPUBLIC OF SOUTH AFRICA	the dti
 Department: Public Enterprises REPUBLIC OF SOUTH AFRICA	public enterprises
 Department: International Relations and Cooperation REPUBLIC OF SOUTH AFRICA	international relations & cooperation
 Department: Mineral Resources REPUBLIC OF SOUTH AFRICA	mineral resources
 Department: Labour REPUBLIC OF SOUTH AFRICA	labour
 Department: Economic Development REPUBLIC OF SOUTH AFRICA	economic development
 Department: Home Affairs REPUBLIC OF SOUTH AFRICA	home affairs

Civil Society



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

Corporates

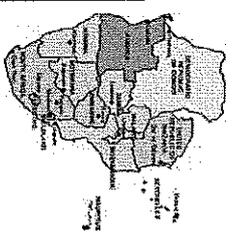


PRELIMINARY ILLUSTRATIVE

International counterparties



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

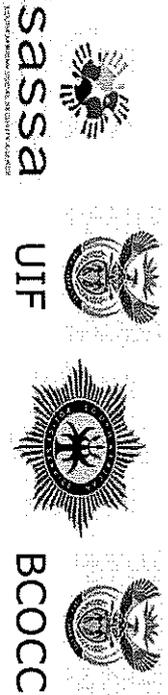


State owned enterprises

Utilisation of specialised skills to deliver Phoenix



SA government agencies



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



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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

Transparency & fairness are key elements 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**

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

 **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 week by customers

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)

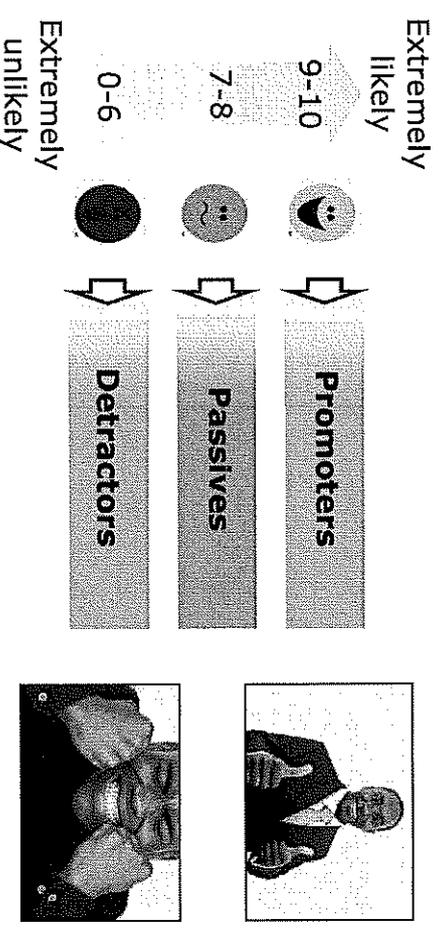
- GdF has tools and budget to ensure prevention, investigation and reporting of financial evasion and violations



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

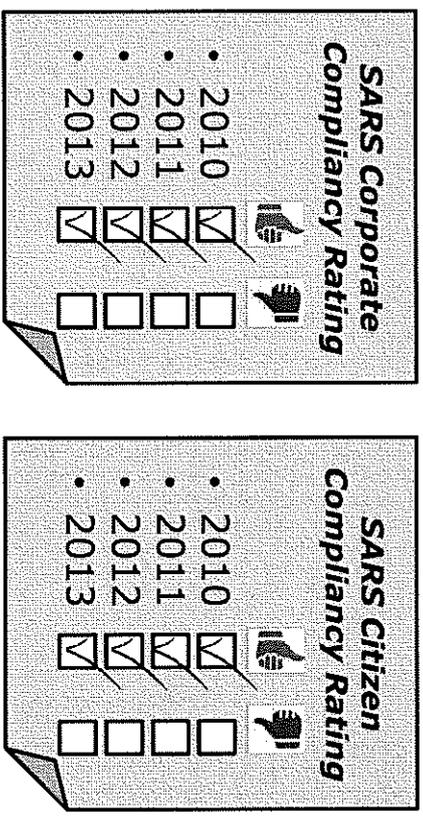
Transparency and Fairness

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 by .

TAXPAYER HISTORICAL RATING TO REWARD LOYALTY



- 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)

Taxpayers

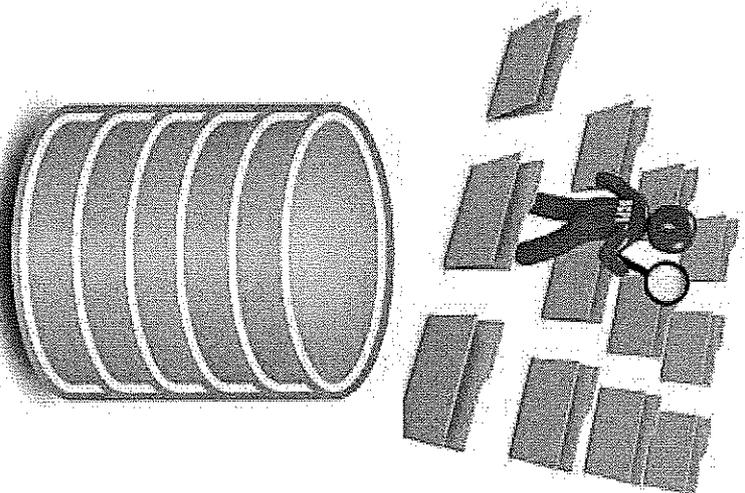
- SARS individual tax records
- SARS companies registration database (CIT, VAT, customs, etc.)

Social Security

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

Assets registration

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



PHOENIX ECOSYSTEM

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.)

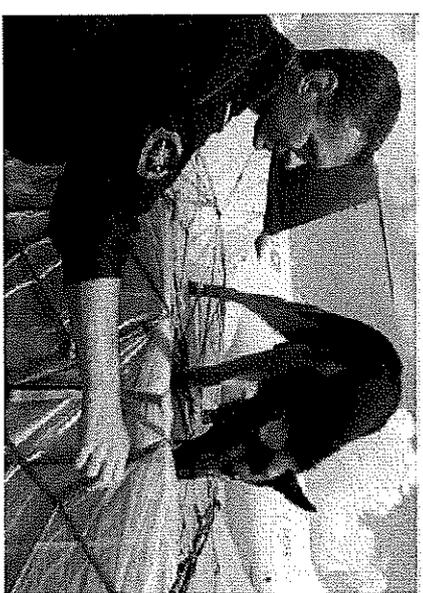
Establishment of enforcement units to fight illicit economy & tax evaders – Partnership with other governmental bodies necessary

Enforcement

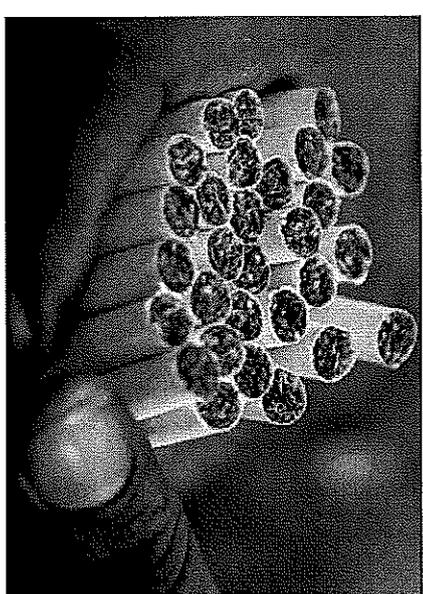
BORDER UNITS



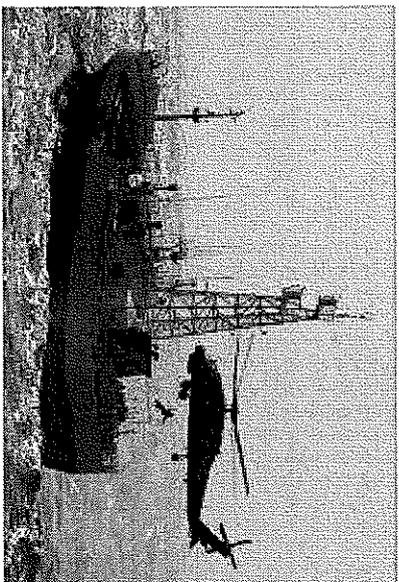
ANTI-DRUGS UNITS



**ANTI-COUNTERFEIT
GOODS UNITS**



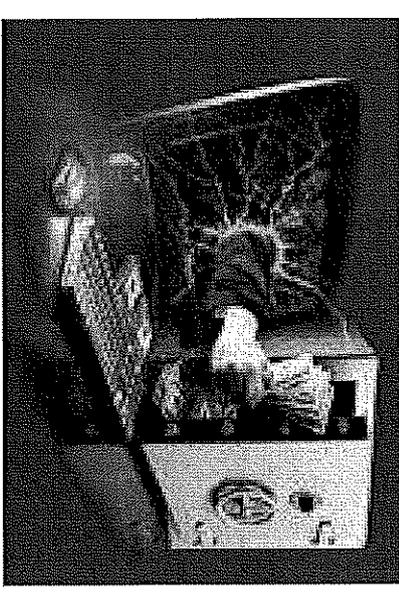
**MARINE, AIR &
TERRESTRIAL UNITS**



**FINANCIAL FRAUD
UNITS**



**ELECTRONIC / MOBILE
FRAUD UNITS**



J. M. A.

SARS 2.0 – Future of SARS will depend on management & Government to deliver on key imperatives

Mission & Vision

SARS 2.0
 Transform SARS in an innovative revenue and custom agency that enhanced economic growth and social development, and support the country's integration into the global economy in a way that benefits all South Africans

KPIs

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

Targets, Metrics & Incentives

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

Enforcement – Structures & tools

Organisation & capabilities

Enablers

Back-up

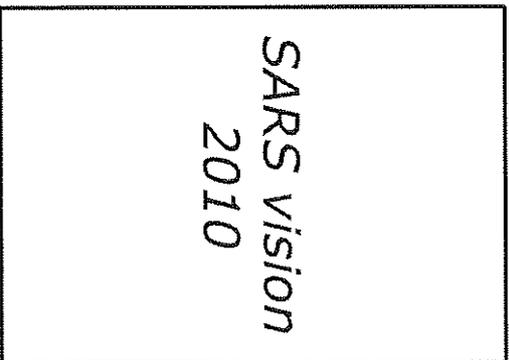


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In the last decade, SARS Modernisation program has driven significant changes. Effort to be continued until 2018

SARS profile

2005



First strategy paper developed by the Commissioner (Pravin Gordhan)



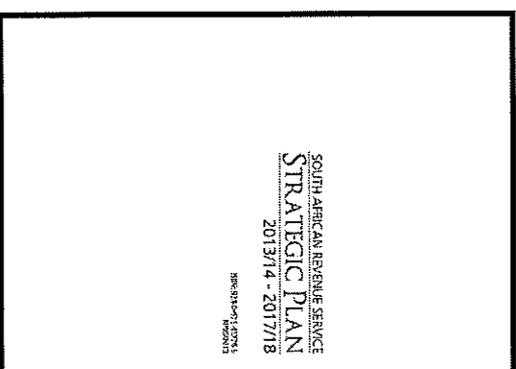
2007-2012



Modernisation Program launched in 2007, and partially completed



2013-2018



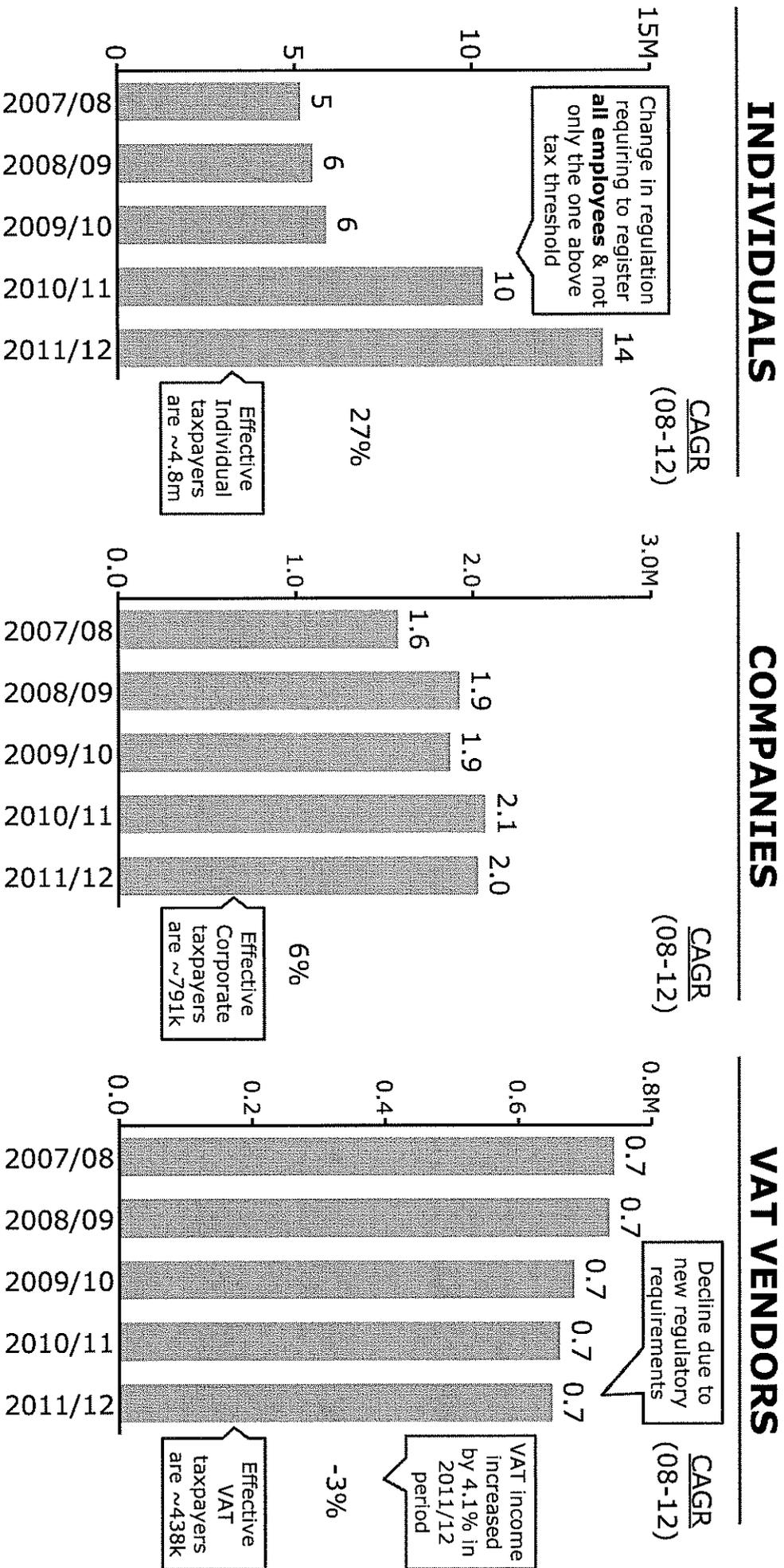
Modernisation Program up-dated in 2012 to complete and integrate previous plan



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Except for VAT, SARS and regulator managed to increase substantially the registration of individuals & companies

ANNUAL REGISTERED TAXPAYERS



Source: SARS 2012 Tax Statistics

Annexure "ST02"

CONFIDENTIAL

TM first 100 days

May 26th 2014

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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 Annexure "ST02"

A new Transformation Agenda must be set up

SARS Transformation Agenda

Mission & Vision

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

SARS 2.0

KPIs

- Revenues linked to outcomes
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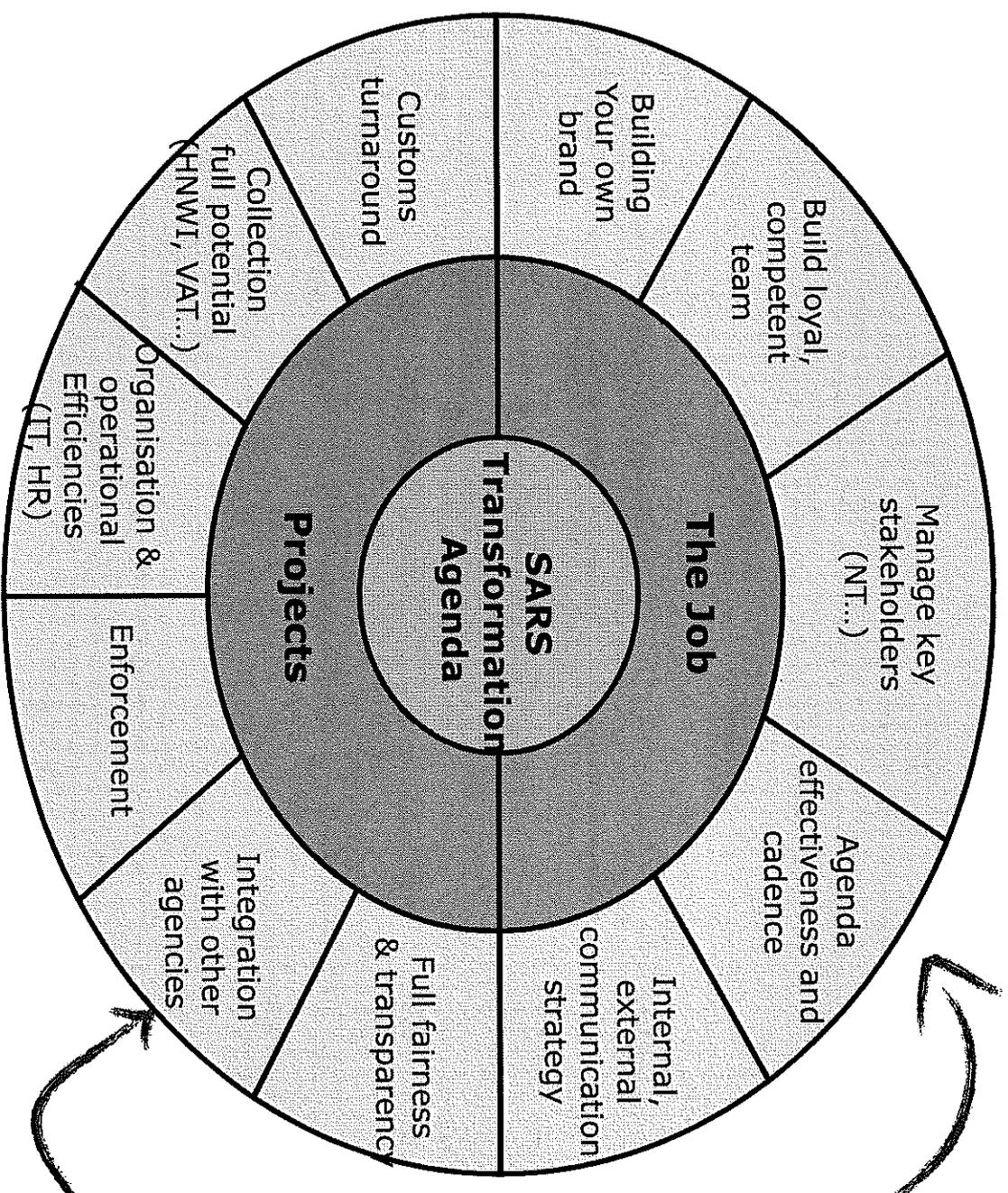
IT systems – Enhanced SA data base – Phoenix ecosystem

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

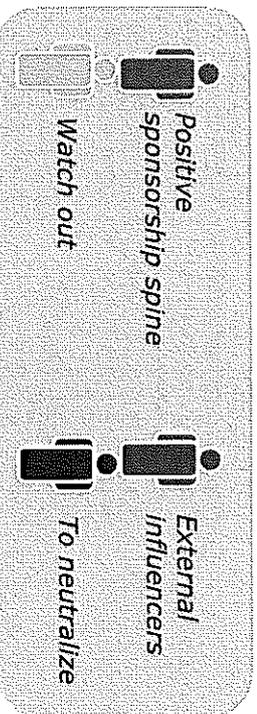
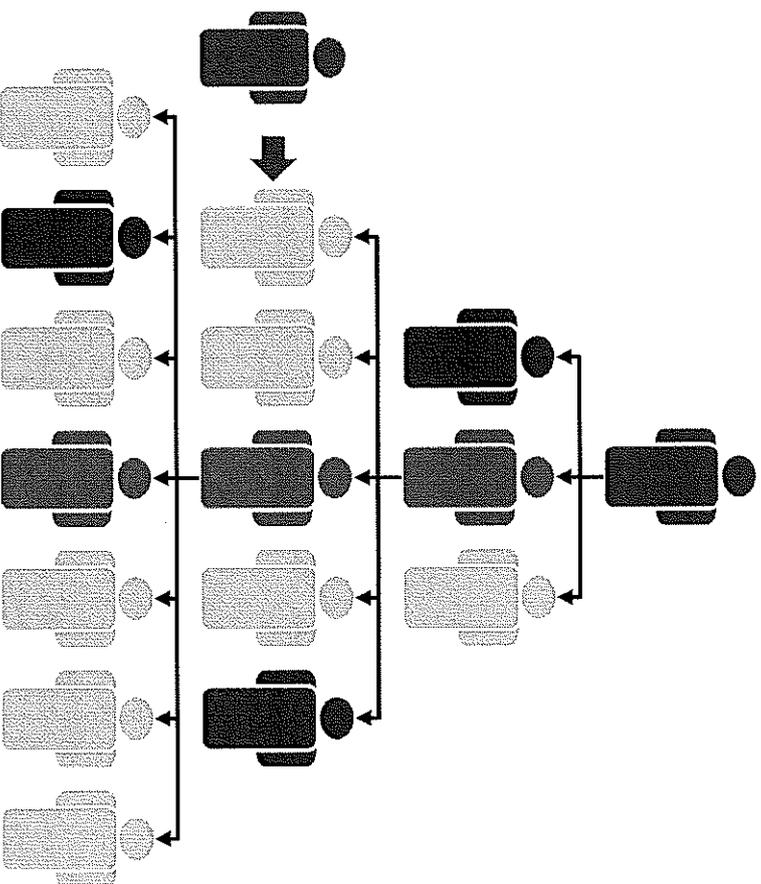


Delayed



On track

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

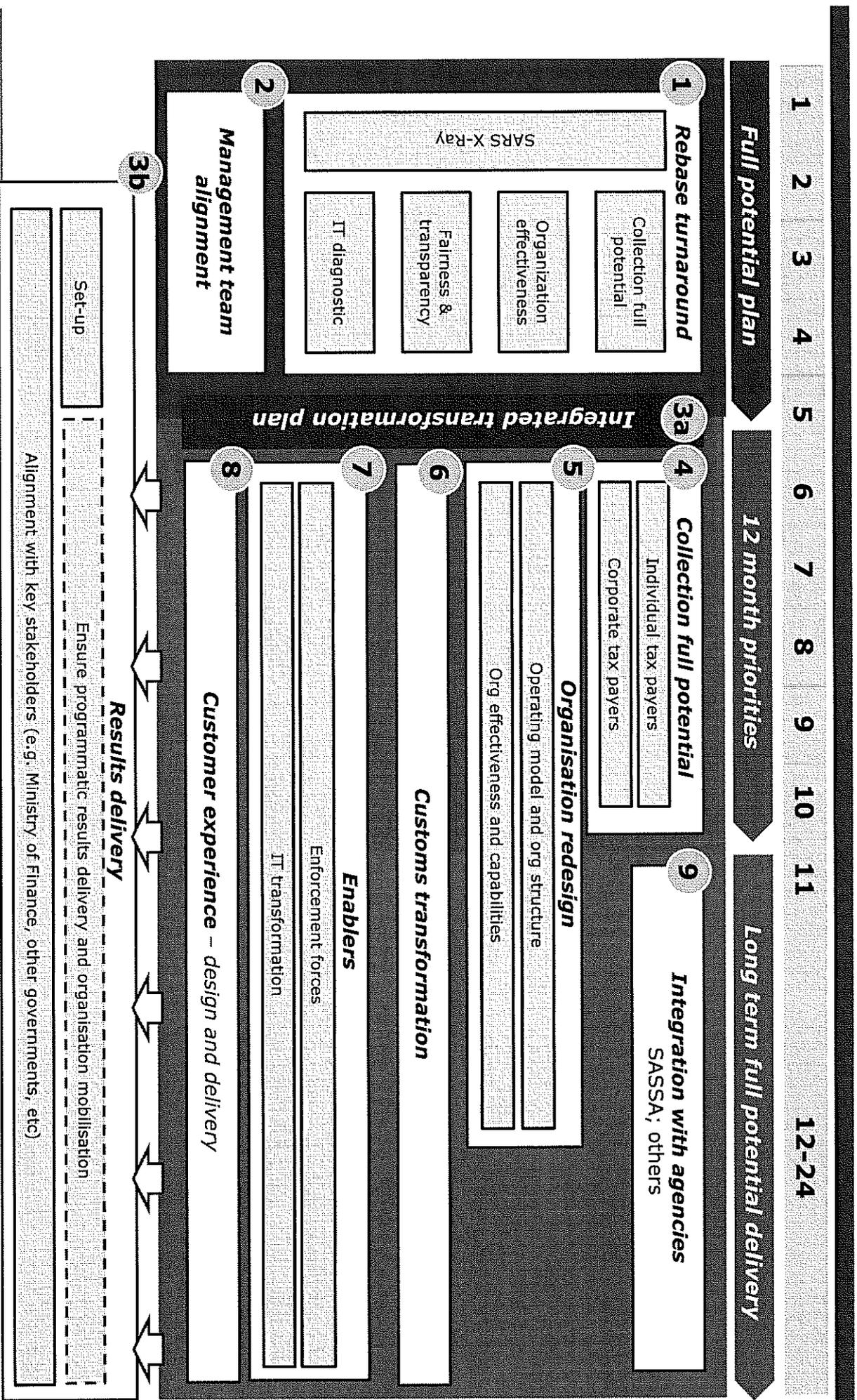


- Identify positive change sponsors bottom-up
- Leverage external influencers
- Identify individuals that could hamper change:
 - Watch outs
 - To neutralize



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

Potential integrated transformation plan



Agenda

Annexure "ST02"

- Appendix

➔ SARS profile

- Details on transformation initiatives

SARS point of departure

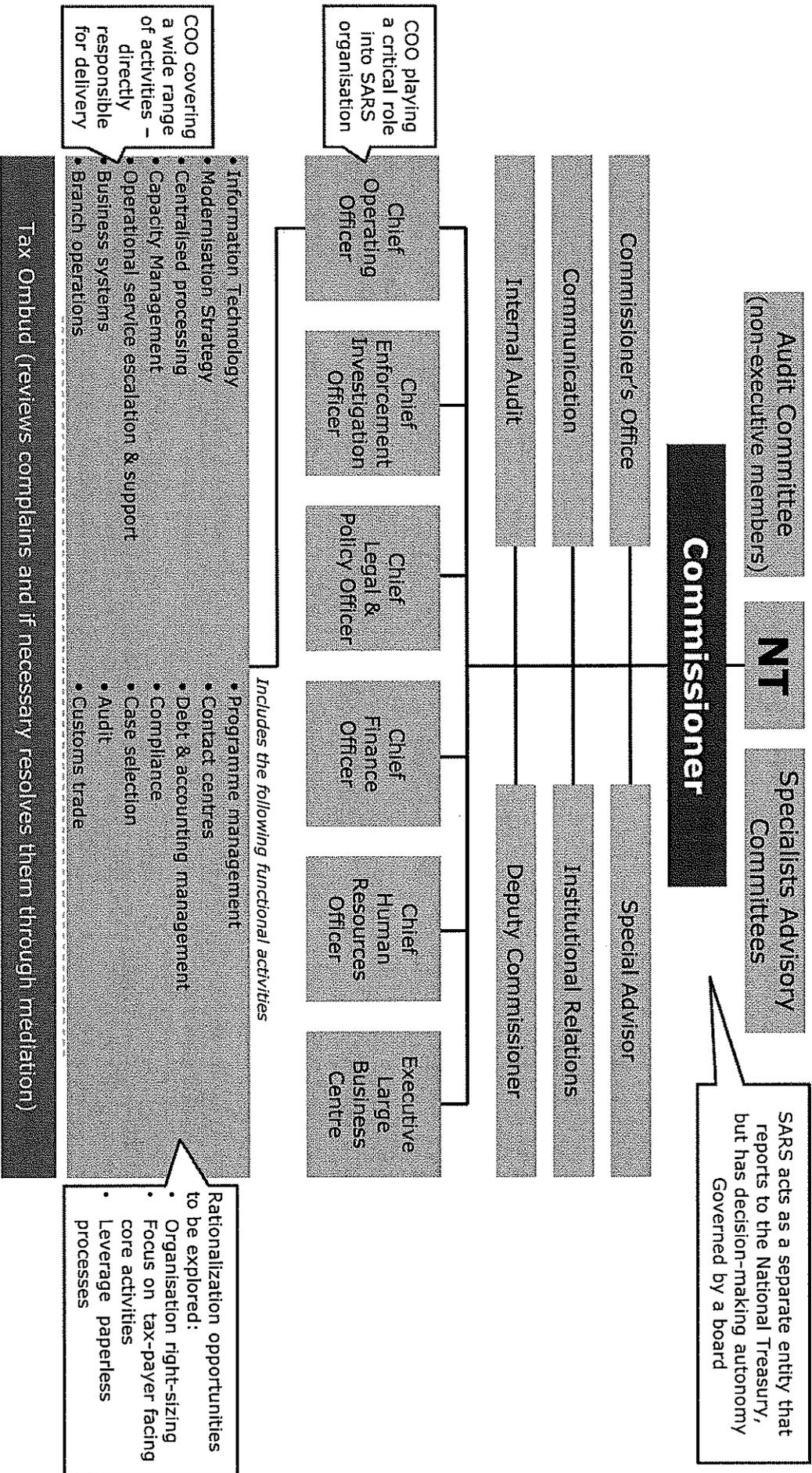
***In the decade,
SARS
modernisation
program has
delivered
results...***

- 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~~ ^{"ST02"} directly into NT and with a separate audit committee

SARS profile

SARS GOVERNANCE MODEL



Source: SARS, OECD

Budget to SARS based on estimated expenditures ("R802" 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 P&L* (2012/13 RM)

FUNDS AVAILABLE	FUNDS ALLOCATION
National treasury grants	Employee cost 5,873
Rendering of services	Administrative expenses 1,494
Other income	Professional and special services 751
Interest received	Depreciation and amortisation 509
	Impairment loss 71
	Finance cost 15
Total revenues 9,593	Total costs 8,713
Operating surplus^: R880M	



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

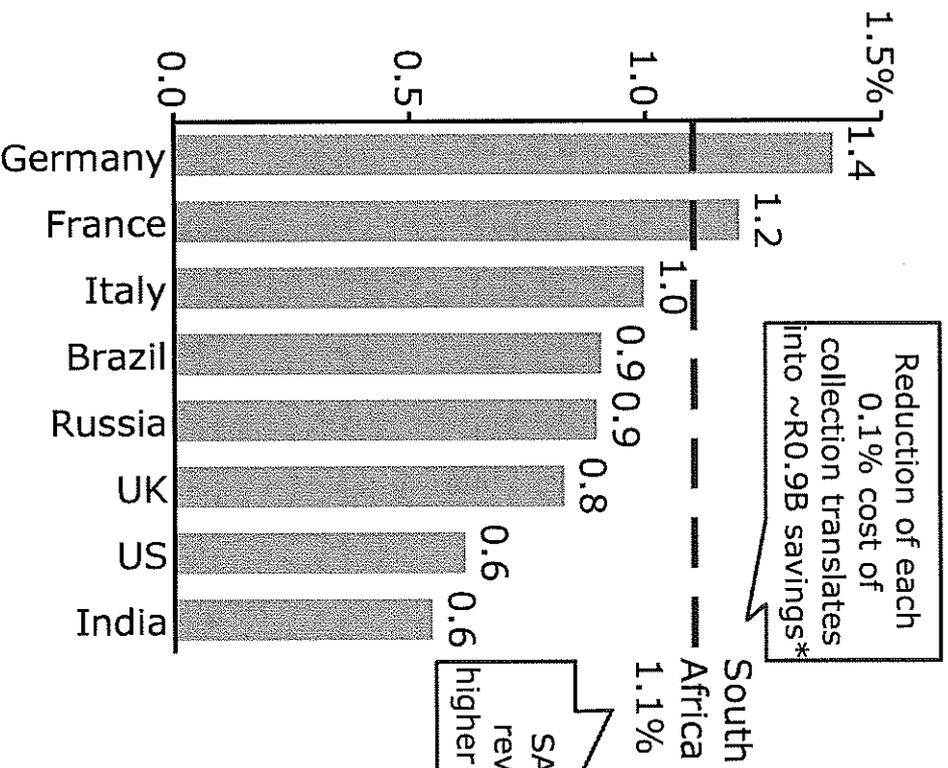
- Funds allocation should be based on **tangible outcomes, generating economic value for SA**
- SARS organisation should be **incentivised to generate value efficiently and in a fair way**
- **Costs optimizations exist and need to be implemented**
 - ▶ Employee costs are the most important cost bucket
 - ▶ 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 "SARS" 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

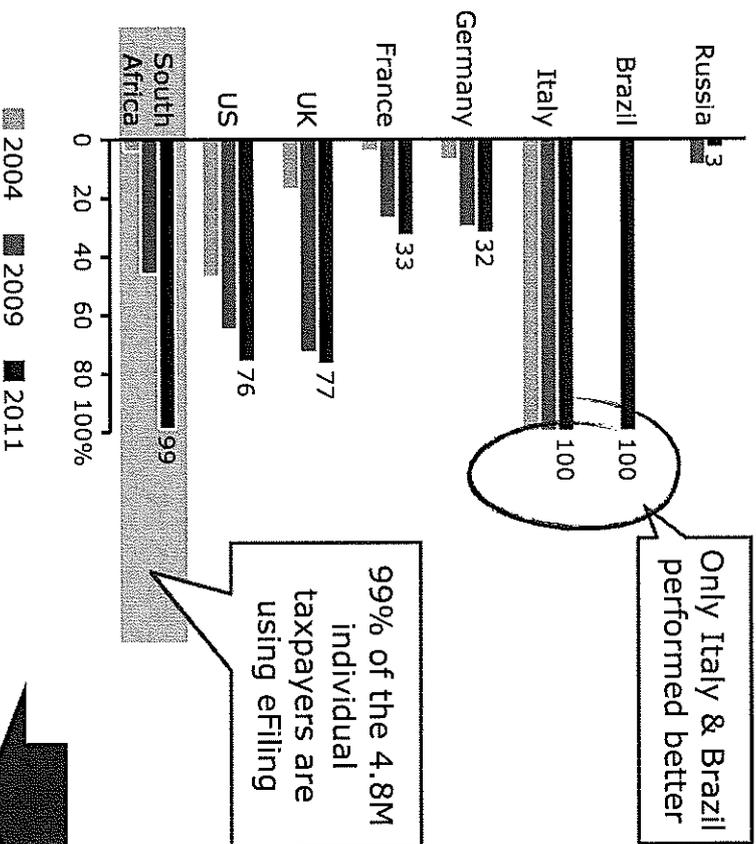
Note: *Calculation based on reverse engineering of total cost as % of revenues reduced by 0.1%; ^Excluding China (not reporting data)
Source: SARS, OECD

Even if eFiling represents 90% of total filing, there are "ST02" doubts about its real efficiency to drive tax collection

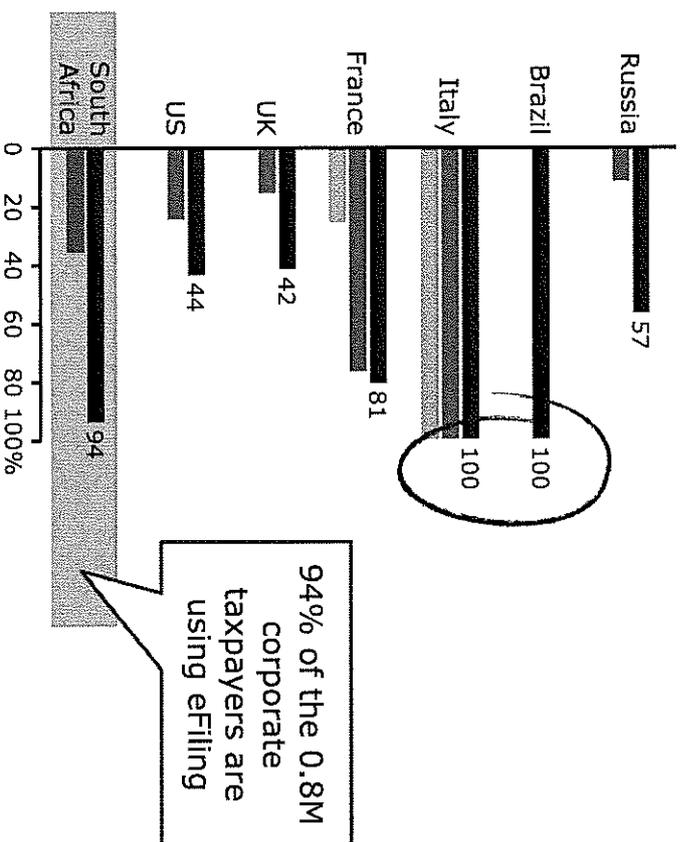
SARS profile

% OF EFILING OVER TOTAL FILING

PERSONAL INCOME TAX



CORPORATE INCOME TAX

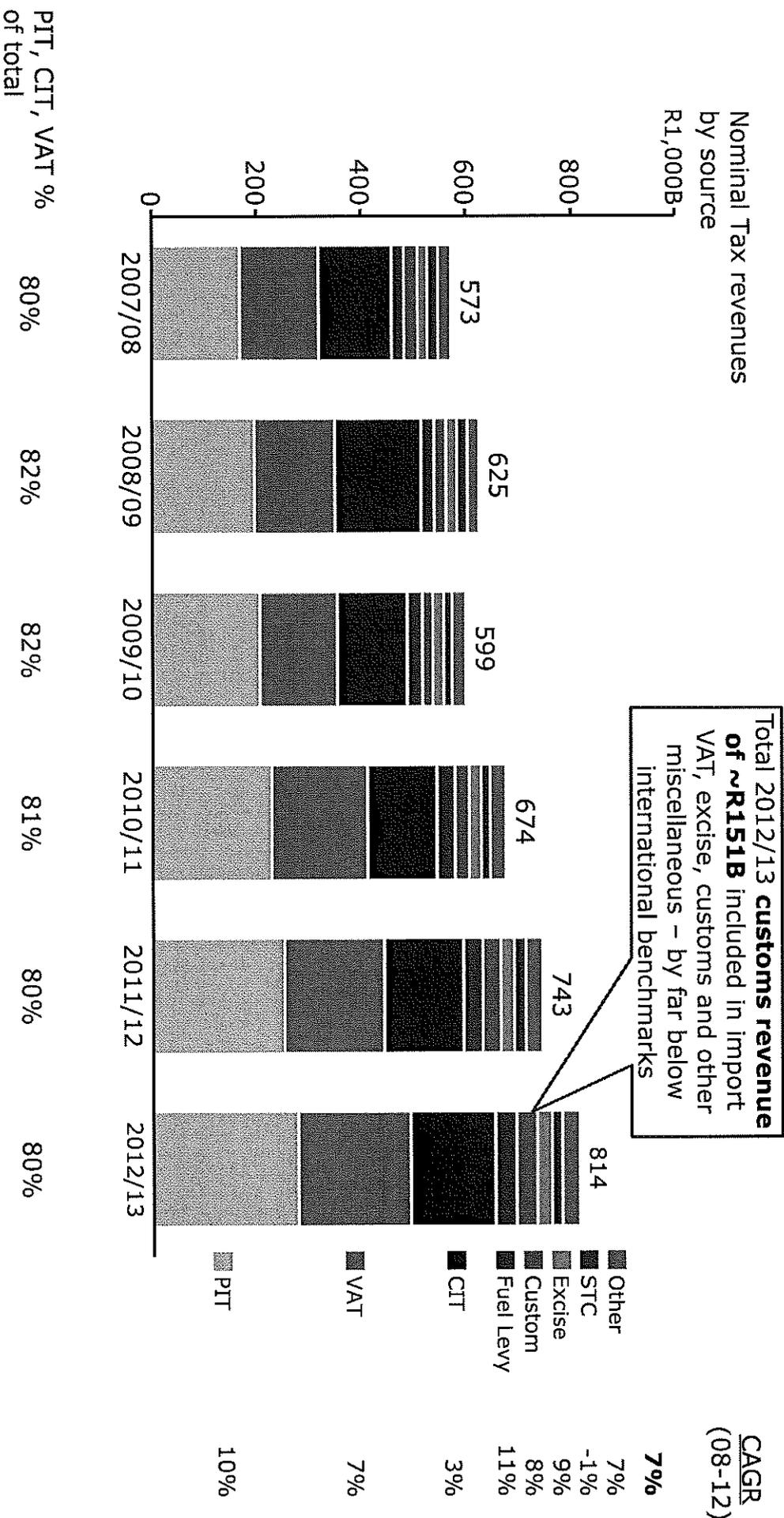


SARS needs to go beyond the collection process, and focus on driving tax collection effectiveness

Source: OECD

...but relevant aspects such as Customs are not ~~delivering~~ "ST02" the expected economic results...

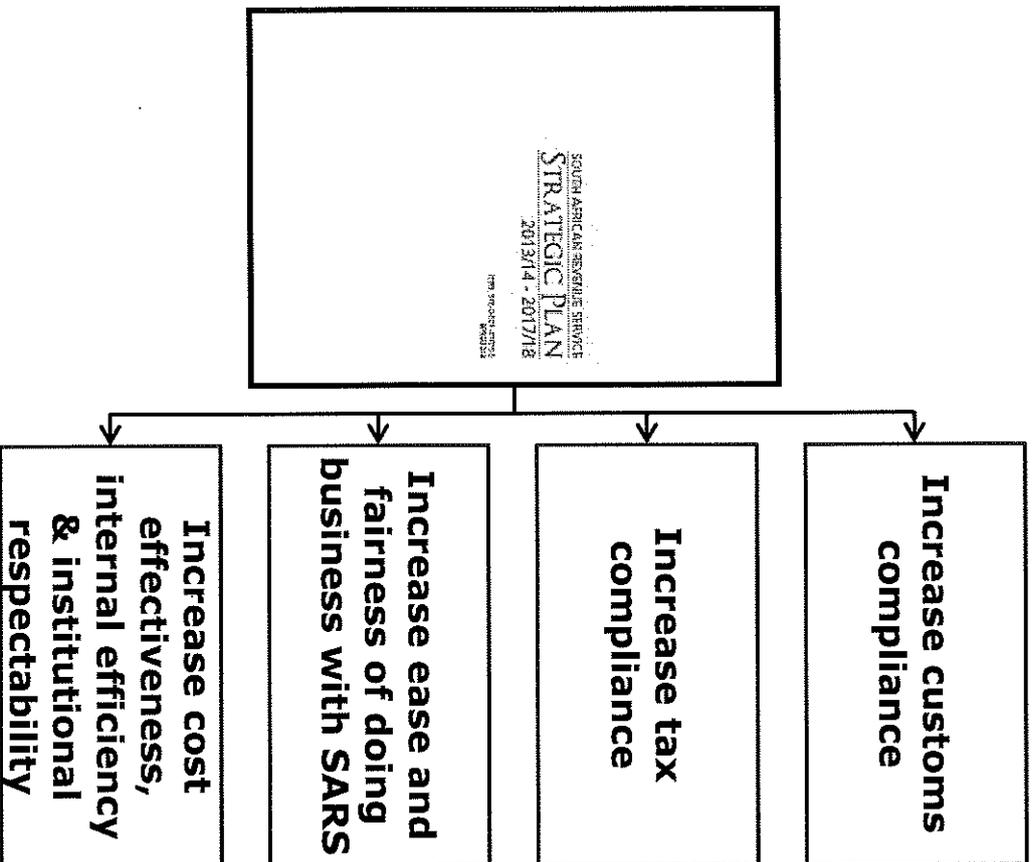
SARS profile



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

2013-2018 new strategic plan is challenging 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)

80
Mog

Agenda

Annexure "ST02"

- Appendix

- SARS profile



- Details on transformation initiatives

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

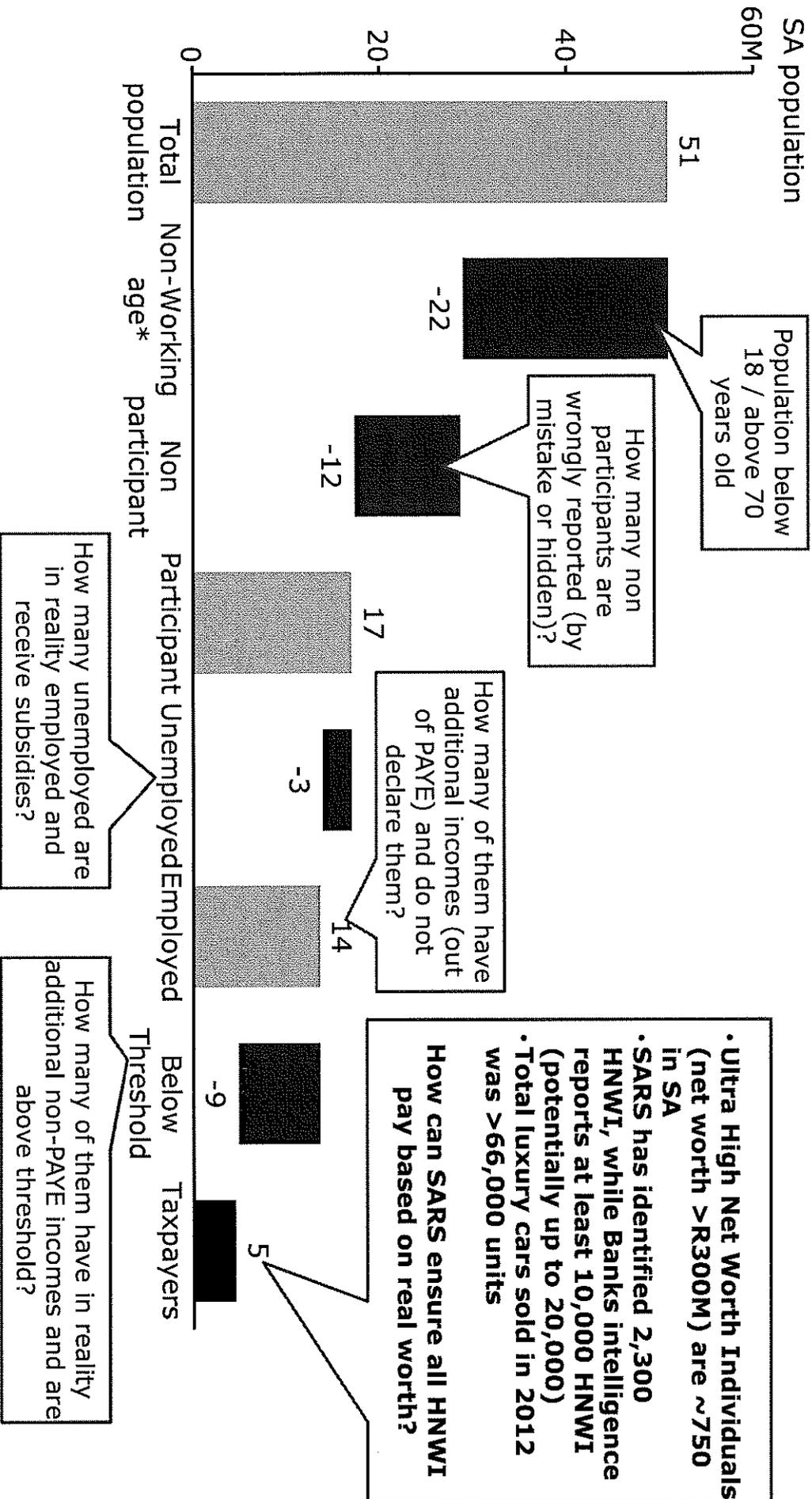
To achieve SA ambitions and make a difference, SARS needs to address key strategic concerns

- 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

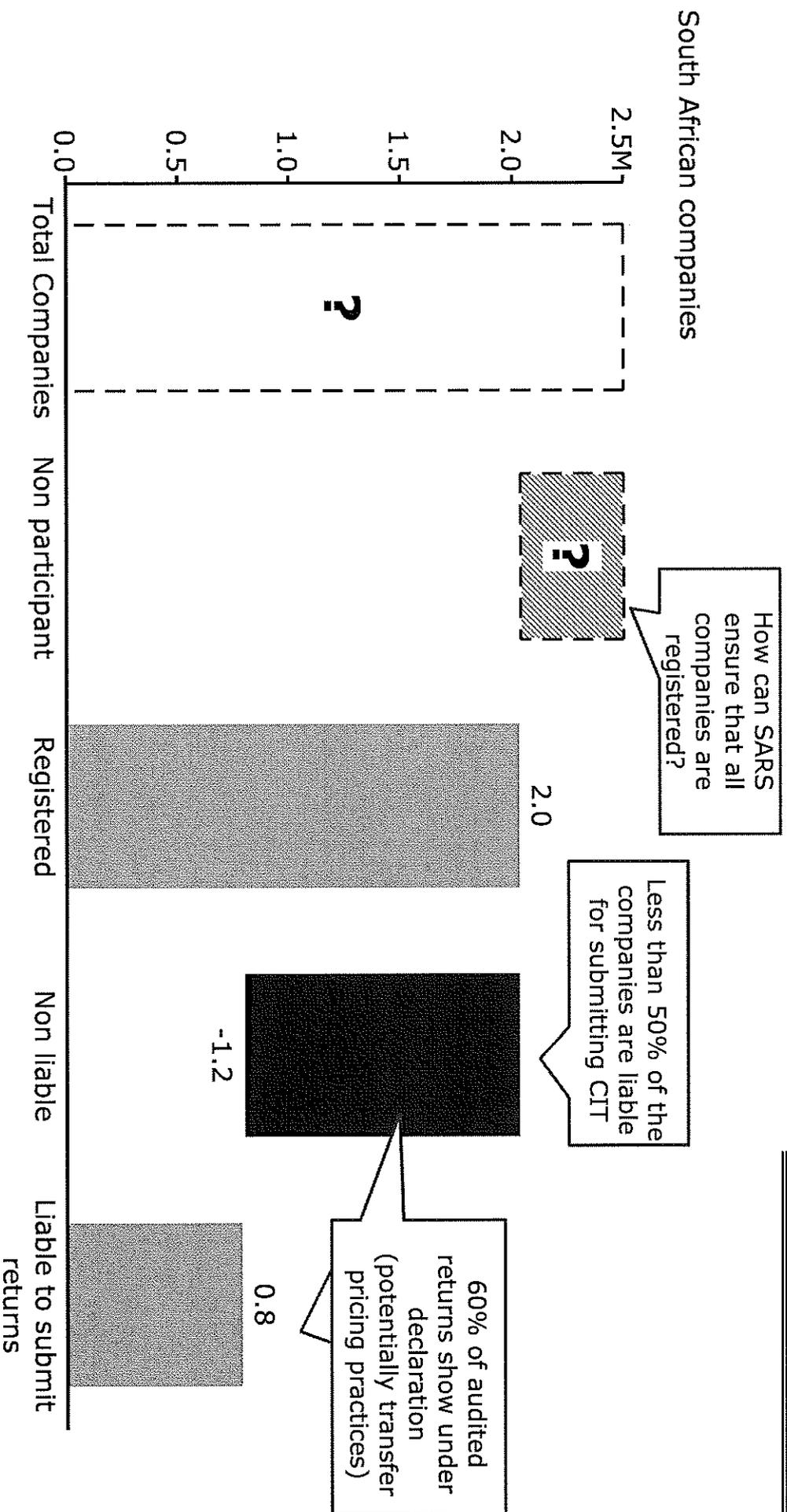


Source: Wealth X, StatsA, Lit research

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 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**

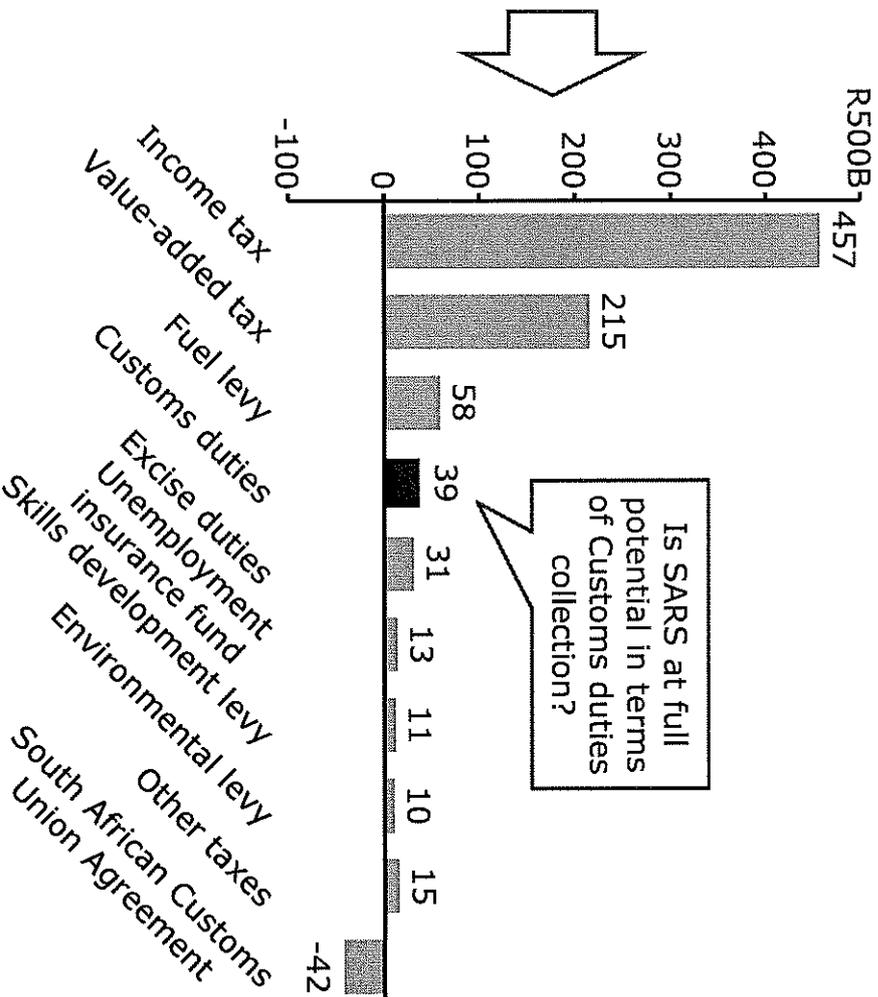
"Current law does not provide SARS with adequate information to determine any possible safety, security, fiscal and economic risks in relation to these goods. No value is declared [...]. This lack of information does not promote the application of efficient and effective customs controls and risk management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



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

Integration & collaboration

SA ministers

 Department: National Treasury REPUBLIC OF SOUTH AFRICA	 Department: Trade and Industry REPUBLIC OF SOUTH AFRICA	 Department: Public Enterprises REPUBLIC OF SOUTH AFRICA	 Department: International Relations and Cooperation REPUBLIC OF SOUTH AFRICA	 Department: Mineral Resources REPUBLIC OF SOUTH AFRICA	 Department: Labour REPUBLIC OF SOUTH AFRICA	 Department: Economic Development REPUBLIC OF SOUTH AFRICA	 Department: Home Affairs REPUBLIC OF SOUTH AFRICA
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Civil Society



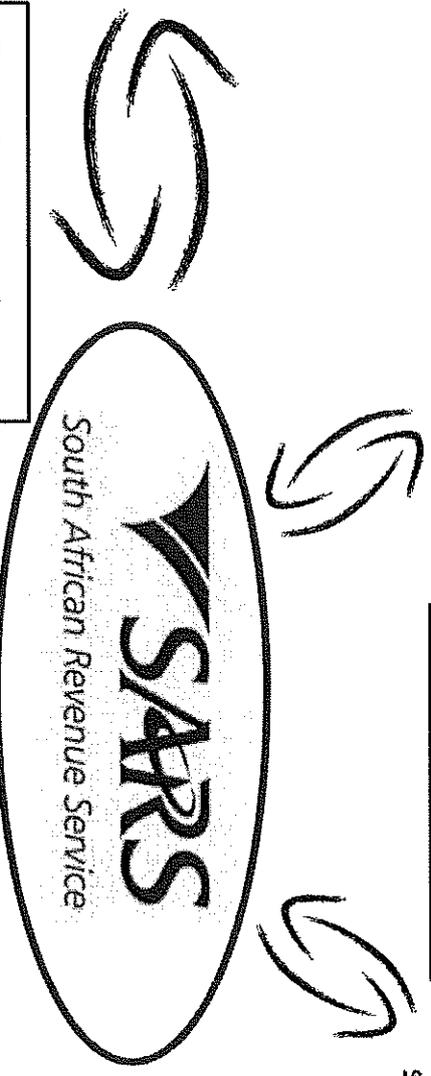
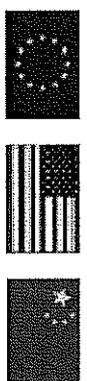
Single view of taxpayers (including Social security contributions, dividends) Full access to financial information (including dividends, shareholdings, etc.)

Corporates



PRELIMINARY ILLUSTRATIVE

International counterparties

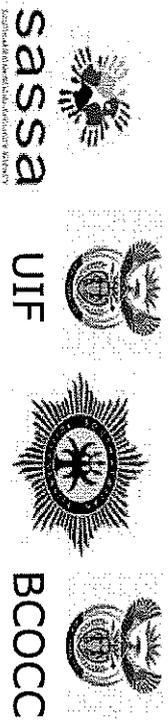


- Efficient & centralized collection of info on taxpayers
- Efficient Centralized collection of taxes
- Greater control on levies (regulation and forecast)

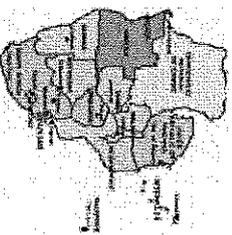
- Bilateral & multilateral agreements
- Increased control on financial trades
- Increased control on merchandise shipments

Utilisation of specialised skills to deliver Phoenix

SA government agencies



State owned enterprises



Transparency & fairness: critical to on-board taxpayers "SARS" 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**

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

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

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 ^{AMERICAN} "STROY" & tax evaders

Enforcement

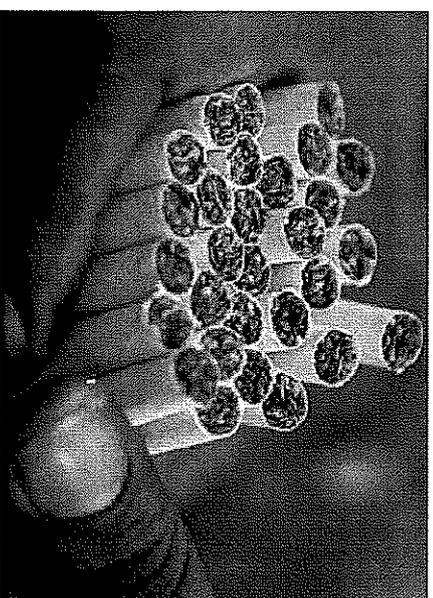
BORDER UNITS



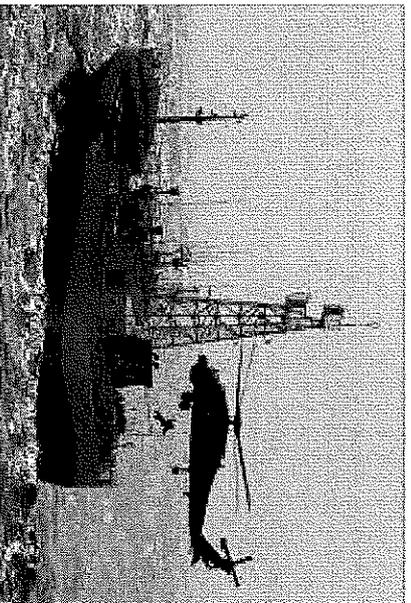
ANTI-DRUGS UNITS



ANTI-COUNTERFEIT GOODS UNITS



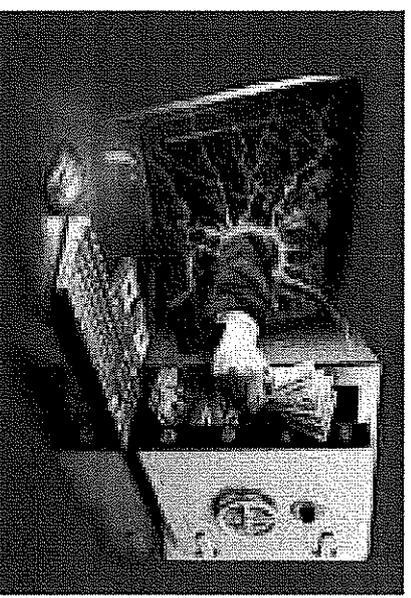
MARINE, AIR & GROUND UNITS



FINANCIAL FRAUD UNITS



ELECTRONIC / MOBILE FRAUD UNITS

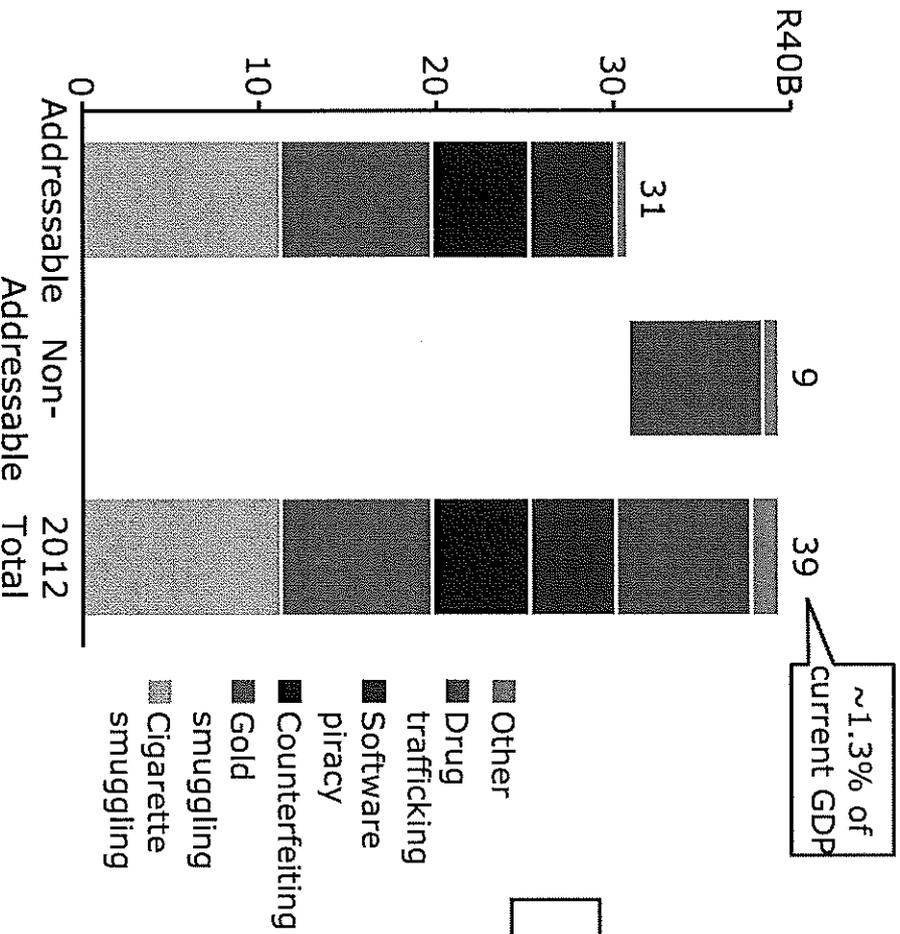


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Illicit economy estimated at R40B, tax loss ~~superior~~ ~~to~~ ~~the~~ ~~total~~ ~~of~~ ~~the~~ ~~country~~ ~~is~~ ~~estimated~~ ~~at~~ ~~R6B~~.
 Opportunity to be measured & recovery plan to be launched

Increase economic value

ESTIMATED VALUE OF SA ILLICIT ECONOMY (RB)



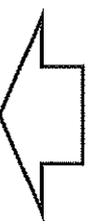
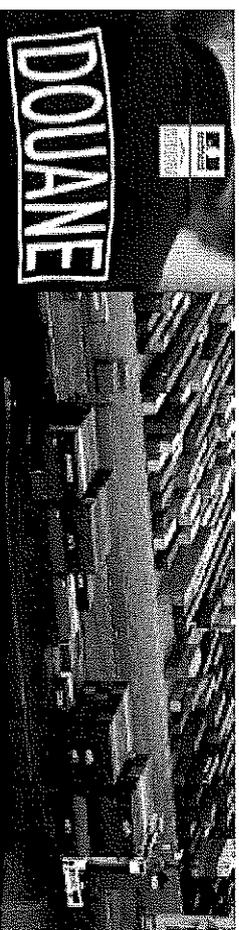
- Considering Tax to GDP of ~28% this means a loss of R11B taxes
- Considering that:
 - Drugs are illegal -> 0 tax revenue
 - Cigarette tax rate includes excise (effective tax rate of ~45% in 2001, most likely higher now)
- **Total real loss for the country is ~R6.1B tax revenues** (after cost of collection)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

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

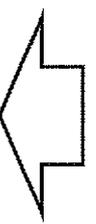
- One of the main goals of the French border control ("Douane") is to **increase European trade flow through France**
 - Become the hub for global merchandises entering Europe, making sure that procedure in place facilitate business
 - Ensure this comes in a sustainable way in order to allow only legal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

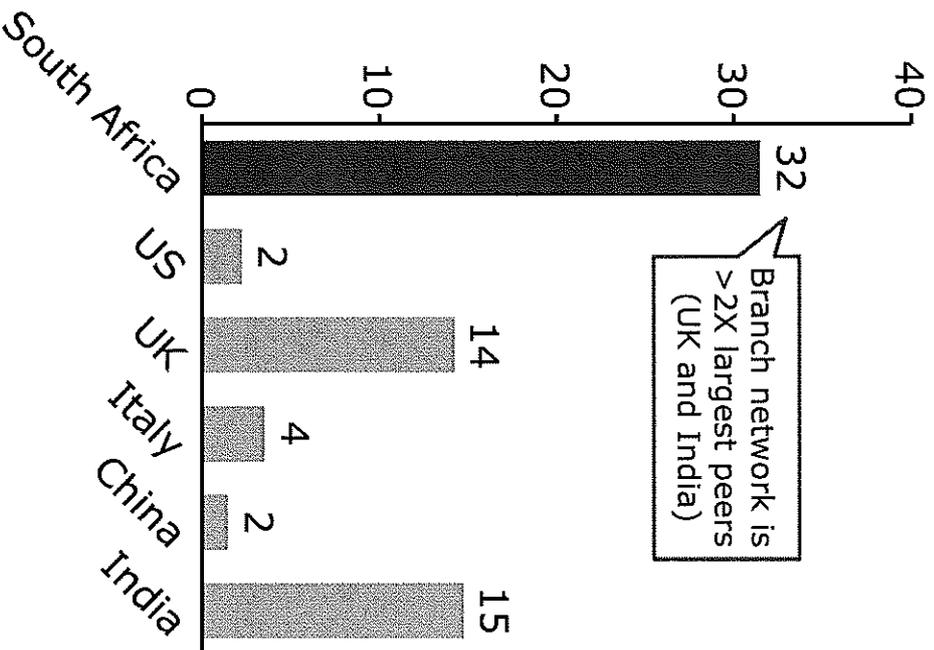


SARS can decrease illegal trade inflow /outflow and "earn with punishments"

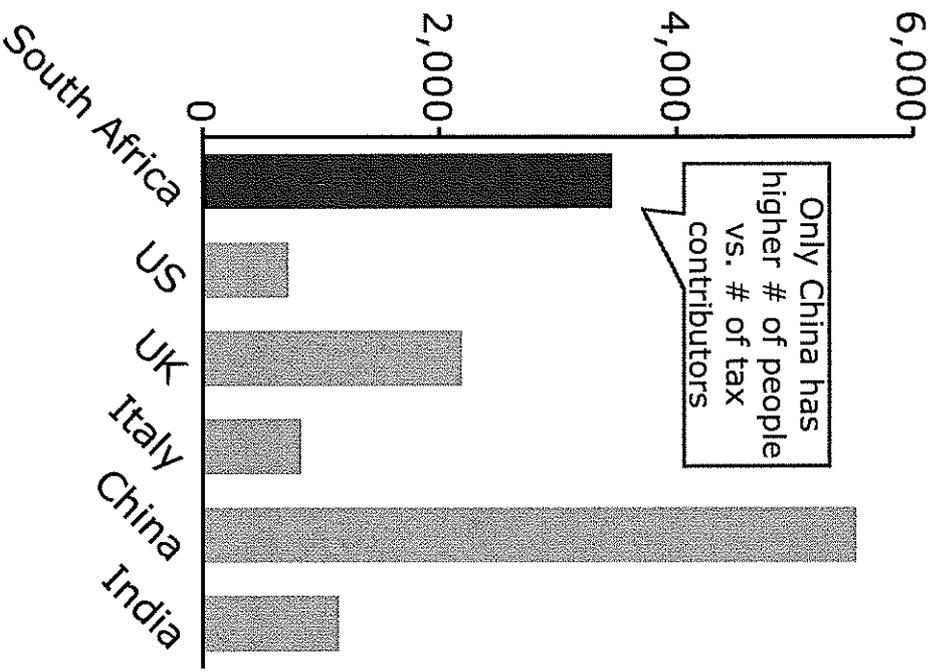
Even if eFiling usage is high (>90%), SARS ~~BRANCHES~~ "STRETES" are substantially higher than peers

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

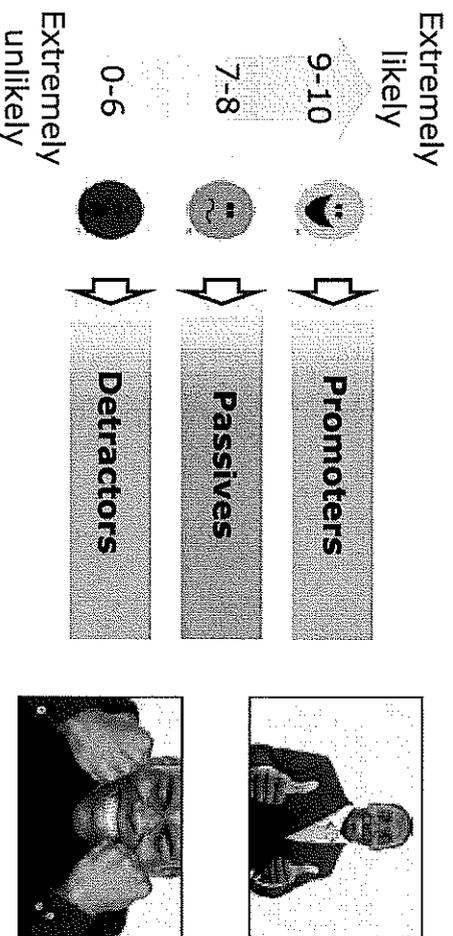
International examples

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

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

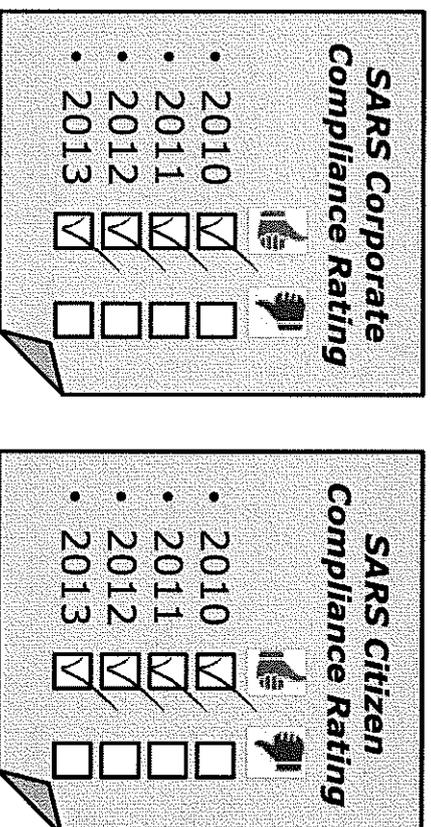
Transparency and Fairness

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 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 a "ST02" enhanced SA database - SARS can leverage it

IT systems – Enhanced SA DB

ILLUSTRATIVE

Taxpayers

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

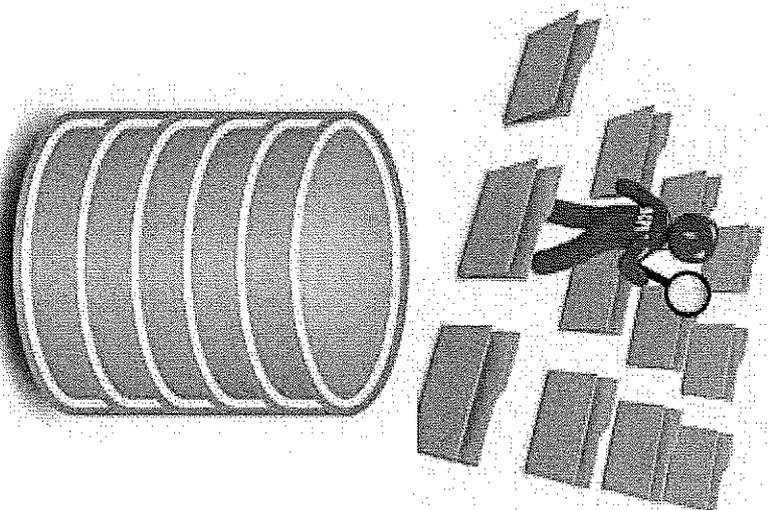
Social Security

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

Assets registration

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

South African National Centralised Database (citizens and companies)



PHOENIX ECOSYSTEM

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.)

BACK UP

Annexure "ST02"



JK
MA

TM's agenda: Do you agree with the key battles for 2014-2015-2016?

the medium to long-term?

FOR DISCUSSION

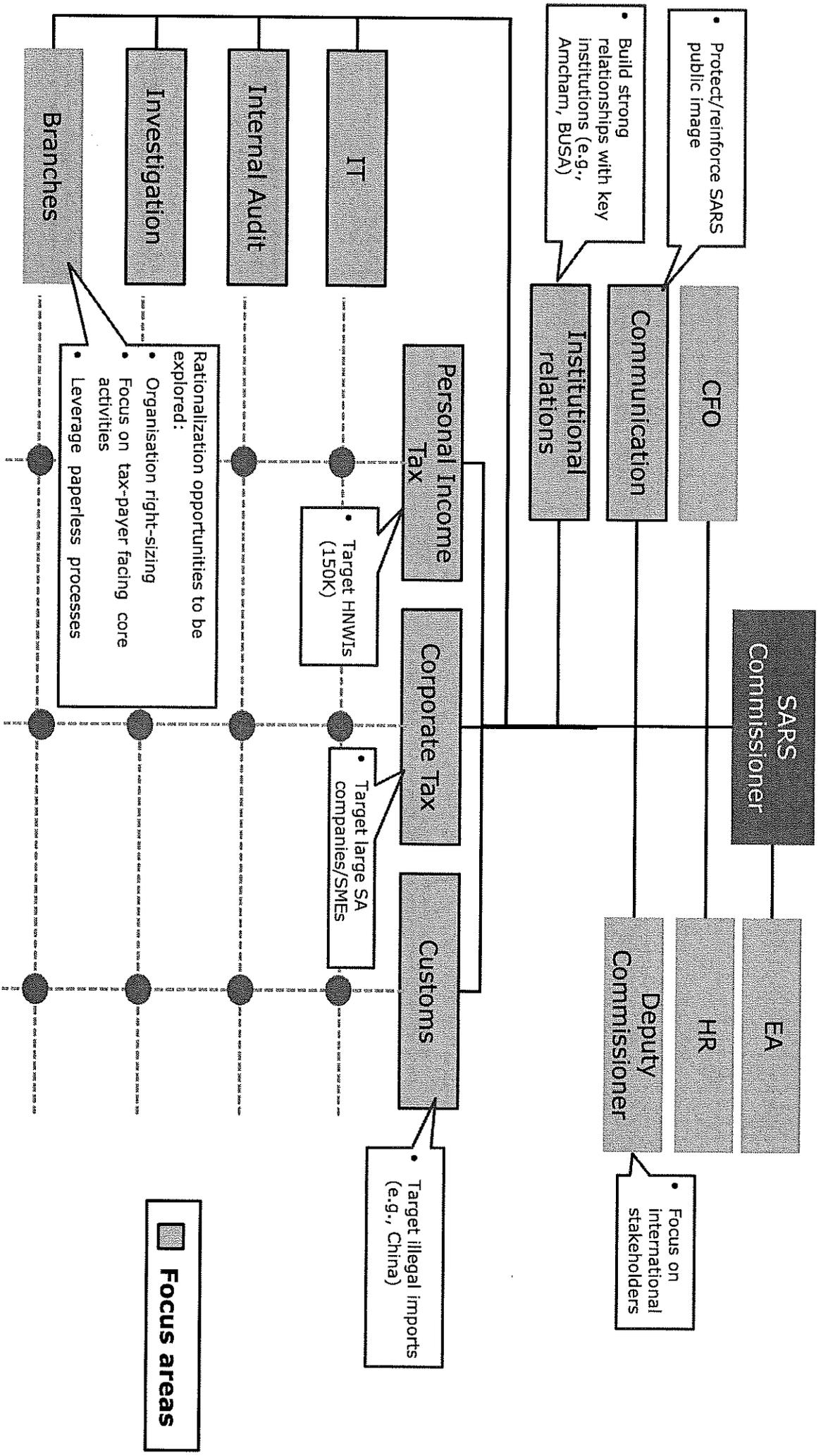
	2014	2015	2016
SARS 2.0 program	• Master plan	↓	
	• Monitor program execution	↓	↓
Customs turnaround	• Improve customs collection to global standards levels	↓	↓
	• Individual tax payers (HNW)	↓	↓
Collection full potential	• Corporate tax payers (VAT and income tax)	↓	↓
	• Review organization to drive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

First 100 days

Potential SARS organisation chart and focus areas

Annexure "ST03"

NON-EXHAUSTIVE PRELIMINARY



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