Sound public policy and state action is imperative for South Africa to expand its economy to grow sustainably and competitively, raise skills levels and continue spending on crucial social and economic investment programmes, aimed at improving the standard of living of all citizens. The provision of revenue to fund such initiatives is largely dependent on an efficient tax revenue institution which can generate state revenue through taxation, while it does not raise the overall tax burden on income taxpayers. This article reviews the efficacy of personal income tax administrative reforms within the context of tax administration in South Africa, as a strategy to enhance tax revenue collection by South African Revenue Services (SARS). Legislative prescriptions and the policy mandate of SARS, which give effect to these reforms are also reviewed. Furthermore, the challenges impeding expected outcomes are highlighted. The article suggests that a critique of such challenges can promote effective and efficient personal income tax administration, which will ultimately benefit taxpayers and government in South Africa.

Key words: Personal income tax, administrative reforms, South African revenue services.

INTRODUCTION

Economic development and public service delivery are not only dependent on public policy and state action, but also on social cohesion and responsible citizenship, based on long-term inclusive development and broad based development in the light of the global recession. Extraordinary fiscal and monetary policy interventions are expected to contribute to the growth of the world economy, largely driven by China’s industrial expansion, urbanisation and modernisation.

In Africa, this necessitates the need to expand the capacity of economies to grow sustainably and competitively, raise skills levels, invest in infrastructure and remove obstacles to growth (Gordhan, 2010). In this regard, South Africa needs more tax revenue. While the preferred method of achieving higher revenue is through tax bracket broadening, closing loopholes and improving tax compliance, it is not viable to raise the overall tax burden in view of the state of both the economy and the financial stress of households (Gordhan, 2010).

While addressing the current challenges, it is imperative to lay a foundation for future growth, development and prosperity. Efficiency and productivity therefore, become core features of government, underpinned by values, ethics and conduct that will reinforce government's position in society with a credible tax administration that is fair and transparent (South African Revenue Services, 2009b).

Despite the overarching challenges, performance achievement has enabled the South African government to significantly expand and sustain spending on crucial social investment programmes for improved standard of living of all citizens, while at the same time, provide relief to taxpayers.

Socioeconomic Rationale for Personal Income Tax Administrative Reforms

The South African revenue service (SARS) is a public sector enterprise falling under the Public Management Act
No. 1 of 1999 and the South African Revenue Service Amendment Act No. 46 of 2002. Since SARS is expected to be efficient and effective in revenue administration, it is uniquely placed to supply enough revenue for public services, ensure redistribution of wealth and create economic stability (Gildenhuys, 2008).

In providing the revenue to fund all government initiatives, SARS plays a vital enabling role for government service delivery that enhances economic growth and social development, while supporting government’s integration into the global economy that benefits all citizens. This necessitates ensuring good governance throughout the organisation and observing the principles of relevant good practice within the parameters of public sector legislation. Generally, reforms through modernisation programmes have contributed more to the spread of the tax burden, and have improved the ability to detect and deter non-compliance, thereby promoting fiscal rewards and improving accuracy of processing and service to taxpayers (Ramalho, 2007).

The basic goal of any tax system includes raising revenue, equity and freedom from economic burden. The South African income tax system is a combination of a progressive and proportional rate. In an increasingly global economy, it is also important that a tax system is competitive, while it does not contribute to the unfavourable tax consequences like discouraging tax compliance. Tax administration in South Africa functions in a complex and fast changing environment. A new range of factors, arising from the local, regional and international contexts, create an impact on the capacity of government to collect taxes and develop its economy. Similarly, globalisation, trade liberalization, the establishment of regional economic and political blocks, the rapid movement of capital across national boundaries, innovations in telecommunications and technology in general, create an impact on governments ability to generate revenue (Gelb et al., 2007). However, at the same time, there is a greater need to raise revenue for public spending to not only cushion the financial difficulties experienced by the public, but also to sustain economic growth.

Therefore, a compliance model, which is imperative for strategic direction, should drive service delivery and efficiency in the quest for cost efficiency by enhancing enforcement, improving communication initiatives to broaden the tax base and entrenching values in taxpayers which is the cornerstone of any fair tax system (South African Revenue Services, 2009b). Further, a system of internal control is necessary to provide cost-effective assurance that resources are efficiently managed. Appropriate internal controls are achieved by a well designed risk management process and enhanced processes in planning and analysis, thereby resulting in the allocation and reprioritization of financial resources to facilitate the delivery of strategic and business plans.

It becomes clear that any attempt to increase the revenue collected at a rate faster than economic growth necessitates an awareness of the environment in which tax administration operates, an understanding of the changes in its environment and being responsive to such changes (Gelb et al., 2007).

In South Africa, revenue legislation has become an increasing mix of fiscal, social and economic policy objectives (Orrow, 2003). Government plays an increasingly important role in servicing the economic and social well being of its citizens. In this regard, tax revenue enables government to pursue its economic and social agendas, while providing service delivery at cost (Gildenhuys and Knipe, 2009). The achievement of such agendas has to be supported by a cost-efficient, consistent and reliable service to all taxpayers. This is especially critical during times when taxpayers are enduring financial constraints due to economic conditions and when reduced growth in revenue yield requires the public sector, as a whole, to review the use of available resources to optimise service delivery. Since personal income tax is government’s main source of income and is levied in terms of the Income Tax Act of 1962 in South Africa, it is imperative to sustain revenue collection.

A commitment to a sound income tax system contributes toward well informed policy formulation and effective fiscal and economic policy decisions and also facilitates a more effective response to changing economic conditions, thereby helping to reduce the incidence and severity of economic and financial crises (National Treasury, 2009). However, the global economic crisis has shown that old patterns of growth, income distribution, regulation and governance do not meet the needs of the world economy. These considerations are informing policy development and new approaches in South Africa. High levels of poverty and unemployment threw into sharp focus the need to transform the economy. It can be argued that a more inclusive economic trajectory is characterised by increased growth and employment, while reducing poverty should be a long term consideration (Harberger, 1989). Government has maintained support for economic recovery and improved state performance within a firm fiscal environment. However, improvement in the quality and coverage of service delivery by government requires sustainable funding, since the ability of government to provide goods and services is limited by the limited ability of taxpayers to pay tax (Cloete, 2008). As a result, there is a discernable commitment by the government to enhance growth in revenue targets which exceed projected economic growth. This will undoubtedly contribute to redistribution of income, expansion of social infrastructure and broadening opportunities for citizens.

SARS has been confronted with significant challenges in its ability to sustain performance. Challenges include the imperative to sustain revenue collection, manage risk and non-compliance, and increase the volume of transactions and pressure on manual processes. Therefore, it
becomes imperative for core tax systems to not only be modernized, but also to be supported by systems such as accounts management and electronic pay systems. Improving compliance and enforcement necessitates a deeper understanding of taxpayer behaviours and needs. This contributes to informed engagement with taxpayers, better service delivery and compliance management. Research into the behaviour and needs of each taxpayer segment informs operating models with a view to developing differentiated responses for each customer segment (Gelb et al., 2007). Such a research is imperative for developing more focused enforcement interventions to address compliance risk appropriately. Modernisation efforts will undoubtedly position South Africa to operate at levels comparable to the best revenue agencies globally, while positively impacting on tax administration and taxpayers.

South Africa, as part of the world economy, is compelled to compete on the global platform. This necessitates an expansion of its economy, characterized by increased competitiveness, foreign investment, skilled labour and broadened opportunities for citizens. Apart from the increased government spending to support economic recovery and improved service delivery in South Africa, the 2010 budget has provided R6.5 billion to individuals for personal income tax relief (South African Revenue Services, 2010). Tax policy remains supportive of the overall economic recovery by providing relief to individuals to compensate for inflation, while reporting higher revenue collection.

RESPONSES TO A CLIMATE OF NON-COMPLIANCE IN SOUTH AFRICA

While non-compliance among taxpayers always exists, in times of economic hardships, the incidence of non compliance undoubtedly increases because of large losses in asset prices and investment returns. Therefore, the core and unwavering strategic intent of any revenue administration is driving compliance.

Non compliant behaviour is reflected in the declining revenue performance for the government. In June 2009, revenue decreased by R10 million (South African Revenue Services, 2009). A major contributor has been tax evasion and impermissible tax avoidance which is often regarded as "misuse or abuse of the law" by exploiting structural loopholes in the law to achieve tax outcomes that are not intended by government or manipulating the law by focusing on the form and legal effect rather than the substance (South African Revenue Services, 2006). Increasing globalisation, rapid advances in computer and telecommunications technology, changing attitudes and market forces have contributed to this growing worldwide problem. In South Africa, the problem was exacerbated by changes to the income tax system which included complex new provisions, thereby creating new opportunities for long term damage to the tax system and economy. Some of the effects include a corrosive effect on taxpayer compliance, the uneconomic allocation of resources, an unfair redistribution of the tax burden, and a weakening ability of the government and national treasury to set and implement economic policies. SARS is therefore, compelled to reprioritise its objectives to ensure that government service delivery is not compromised.

In response to the challenge of non-compliance, SARS has adopted a human behavioural compliance model based on education, enforcement and service (South African Revenue Services, 2009b). This compliance model is based on the premise that human behaviour is motivated by the desire for reward and the desire to avoid punishment. Therefore, it can be argued that those who are compliant should receive positive reinforcement for excellent service, while those who are non-compliant should be deterred by the threat of detection and punishment. Education can be considered a crucial instrument for providing knowledge about one’s obligations and responsibilities, as well as the consequences of one’s behaviour (South African Revenue Services, 2006b). In this respect, the global trend of dividing taxpayers into segments and delivering education, services and enforcement activities, tailored to these segments, has been adopted. The research globally supports the view that such a segmented approach increases compliance levels and reduces costs (South African Revenue Services, 2009b). SARS has developed ten holistic segmentation designs. The redesigning of tax registers and information systems became necessary as a result of the differentiated service offerings based on the needs of taxpayers. This enabled SARS to see the perspective of the taxpayer, rather than being limited by a fractured view of the taxpayer that emerged from viewing taxpayers through disparate tax lenses. The model has been one of the contributing factors to the revenue collected by SARS growing faster than the economy. From 2002/2003 to 2007/2008, SARS increased collections from 23.6 to 27.7% of GDP, whilst tax rates were reduced (South African Revenue Services, 2009b). In 2009, SARS had a collection outcome of 99.59%. This is a testimony of SARS succeeding in increasing the compliance culture, thereby increasing revenue collection despite the financial pressure of the global crisis. Although, tax collections dropped by 0.41% short of target, there was still revenue growth of 9.1% when compared to 2008/2009. Enforcement has been embarked upon in the interest of ensuring the equitable treatment of all who pay tax, while avoiding overburdening those who willingly pay tax. In addition, the widely published external fraud hotline has significantly increased anonymous reports on tax evasion, while the special investigations unit, which is a specialized division operating proactively and reactively, conducts in-depth investigations into evasion. Additional
vigilance for non-compliance and measures to better detect and deter this behaviour have contributed to the number of individuals registered for income tax growing from 4.5 million in 2005 to 5.5 million in 2008 (National Treasury, 2009).

Ultimately, compliance is promoted and ensured through providing service of high quality to taxpayers, engagement with the emerging tax base and through targeted enforcement actions. It is anticipated that by eventually enhancing voluntary compliance, the burden will be reduced on SARS in terms of the effort required to collect revenue, while a consistent and sustainable revenue stream for service delivery by the government will be ensured.

TAX RELIEF MEASURES

While 98% of the budget revenue is accounted for by tax revenue, significant personal income tax relief has been accrued to individuals due to changes in tax policy between 2003/2004 and 2006/2007. Over the past ten years, government has adjusted income tax brackets to take into account the effects of inflation on income tax paid by individuals. Changes included adjustments to personal income tax brackets, primary and secondary rebate thresholds and a marginal reduction in the headline corporate income tax rate. More recently, individual taxpayers earning less than R60 000 are no longer subjected to standard income tax on employees (SITE), while income tax is levied on the resident’s worldwide income with appropriate relief to avoid double taxation. The SITE system was introduced in the late 1980s to limit the number of personal income tax returns filed annually, thereby freeing resources to deal with more complicated returns. Administrative modernisation and the fact that the personal income tax threshold for taxpayers, younger than 65 years, is approaching the SITE ceiling of R60000, have eliminated the need for SITE. By adjusting thresholds, real relief has been provided to taxpayers, thereby increasing disposable income and supporting economic growth (National Treasury, 2009).

The effectiveness of tax administration is mainly supported by measures to improve the fairness of the tax system by eliminating various tax loopholes like aggressive tax avoidance and enhanced efforts at ensuring tax compliance. A case in point is the personal income tax relief provided over the last five years by significantly adjusting the income tax brackets, while leaving the marginal tax rates unchanged (National Treasury, 2009). Such changes resulted in tax revenue collection exceeding budget estimates between 2004/2005 and 2007/2008 (National Treasury, 2009). Based on a progressive income tax system, the 2010 budget provides most of the relief to taxpayers in lower income brackets. Taxpayers with an annual taxable income below R150 000 will receive 24.6% of tax relief, those with an annual taxable income between R150 001 and R250 000 will receive 28.5%, those with an annual taxable income between R250 001 and R500 000 will receive 26.2% and those with an annual taxable income above R500 001 will receive 20.4%, thereby resulting in reduced tax liability for taxpayers at all income levels.

However, SARS struggled to meet its revenue collection target in 2008/2009 due to the severe global economic crisis and instability in financial markets which significantly contracted the South African economy. Despite a decline in tax revenue, South Africa’s low debt starting point enabled government to respond to the effects of the downturn by significantly expanding borrowing and ensuring that spending on economic and social services is maintained. Further, there was no need to cut spending or raise tax rates in short term at the expense of social development and economic growth. In line with high-growth developing economies, South Africa is advantageously placed to trade and invest due to a low tax burden, low interest rates and decreased financial risks. Further, the number of registered individual taxpayers increased from 3.8 million in 2003/2004 to over 5.5 million taxpayers in 2008/2009. Personal income tax as a percentage of GDP increased from 7.8 to 8.4% in 2008/2009. This can be attributed to greater co-operation from those who are economically active in declaring and paying revenues that are legally due, together with harder and smarter work on the part of SARS staff in processing the increasing volumes of tax returns. The increase in revenue collected was achieved with a growth of about 7% in staff and with a decrease of about 20% in the cost of the collection ratio between 2005/2006 and 2007/2008. This implies that resources have been leveraged in order to make gains (South African Revenue Services, 2009). Some of the gains include a reduced compliance burden for taxpayers, such as: there is no longer a need for supporting documentation to be submitted, eFiling, rapid assessments and, where applicable, refunds, as well as massive savings on paper and eventually less carbon dioxide in the atmosphere (South African Revenue Services, 2009: 4).

However, personal income tax was R3.8 million below the revised 2009 Budget estimate, which was the most significant component of the overall deficit (South African Revenue Services, 2009c). This was partly the result of adverse patterns in employment, higher than expected refunds and increased corporate income tax. The main categories of tax relief are subsequently shown.

Income tax brackets

Taxpayers have been compensated for inflation or fiscal drag by increasing personal income tax brackets. Personal income tax brackets increased from R255 001 in 2003/2004 to R490 001 in 2008/2009, which is a cumulative increase of 92.2% (National Treasury, 2009).
During this period, the bottom income tax bracket increased by 74.3%. The primary rebate increased by 53.3%, resulting to an increase in the income tax threshold (level of annual income is below the level where no income tax is payable) for individuals younger than 65 years from R30 000 to R46 000 per year. For individuals aged 65 years and above, the income tax threshold increased by 56.7% from R47 222 to R74 000 per year (National Treasury, 2009). Such changes account for R53.3 million being granted in personal income tax relief across the board from 2003/2004 to 2008/2009. It is therefore quite evident that the benefits of tax reforms have become tangible for taxpayers in the form of personal income tax relief that reduced the relative contribution of personal income tax from 42.9% of total tax revenue in 1999/2000 to 31.4% in 2008/2009.

Over the past six years, more than R68.6 billion in tax relief has been granted to the South African public (South African Revenue Services, 2009c). Relief was provided in the form of increases in both primary and secondary rebates and upward adjustments across income brackets. A spin-off from decreased individual tax burden has been improved by disposable income for taxpayers.

Allowances and fringe benefits

With 49.5% of the total number of individual taxpayers receiving tax allowances, between 2005 and 2007, tax allowances increased by 15.7%. Travel allowances remained the largest of all the allowances for individuals. However, from 2006, changes have been introduced to curb the granting of a travel allowance, which would further decrease significantly with the business kilometer allowance being scrapped in 2010/2011 (National Treasury, 2009).

The number of taxpayers receiving fringe benefits increased from 1.2 million in 2005 to 1.5 million in 2006. The medical scheme contributions paid on behalf of employees remained the largest of the fringe benefits. In 2007, 56.5% of taxpayers who qualified for any form of fringe benefit received a medical fringe benefit (National Treasury, 2009). The monetary value of this benefit doubled to almost R5.5 million in 2007. To support further broadening of access to medical scheme membership, the monthly monetary caps for deductible medical scheme contributions have increased in 2010.

In respect of fringe benefits for motor vehicles, there has been a decline in the number of taxpayers who benefitted from the use of a company motor vehicle due to stricter rules in this category of fringe benefits. Company car fringe benefits have been tightened by increasing the deemed monthly taxable values. This amendment is intended to limit the potential abuse of the fringe benefit.

Exemptions from income tax apply to the following cases (South African Revenue Services, 2008):

(i) The capital content of a purchased annuity.
(ii) War veteran’s pensions.
(iii) Pensions paid to persons who contracted diseases while working in mining operations.
(iv) Disability pensions.
(v) Compensation paid in terms of the Workmen’s Compensation Act, 1941 (Act No. 30 of 1941) or the Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 of 1993).
(vi) Pension paid in respect of death or disablement caused by occupational injury or disease before 1994.
(vii) Amount received by a resident under the social security system from another country.
(viii) Pension received by a resident from a source outside South Africa because of past employment outside South Africa.
(ix) Equity shares acquired under a qualifying share plan and not disposed of within 5 years of it being granted.
(x) Relocation benefits enjoyed by an employee as a result of expenditure borne by the employer.

Allowable deductions are granted in the following cases, but subject to stipulations (South African Revenue Services, 2008):

(a) Part of a tax payers’ home is regularly and exclusively used for purposes of trade and specifically equipped for purposes of trade.
(b) Pension fund contributions.
(c) Donations to approved bodies.
(d) Medical expenses and physical disability expenses.
(e) Wear and tear of non-permanent assets used for purposes of trade.
(f) Premiums paid in respect of an insurance policy for loss of income.
(g) Bad and doubtful debts incurred in respect of employment.

The aforementioned benefits or relief measures were applied under a residence based income tax system, where residents in South Africa were taxed on their worldwide taxable income, irrespective of where the income was earned.

PERSONAL INCOME TAX ADMINISTRATIVE REFORMS

Ensuring that everybody pays their fair share of taxes is a critical means of keeping the overall level of tax rates moderately. Generally, tax proposals include initiatives to improve tax compliance, broaden the tax base and reduce tax avoidance. The following measures have been implemented to enhance personal income tax administration.
Improved governance

In terms of the South African Revenue Service Act, 1997 (Act No. 34 of 1997), SARS was established as an organ of the state outside the public service, but within the broader public administration (South African Revenue Services, 1999). SARS public functions include collecting revenue in terms of national and other legislation on revenue collection assigned to SARS and advising the Minister of Finance on all matters concerning revenue. All revenue collected, funds and transactions of SARS are governed by the Exchequer Act of 1975 (Act No. 66 of 1975). Although SARS has control over its own resources, the organisation is still obligated to conform to the Constitutional principles laid down for the public service. These include (Constitution of South Africa, 1996):

- High standards of professional ethics.
- Equitable, impartial and unbiased supply of services.
- Effective and efficient use of resources.
- Responsiveness to public needs.
- Encouragement of public participation in policy making.
- Accountability, transparency and orientation toward development.

Further, SARS accounts and financial records have to be audited by the Auditor-General. Annual reports of its activities during the financial year must be submitted to the Minister and National Assembly. Such obligations are entrenched in the SARS Governance Framework which serves as a focal point for a corporate governance system to ensure good governance by outlining responsibility within the different SARS structures.

In view of such imperatives facing SARS, it has recognised the need to continually review and strengthen SARS governance framework, leadership and management processes. This further necessitates the entrenchment of an internal value system to enhance good governance, while building co-operative governance with other public and private stakeholders to enhance tax administration.

A culture of integrity is promoted through the Integrity Promotion Framework and Plan (South African Revenue Services, 2009a). Information security has been improved through the stricter management of user profiles and passwords on core systems and the introduction of additional segregation of duties. Further, the Generally Recognized Accounting Principles (GRAP) and an early warning system for Governance, Risk and Compliance (GRC) have been launched. These are pivotal for good governance and are driven by statutory imperatives. By endorsing the principle that the entire business and its constituent parts are accountable to GRC, GRC functions are being incrementally integrated in planning and budgeting processes (South African Revenue Services, 2009c). By adopting a risk management approach rather than a “gate keeping approach”, controls ensure that standard processes are followed and they help to eliminate opportunities for circumventing prescribed procedures and set standards (South African Revenue Services, 2009b).

Further, through the clarification of accountability, authority and responsibility, transparency of operations and services is achieved. Improving governance contributes to optimal throughput and consistency in processes, supporting external benefits for SARS reputation, by demonstrating that SARS delivers transparently on its mandate.

Improved service

SARS has acknowledged that a holistic service strategy is required, based on an understanding of the requirements of all taxpayers (South African Revenue Service, 2009a: 8). By creating the capacity and capability to resolve queries quickly, via improving contact centre facilities and enhancing the skill levels of staff in front offices, SARS expects to enhance service offerings and update service standards. In this respect, a revised service charter including aspects like increased use of electronic channels and additional physical service points have been implemented to promote timely revenue collection and positively improve taxpayer behaviour. The allowance for extended submission periods for electronic submissions, the use of a scanning channel and modernisation systems which facilitate swifter processing resulted in income tax returns being processed within 34 days, thereby exceeding targets by 9% (South African Revenue Services, 2009c). The automation of processes and improved controls has reduced turnaround time for taxpayers who submit revised declarations and request corrections. However, 12% of the assessments have been revised against a target of 8% (South African Revenue Services, 2009c). The percentage of eFiled returns increased from 8 to 44% of total returns. This is indicative of significant improvements in taxpayer satisfaction according to an independent survey by Tax Season Research (South African Revenue Services, 2009c).

Voluntary disclosure

To encourage taxpayers to come forward and avoid the future imposition of interest, a voluntary disclosure programme allows taxpayers to disclose their defaults and regularize their tax affairs. A voluntary taxpayer will be granted relief provided the disclosure is complete. SARS is not aware of the default, otherwise, a penalty or additional tax would have been imposed by it in the normal course of business (South African Revenue Services, 2010). In view of the voluntary disclosure programme, government proposes to do away with the discretion of SARS to waive interest charged on unpaid
Strengthening compliance

Services, 2009a). It has also become necessary to simplify registration and continuing working on compliance risk rules, improving payment processing and early response to non-compliance (South African Revenue Services, 2009a). A revenue management programme is envisaged to provide better revenue performance tracking, trend analysis and revenue forecasting through collation, integration and analysis of tax data trends.

Improved electronic payment systems are expected to provide simplified electronic channels to taxpayers, thereby enabling near real-time tracking of revenue payments and to support SARS securing the revenue, together with improved debt management. Although SARS expenditure budget increased substantially in 1999 when the transformation process began with a commitment to building revenue collection capacity, there has also been a commensurate increase in revenue collection. However, the implementation of robust processes to collect revenue in response to market conditions resulted in a slight increased collection cost of 1.03 cents per rand generated, excluding the capital expenditure in 2008/2009 compared with a cost of 0.98 cents in 2001/2002 (South African Revenue Services, 2009c).

Securing revenue

In view of the challenges faced by SARS, with respect to achieving revenue targets within a tougher economic climate, a strengthened focus is required for estimating and collecting revenue. This necessitates an in-depth analysis of the revenue potential of the economy by tax type, improving revenue analysis and forecasting capability, accurate revenue accounting, improving payment processing and early response to non-compliance (South African Revenue Services, 2009a). A revenue management programme is envisaged to provide better revenue performance tracking, trend analysis and revenue forecasting through collation, integration and analysis of tax data trends.

Improved operations arrangement and productivity

In view of the constrained resources, better management of operations is needed, as well as, improving productivity through streamlined processes. The 2007/2008 period marked the first year for the implementation of the modernisation agenda, which aimed at transforming the income tax process from a complex paper-based and labour-intensive process to a simplified automated process. Some of the strategies include developing audit and case management tools to foster efficiency gains, promoting the use of electronic channels to support rapid processing and reducing capturing errors in processing (South African Revenue Services, 2009a). By implementing the new operating model on time, within budget and without causing any major operational disruption, SARS has been able to increase the number of registered users from about 500 000 in 2005/2006 to over five million at the end of the 2009 financial year, resulting in a 500% growth in the number of returns submitted (South African Revenue Services, 2009c).

In respect of enhanced performance management and organisational reporting, a revenue reporting system and standardised performance reports have been developed. In consolidating a new operating model, SARS has aligned functions and managers at an enterprise level to ensure accountability, while eliminating duplication of functions (South African Revenue Services, 2009b). This is facilitated by dividing the organisation into functions which are of an advisory strategic nature like revenue management, functions which are enabling, functions which offer support service delivery like taxpayer segment research, and functions that are involved in service delivery like education and enforcement (South African Revenue Services, 2009c).

Improved quality of data

Although, modern systems are continuously being introduced to supplement the legacy systems for capturing and maintaining information on taxpayers, the quality of data constrains SARS ability to provide world class service and manage compliance risk effectively. Therefore, SARS has started cleaning legacy data,
improving systems for managing data through in-built quality measures to ensure consistency and completeness, and have developed an account management system that promotes the integrity of account information (South African Revenue Services, 2009a). By stabilizing SARS operating systems, taxpayers can be assured of better service, queries can be efficiently processed and the turnaround time for processing all transactions will be shortened.

Development of human capability

SARS recognises the need to develop employee technical and leadership ability to sustain revenue collection and improve compliance levels. Human resource policies and systems have given SARS the autonomy since 1999 to exercise administrative changes to recruit and retain skilled staff. Sustaining peak performance requires employees who are continuously engaged in skills and competencies development, in line with the capability needs of SARS.

Changes in operating and leadership models, through the “goodness of fit” initiative, have been part of SARS commitment to excellence in serving the taxpayer. To enhance the value of these changes, human capability development and individual lifelong learning strategies were developed. A human capital planning system was implemented to identify current and future skills requirements, develop skills, retain skills and support redeployment within the institution (South African Revenue Services, 2009a). The development of an ‘enterprise capability management system’ aligns SARS capacity plan with its changing needs. This will determine specialist training needs which are addressed by SARS academy.

The learning and development strategy focuses on developing human capital for enhanced competency that delivers on SARS priorities like securing revenue, strengthening compliance and ensuring improved service. Talent and career management encompasses identifying and developing critical and core leadership roles to ensure organisational sustainability, while 95% of employees are positioned on the ‘career model’ for planned career development tracks (South African Revenue Services, 2009a).

The leadership competency framework seeks to improve competencies in transformation, insight, empowering delivery and higher purpose and integrity among team leaders, middle managers and senior managers. Progress in leadership development at various levels within the organisation is monitored against the leadership effectiveness index, while success in attracting, retaining and developing talent in strategically critical areas is monitored against the employee value proposition plan (South African Revenue Services, 2009a).

The employee engagement programme endeavours to transform work culture by embedding SARS values to support business enhancing behaviour. Integrated programmes of action and intervention resulted in a marked improvement in the employee management index. Enhanced recognition of exceptional behaviour aligned to SARS values has been implemented through the Amakhezi Formal Recognition Programme (South African Revenue Services, 2009a). SARS strategies on developing human capability foster engaged employees, better organisational service toward taxpayers and gains in organisational efficiency and innovation.

Call centers / queries

SARS aims to decrease taxpayer visits by promoting the use of call centres. SARS call centres experienced a 20% increase in the number of calls answered. This was 9% below the anticipated volume (South African Revenue Services, 2009c). With respect to taxpayers visiting branches, there has been a high level of first time contact/query resolution (96.3%) and adherence to the ten minute average service time was recorded (South African Revenue Services, 2009c). SARS performance, regarding queries handled, was below 30%, which was the target for 2008/2009. According to international standards, service level is 80% of calls answered within 20 s. Currently, SARS performance is 48%, but there is contemplation in taking call centres to an 80% service level by modernising its technology and restructuring the call centres (South African Revenue Services, 2009a).

Activity based management

Activity based management enables management to make both strategic and operational decisions linked to process optimisation, automation, benchmarking performance and transfer of best operating practice within the organisation (South African Revenue Services, 2009c). Currently, process based performance metrics are integrated with the cost of achieving that performance. Such integration will help in management planning and business processes, improve management information and integrate data sets of human resources, financial and transactional processing (South African Revenue Services, 2009c).

Risk management

Risk management in personal income tax has reached a new state of maturity and it consists of the following components (South African Revenue Service, 2009c):

(a) Pre-population of more than 97% of tax returns in the
first year of operation reduced the number of errors introduced by manual capture.
(b) Declaration variance validation identifies where taxpayer information on the return differs materially from the third party data. The error rate on declaration variance has decreased to less than 3.5% of tax returns in the 2008/2009 financial year.
(c) The automated risk engine screens the return to identify the anomalous information contained in the investigation.

To achieve a dynamic management capacity, the following four-step approach was developed (South African Revenue Services, 2009c):

a. Re-engineering current processes to increase capacity by reducing waste and improving people’s management.
b. Prioritising cases to optimise the use of source enforcement resources, ensuring that high-risk and high-value cases are first handled.
c. Creating new operational capacity to maximise coverage of low-value, low-risk cases through scripting, systematisation and re-allocation of staff to higher value-added work with the introduction of automation.
d. Embedding continuous learning and feedback through active recording and analysis of findings and promoting people’s development.

Further, eCase management has been integrated with the risk engine. The aim is to re-engineer the audit process, end to end, in both enforcement and operations business areas and to provide a workflow solution that assists auditors to plan, execute and finalise cases (South African Revenue Services 2009c).

Communication

The communication division within SARS plays a key role in the development of SARS corporate identity. This includes ensuring that all SARS forms are standardised according to corporate standards, increasing SARS visibility in both the electronic and print media, improving SARS media profile, ensuring positive media coverage of SARS successes and modernisation programmes, and upgrading SARS online services to facilitate user friendliness and update existing information. The planning of campaigns like the “transformation launch” and “tax base broadening” have positively made an impact on the image of SARS as an effective and efficient service provider.

The success of this approach is evident in the operationalisation of the income tax model, training of employees on software use and integration of the ABM software into the SARS IT environment to assist with business modelling.

The aforementioned measures have shown evidence of improved tax administration and tax revenue.

A MEASUREMENT APPROACH FOR PERFORMANCE

SARS has recognised that there is a need to set and achieve clear outcomes associated with its strategic objectives. SARS has aligned strategic priorities to strategic objectives, while focusing on activities needed to adapt to the changing environment. In attempting to closely link strategic priorities to outcomes, SARS has adopted a “1:1” mapping of outcomes to strategic priorities, rather than a dual mapping response to strategic objectives and priorities (South African Revenue Services, 2009b). Table 1 illustrates how SARS tracks and measures its performance (South African Revenue Service, 2009b).

The measurement approach ensures alignment and linkages between activities in individual work plans, divisional plans and enterprise business plans to foster consistency of performance reporting at all levels within the organisation. Performance will therefore be measured through a combination of inputs, outputs and outcomes using baseline measures and outcome measurements.

Although, SARS has adopted the measurement approach, it has recognised that the following contextual factors and challenges still require attention (South African Revenue Services, 2009):

1. Revenue presents a significant challenge as a result of the global crisis. This necessitates a renewed drive for both compliance to be promoted and non-compliant behaviour to be deterred by directing resources toward areas of work that yield higher revenue and more substantial improvements to the compliance climate.
2. The need to safeguard hard-earned reputation, balance the need to encourage compliant behaviour with an understanding of the difficulties that taxpayers experience and sensitivity toward the taxpayer base, with regard to the pace of modernisation creating an impact on new obligations.
3. Continued automation of SARS processes to facilitate redeployment of human resources for work areas requiring specialist attention like responding more rapidly to changes in taxpayer behaviour and their service needs.
4. Continued expansion and improvement in the quality of information on taxpayers through the registration and taxpayer account management systems.
5. Expansion in the service offerings and channels to taxpayers to improve the quality of service and access experienced through electronic and physical channels.
6. Continuous reduction in the compliance burden by lowering costs, time needed and complexity of the tasks required from taxpayers to fulfill their obligations.
7. Partnerships with government and tax intermediaries to facilitate the most effective use of available resources.
8. Development of people, leadership and workplace culture to enable increasing pressures on the
9. Continuous improvement in SARS governance to ensure consistent delivery of value within the framework of the constitution, laws and regulations.
Table 1. Methods to track and measure performance.

<table>
<thead>
<tr>
<th>Strategic priority</th>
<th>Outcome measure</th>
<th>Target 2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drive revenue realisation to deliver now and ensure sustainability</td>
<td>% on time filing</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>% enforced compliance</td>
<td>Use reduction in outstanding returns as interim measures, while implementing expansion enforcement coverage</td>
</tr>
<tr>
<td></td>
<td>% reduction in outstanding returns</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Cash collected from debt book</td>
<td>R12.4b</td>
</tr>
<tr>
<td></td>
<td>% increase in productivity</td>
<td>Implement enterprise capability management system to enable productivity measurement</td>
</tr>
<tr>
<td></td>
<td>Revenue collected against staff cost incurred</td>
<td>133:1</td>
</tr>
<tr>
<td></td>
<td>% adherence to Service Charter Standards</td>
<td>Use call centre first call resolution and escalation resolution turnaround time as interim measures whilst implementing Service Charter Standards</td>
</tr>
<tr>
<td>Drive productivity, service quality and cost efficiency</td>
<td>% first contact resolution</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>Escalation turnaround times</td>
<td>15 days</td>
</tr>
<tr>
<td></td>
<td>Achievement on taxpayer satisfaction index</td>
<td>Implement taxpayer satisfaction index</td>
</tr>
<tr>
<td></td>
<td>Increase in ease and speed of declaration processing</td>
<td>Implement metric for measuring increase in ease and speed of declaration processing</td>
</tr>
<tr>
<td>Clarify operating model, streamline governance and strengthen leadership</td>
<td>% roles filled with “fit for purpose” employees against the design of the new structure</td>
<td>95% of leadership roles and 45% of identified impacted staff roles filled</td>
</tr>
<tr>
<td></td>
<td>% employees with development plans linked to career model placements</td>
<td>100% employees faced with 60% development plans in place</td>
</tr>
<tr>
<td></td>
<td>Increase in leadership effectiveness index</td>
<td>Implement leadership effectiveness index</td>
</tr>
<tr>
<td></td>
<td>Report issued by Auditor-General</td>
<td>Unqualified</td>
</tr>
<tr>
<td></td>
<td>Progress in the design of 10 segments</td>
<td>Design 5 segments</td>
</tr>
</tbody>
</table>

organisation to be managed with regard to work volumes and modernisation imperatives.

The aforementioned areas will define focused priorities in the future as long as gaps continue to be identified. It is envisaged that corporate strategic priorities will contribute to SARS strategic objectives by creating the following linkages (South African Revenue Services, 2009) (Table 2).

**Conclusion**

The focus of this article was to provide an overview of the personal income tax administrative reforms as a mechanism to enhance tax revenue collection by SARS. In this article, the literature suggests that tax reforms, in particular, personal income tax, have contributed to higher levels of tax revenue.

The revenue system of South Africa continues to provide a firm foundation for stronger future growth and capacity to sustain a strong fiscal position. This allows for continued public expenditure growth and infrastructure investment. Growth in the tax base improved levels of tax compliance, and efficient tax administration illustrated the commitment of SARS to provide sustainable revenue yield.

However, identified impediments to achieving desired levels of effective and efficient personal
Table 2. Linkage between strategic priorities and strategic plan (Link between SARS’ Strategic Priorities for 2009/2010 and SARS’ Strategic Plan for 2007/2008 to 2009/2010)

<table>
<thead>
<tr>
<th>Objective</th>
<th>Delivery priorities</th>
<th>Enabling and advisory priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Secure the revenue</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strengthen compliance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improve border protection and management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improve operations management and productivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ensure improved service</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fix the basic legacy systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improve Governance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Develop Human Capability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Proceed with Modernisations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pursue Segmentation Strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consolidate the new Operating Model</td>
</tr>
<tr>
<td>Optimising revenue and compliance</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Better taxpayer and trader experience</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Compliance and reducing risk</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Human capacity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade facilitation borderer security</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Governance</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>


administration require consideration, if government intends to maximize tax revenue collection as an important source of public funds. Since government has the capacity to respond to such impediments, it can significantly expand tax revenue in the long term.

REFERENCES


