

South African Revenue Service

CIGFARO 1-3 March



Thank you for walking this journey with us



Introduction

Purpose:

This presentation is merely to provide information in an easily understandable format and is intended to make the provisions of the legislation more accessible

Disclaimer:

The information therefore has no binding legal effect and the relevant legislation must be consulted in the event of any doubt as to the meaning or application of any provision.



SARS VISION & STRATEGIC INTENT

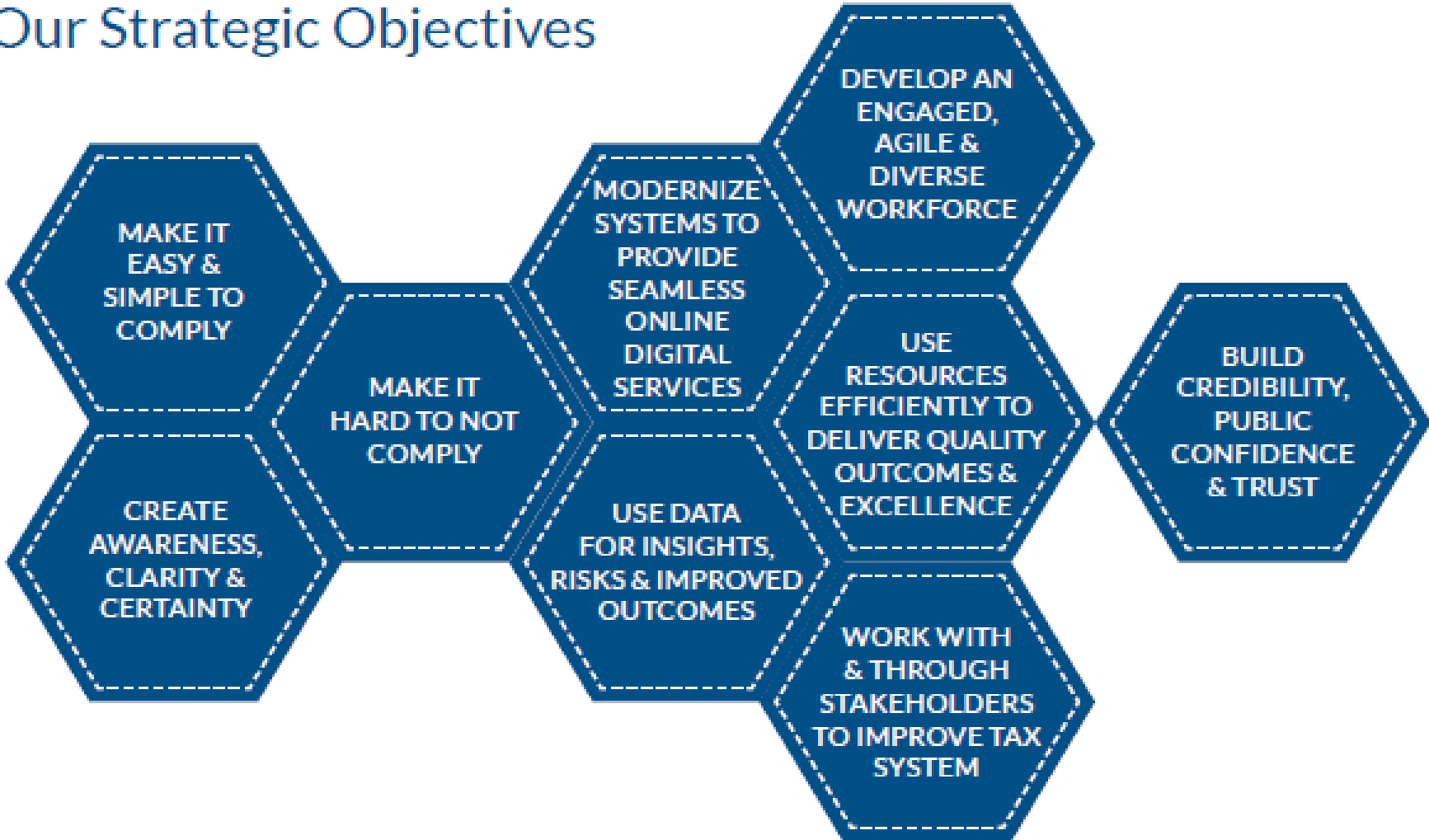
Vision

A smart, modern SARS with unquestionable integrity, trusted and admired

Strategic Intent

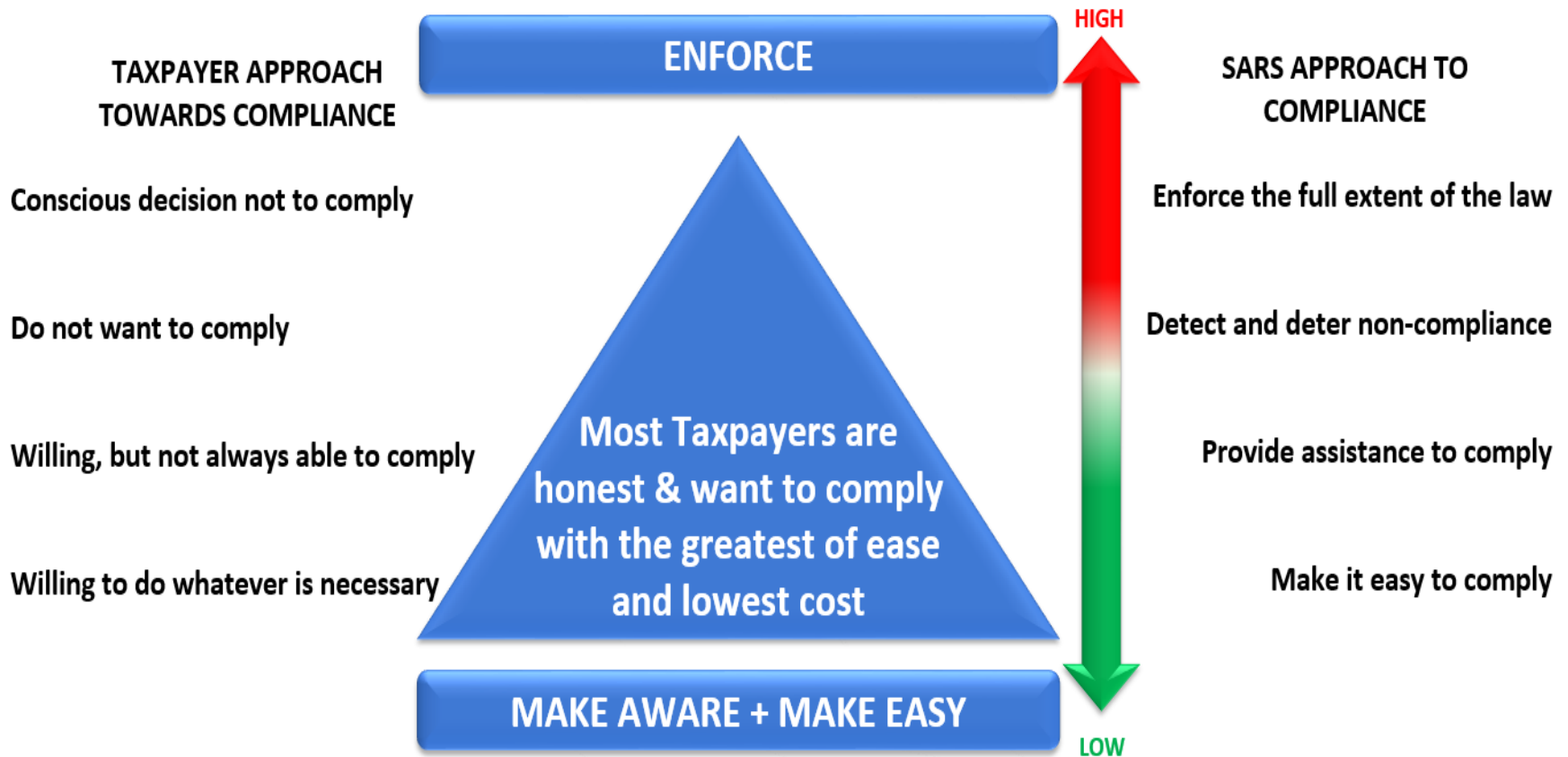
Develop a tax & customs system based on voluntary compliance

Our Strategic Objectives



SARS Compliance Model

The SARS Theory of Compliance in terms of which we believe that most taxpayers, and traders are honest and simply want to fulfil their obligation with the least amount of effort cost.



Partnerships with External stakeholders

- SARS need to collect R 1 692 trillion for the 2022/2023 tax year
- SARS partnered with External stakeholders:
- CoGTA and SALGA in the provinces through SARS's regional teams to explore measures to improve compliance.
- CIGFARO
- Exploring collaborations with NSG and LGSETA with regards to education and training.

Compliance Levels – All municipalities – Jan 2023

Region	No	PAYE Debt	VAT Debt	PAYE UP	VAT UP	PAYE OR	VAT OR	VAT Refunds	Total OR
EC	39	R 53 070 865	R 10 735 515	R 0.00	R 0.00	0	4	-R 285 913 604	4
FS	23	R 52 679 791	R 10 668 314	R 0.00	R 0.00	0	3	-R 44 895 892	3
Gauteng	11	R 24 873	R 2 954 448 165	R 0.00	R 0.00	0	0	-R 62 762 721	0
KZN	54	R 2 830 041	R 1 112 289	R 0.00	R 0.00	3	7	-R 185 182 800	10
Limpopo	27	R 2 723 349	R 16 632 764	R 0.00	R 0.00	1	0	-R 180 731 650	1
MPU	20	R 26 799 146	R 11 888 476	R 0.00	R 0.00	0	1	-R 265 456 881	1
NW	23	R 56 196 608	R 25 187 902	R 0.00	R 0.00	0	0	-R 38 402 962	0
NC	31	R 39 597 867	R 19 473 005	R 0.00	R 0.00	0	4	-R 10 484 282	4
WC	30	R 77 728	R 11 438	R 0.00	R 0.00	0	0	-R 97 867 303	0
Total	258	R 234 000 266	R 3 050 157 868	R 0.00	####	4	19	-R 1 171 698 095	23
Total Debt			R 3 284 158 134.64						
Total Unallocated				R 0.00					
Total OR						23			

Use of consultants

The purpose of this information session is to engage the external partners with regards to the use of the VAT Recovery Consultants.

Various legislation refers to the use of consultants

1. MFMA Circular 74, Municipal Budget Circular for the 2015/2016MTREF

The response received from municipalities on the VAT reconciliation questionnaire indicates that most municipalities use consultants to review and submit these returns to the South African Revenue Services (SARS). Municipalities are advised to refrain from the use of consultants and other service providers in completing or reviewing their VAT returns. It is the responsibility of the Chief Financial Officer to review the VAT returns.

Use of consultants

- A municipality or municipal entity may only appoint consultants if an assessment of the needs and requirements confirms that the affected municipality or municipal entity does not have the requisite skills or resources in its full -time employ to perform the function.
- Municipalities must ensure that the transfer of skills by consultants to the relevant officials of a municipality or municipal entity take place;

Problem encountered – Consultants submit the VAT 201 returns and next day request SARS to prioritize the VAT refund. Cannot happen – audit processes in place – Work for their own pocket

VAT consultants

Appointment of VAT recovery consultants – VAT contingency review payments

Consultant	Tax periods	Refund amounts due to Municipalities	Average at 15% payment to Consultant
1	2274	2 053 703 689	308 055 553
2	125	91 182 095	13 677 314
3	74	570 096 573	85 514 486
4	153	146 989 147	22 048 372
Totals		2,861,971,504	429,295,725.00

1. In terms of MFMA Circular 74 the CFO is responsible for the completion of the monthly VAT returns.
2. So, in effect, for the municipality to appoint VAT recovery consultants, the municipality is losing funds for paying somebody to perform the work of a municipal official.
3. From SARS' point of view , the payments to the VAT recovery consultants may be classified as fruitless and wasteful expenditure.

Typical VAT refund corrections:

- a) Municipalities VAT system set-up incorrect:
- Not claiming input tax on allowed VAT expenditure;
 - Paying 15% output tax on zero-rated grants and property rates.

Cost of consultants – AG report 2020/2021

Province	Municipalities involved	Amount spent	Top services supplied
EC	33	R 154 400 000.00	Financial Statements Asset Management Tax services
FS	13	R 37 100 000.00	Financial Statements Asset Management Tax services
KZN	51	R 189 100 000.00	Financial Statements Asset Management Other services
MPU	17	R 156 600 000.00	Financial Statements Asset Management Tax services
LIM	25	R 245 000 000.00	Financial Statements Asset Management Tax services
GT	5	R 148 700 000.00	Asset Management Financial Statements Accounting services
NW	19	R 238 000 000.00	Financial Statements Asset Management Tax services
NC	18	R 61 700 000.00	Financial Statements Asset Management Tax services
WC	25	R 32 400 000.00	Financial Statements Asset Management Accounting service
Total	206	R 1 263 000 000.00	

Compliance – VAT Audits

Municipalities receive VAT refunds from SARS on a regular basis. For SARS to ensure correctness of the refund claimed, SARS will do a verification audit to ensure that the amount that must be refunded is correct.

SCM staff very important

However, SARS experiences the following stumbling blocks when dealing with VAT refunds:

- Lack of timely submission of information prevents the finalisation of audit and timeous pay-out of any refunds
- Not all output tax declared - Prepaid Electricity – sales not declared
- **Municipality cannot appoint consultants for tax services – legal opinion**
- Consultants often duplicate input tax to their own benefit – charging a percentage of the refund that will be paid to the municipality – between 5% and 35% of refund

Compliance – VAT Audits

- No supporting documentation for inputs claimed or tax invoices do not meet all the requirements s20 of the VAT Act – **SCM Function**
- Statement

Municipalities work on the payment basis and can only claim input tax on the amount of the invoice that has been paid and they will only declare output tax on the amount of an invoice (utility bill) that they have received.

Consultants will indicate that they will assist with savings on the input tax – the municipality has paid the invoices so there is no additional savings.

What the consultants do is they only look for input tax that was not claimed before but as the municipality you are entitled to the input tax.

The municipality must ensure SCM staff members are knowledgeable with regards to VAT invoices and they must ensure that all invoices received are correct in terms of VAT legislation

Invoices can be claimed for five years if not claimed before.

Impact & Consequences of Non-Compliance

If the municipality is compliant, SARS does not have to take the punitive measures as mentioned below:

- Levying of interest and penalties if payments are made late
- Withholding of the VAT Refunds when there is a debt on another tax, i.e PAYE
 - The necessary documentation has not been uploaded for verification purposes
 - Inability to service the municipality's constitutional responsibilities
 - Adverse findings by AGSA

Service offerings

- Regional capacity Branch Operations Engagement has been identified to engage directly with municipalities with regards to:
 - Service
 - Education
 - Webinars
 - Workshops
 - Training sessions on VAT and PAYE
 - Enforcement

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Thank you
Re a leboha
Re a leboga
Ndza Khensa
Dankie
Ndi a livhuwa
Ngiyabonga
Enkosi
Ngiyathokoza