

## FEEDBACK SUMMARY -8 MARCH 2018

### **GENERAL**

SAICA attends various discussions and meetings on behalf of members with National Treasury (NT), South African Revenue Service (SARS) and other stakeholders (internal and external). These meetings represent an opportunity for them to obtain further information on any tax matter from the public and discussions and views expressed do not represent policy or decisions. Furthermore, these discussions do not represent an undertaking by SARS, NT or other stakeholders, but merely statements of their understanding or how they perceive or anticipate a particular matter to be addressed.

The below Feedback Summary should be seen in the above context as merely attempts to inform SAICA members of the discussions and of any proposals that were made during such discussions.

### **WORKSHOP ON WORLD BANK GROUP (WORLD BANK) “EASE OF DOING BUSINESS SURVEY-PAYING TAXES” WORKSHOP ON 19 February 2018**

The World Bank workshop held on 19 February 2018 discussed the below matters. This engagement is part of the DTI/World Bank Working Group projects, which was initiated by national government, to address South Africa’s significant decline in the Ease of Doing Business survey. One of the work streams is the Ease of Paying Taxes working group which SAICA participates in as a business member. To address concerns by government that the current data sample may not be representative of the country, World Bank has expanded its engagement.

### **Overview of the WORLD BANK “ease of doing business survey-paying taxes”**

The primary purpose of “the “ease of doing business survey-paying taxes” survey (the survey) is to provide an objective benchmarking study to determine the ease of paying taxes in terms of a comparative study, measuring results of 190 countries. This creates the ability of improving rankings in relation to other countries, enables debate and engagement on tax simplification and data integrity whilst implementation of the recommendations enable overcoming reform barriers.

The survey, which has been ongoing for 15 years, has expanded significantly over the years and focuses on regulations and standardised case scenarios. The survey involves 11 key areas of business statutory regulation, which includes among other things, ease of starting up a business, finding a business location, registering property, and operating in a secure environment.



The main objective of this workshop was to determine the scope for rigorous engagement with stakeholders and the willingness to freely provide the required data. Whilst the feedback quality may vary from country to country, involving professionals tends to instil a sense of consistency, and the free sharing of experiences. The purpose is therefore to find respondents that can enrich the responses. The comprehensively interrogative questionnaire is currently a lengthy 32 pages. The ultimate aim is to improve shortcoming and extend the survey's reach.

### **South African ranking and doing business-“Ease of paying taxes” 2018 survey results**

South Africa ranks 82<sup>nd</sup> globally, and does not rank poorly on paying taxes at 46<sup>th</sup>, though both rankings are only 5<sup>th</sup> in sub-Saharan Africa. South Africa has previously ranked the best on the continent. It has therefore regressed, which is mostly indicative of other countries' improving key performances faster than South Africa. The survey offers the opportunity to assist in improving regulatory processes.

Based on a case study done, the following was noted:

- South Africa does not rank poorly in terms of the 7 payments per annum required to be made;
- The case study showed it takes 203 hours per year to pay taxes; and
- The post-filing index was lower ranking at 58,6 to comply as a result of problems with VAT refunds. Statistics were also provided for the turnaround times for audits and refunds.

It was discussed whether the survey is considered fit-for-purpose and that the efficient positioning of participation in the survey *via* RCB engagement can increase coverage.

In the survey, new questions were recently added around the post-filing processes, and resulted in South African losing its higher ranking position. These key areas will be further expanded, further main topics considered and feedback given to the presidency by the DTI/World Bank workgroups.

It was noted that the DTI is also running surveys as part of their investment climate reform initiatives. Whilst the scope is currently limited to four key indicators, the intention is to expand and develop further recommendations in collaboration with the World Bank to make starting a business in SA easier and improve investment attractiveness. SAICA also noted their current thought leadership initiatives in terms of a comprehensive survey to determine the cost of tax compliance.

### **World Bank “Paying taxes” recommendations**

The short-term recommendations to reduce the administrative burden on companies to comply with tax requirements, include improving and promoting the use of the institutional website and for SARS to provide continuous training to its staff. The medium to long-term recommendations include to reduce the likelihood of VAT audits by doing VAT risk based audit system and to institute a mapping exercise to understand how cases are selected for an audit.



Based on survey results, improvements were already made to SARS' processes. An example mentioned was that SARS' turn over time for tax returns measured in the current financial year take less than 10 days, whilst there is more pressure on getting prior year cases closed out.

SARS already introduced key reforms as a direct result of the survey, and these recommendations are a starting point for discussion and further expansion by stakeholders to better inform the action plan, in terms of both short, and long-term strategies.

The detail of the questionnaire was discussed, including aspects such as the time to prepare and file major taxes. This was identified based on the below case study, as the area where the most time is being spent in South Africa. Another question in the survey is the compliance time for dealing with consumption taxes, which includes data gathering from internal sources and actual calculations.

### **Case study**

The case study involves a company in Johannesburg in the manufacturing environment employing around 60 employees, with no cross border trade, being wholly owned domestically, and making one capital investment per annum, and six tax payments per year. The survey considered whether a company of this stature would get flagged for audit all the time and whether the SARS data would reflect this. It was noted that SAICA previously mentioned that 11% of taxpayers are flagged for VAT audits but that only some of them seem to be high in value. The survey noted that the spread in target could be explained by what SARS considered to be where their risk levels lie.

In analysing the time spent on the tax function, the case study showed that the bulk of time was spent on the preparatory phase, for example time spent on analysing tax and accounting differences, considering what adjustments to make, defining a liability, accrual of provisions which added to complexity. The main phases considered was to prepare, file and pay tax. It was discussed whether the time spent was considered realistic.

### **Secondary objective of the workshop and RCB engagement**

The question was asked what SARS and NT could do better to alleviate the administrative burden on taxpayers. It was noted that the current mechanism through the normal budget cycle was not conducive to looking at fundamentally changing the tax laws and that time should be set aside for an overall drafting of the law and to get to a better construction of the tax laws. Important questions raised were whether this was collectively considered to rank in priority in South Africa and whether South Africa is considered to have a sophisticated tax system.

In analogy to the preferred trader status in international trade, the proposal was made that such benefits are considered in the context of RCB engagement. It was recommended that SARS recognises the rigorous risk mitigation controls, as a potential extension of SARS' risk capability, and to incentivise aspects such as due diligence work, and even the influence of this on selection for audit.



### **Future possible working groups identified**

It was noted however that the purpose of the workshop was not be a platform for reform proposals but that further engagements will be hosted in the space of tax simplification, which would include, for example, a tax dispute resolution working group as proposed by SAICA. In this regard, the following topics were identified as possible future working groups:

- tax dispute resolution;
- post-filing indexing for corporate tax returns getting audits through the system much quicker;
- issue of audit selection and audit capacity matching;
- Perceptions regarding non-receipt of audit finalisation letters or the lack of close-out letters for no adverse audit findings;
- skills levels;
- approachability of SARS and expectation management (for example the IRS client satisfaction rating system even in the post-filing domain);
- entitlement to letters of audit finding before any adjustment made; (verifications volumes dictates against this but will address more useful reasons);
- cycle of tax compliance-enabling taxpayers to access VDP provisions; and
- Alignment of practical implementation and legal framework as a fundamental imperative with engagement with tax practitioners.