

Taxing Times 2021

**A survey of corporate taxpayers' experiences
with the South African Revenue Service**

Tax Controversy and Dispute Resolution

September 2021

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Introduction

PwC's annual Taxing Times Survey was created to appraise and benchmark corporate taxpayers' experiences when dealing with the South African Revenue Service (SARS). Our latest edition, the fourth in the annual series, was conducted in May and June 2021. A total of 159 respondents participated in this year's survey, the results of which are discussed in this report.



Since our first report was released in 2018, the area of taxation has evolved as a result of many significant developments. Among the most noteworthy of these have been changes in the leadership of SARS. During 2014, Mr Tom Moyane was appointed as the Commissioner of SARS and held the office until his replacement by Mr Mark Kingon (in an acting capacity)

in early 2018. Mr Kingon led the organisation between March 2018 and the end of April 2019. At the time of his appointment, SARS reported low compliance rates and high dispute volumes. Mr Kingon, among other things, managed to improve the relationship between SARS and the Tax Ombud and sought to strengthen voluntary tax compliance.

Since his appointment as Commissioner in April 2019, Mr Kieswetter has actively restructured SARS to create a flatter leadership structure, to improve tax compliance and to improve service delivery to taxpayers. He has also introduced several new units to improve service delivery but also to take action against non-compliant taxpayers.

Our survey findings over the past four years reflect the experiences of taxpayers with SARS and provide insight into how taxpayers feel SARS' leadership changes are impacting them. The 2021 survey, in particular, has been analysed with SARS' key strategic objectives in mind.

Beyond developments at SARS, the world has experienced the outbreak of the COVID-19 pandemic, which brought about great economic disruption, resulting in many taxpayers experiencing financial strain and which also challenged the continuity of many businesses. In March 2020, President Cyril Ramaphosa declared a national state of disaster in South Africa (in line with the Disaster Management Act, 2002) and the country was put under various stages of national lockdown. The pandemic prompted the introduction of the Disaster Management Tax Relief Administration Bill, 2020 and the Disaster Management Tax Relief Bill, 2020. The aim of this legislation was to provide tax relief measures to assist in alleviating cash-flow burdens experienced by tax compliant small to medium-sized corporate taxpayers, with an annual turnover of less than R100m.

Key developments at SARS

1 July 2018	SARS Service Charter launched.
1 May 2019	Mr Edward Kieswetter appointed as Commissioner of SARS.
23 October 2019	Relaunch of the Large Business Centre, known today as the Large Business and International Taxpayer Segment (LB&I).
November 2019	Launch of the Illicit Economy Unit.
2020 and ongoing	Restructuring of SARS as an organisation, stabilising and improving electronic filing platforms, automating systems and introducing artificial intelligence in SARS' systems and operations.
April 2020	The Draft Disaster Management Tax Relief Administration Bill, 2020, and Draft Disaster Management Tax Relief Bill, were published for comment. These Bills provided for tax measures to assist in alleviating cash-flow challenges faced by tax compliant small- and medium- sized businesses arising as a result of the COVID-19 pandemic and national lockdown.
May 2020	Revised Draft Disaster Management Tax Relief Administration Bill, 2020 and Revised Draft Disaster Management Tax Relief Bill, 2020 were published for comment.
May 2020	SARS released its Strategic Plan 2020/21–2024/25, which focuses on nine key objectives, including building public trust and confidence in the tax administration system.
July 2020	Draft Tax Administration Laws Amendment Bill, 2020 and Draft Taxation Laws Amendment Bill, 2020 were published for comment.
August 2020	SARS commenced assessing a significant number of taxpayers automatically.
March/April 2021	SARS launched a recruitment drive in order to fill vacancies that will enhance its capacity to improve the service to taxpayers and improve levels of compliance. The vacancies that were advertised spanned many areas of SARS' operations, including, but not limited to, information technology specialists, data management specialists, audit and risk specialists, investigations specialists and auditors with a specific focus on tax evasion and related matters.
April 2021	Retired Judge Dennis Davis was appointed to assist SARS with the implementation of its strategies, specifically those directed at closing the tax gap and the taxation of the wealthy.
May 2021	The revitalisation of the High Wealth Individual Taxpayers Unit at SARS, which included the issuance of a welcome letter to individuals whose tax portfolios and profiles would now reside within this dedicated unit.

About the survey and its objectives

This survey aims to gauge corporate taxpayers' experience when dealing with SARS and to use their feedback to support constructive engagement with SARS about how it can improve public trust, efficiency and confidence in the tax administration system, as well as improve its stakeholder engagement. SARS continues to take a keen interest in the findings of the survey.



This report presents participants' feedback concerning the Voluntary Disclosure Programme (VDP), issues faced by clients in managing audits being conducted by SARS, as well as disputes, SARS' service delivery and the impact of the COVID-19 pandemic on their tax affairs as well as taxpayer behaviours.

Several of the survey questions speak to SARS' key strategic objectives, which are not only important drivers of rebuilding the organisation, but to also ensure effective and efficient collection of taxes in this tough economic climate. Insofar as SARS' key strategic objectives are concerned, the survey attempts to represent a report card on the extent to which SARS is achieving its goals. Future surveys will attempt to measure the impact of the leadership changes described above over the long term.

The findings below represent the percentage of participants who provided an answer to a specific question. Some questions were not applicable to all respondents.

The survey questions were divided into six major clusters of experiences:

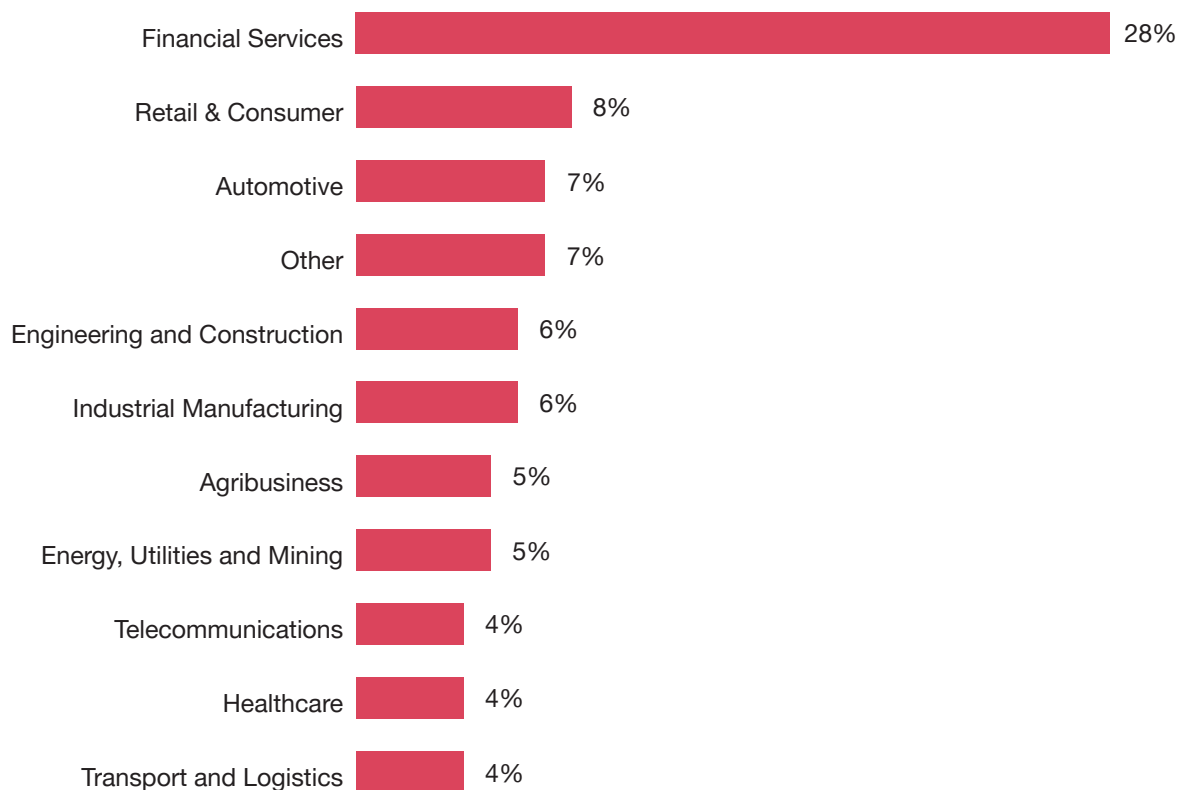
- The audit process
 - Corporate income tax (CIT)
 - Value-added tax (VAT)
 - Pay-as-you-earn (PAYE)
 - Transfer pricing
- The debt management process
- The Voluntary Disclosure Programme
- SARS' service delivery
- COVID-19 tax relief
- Taxpayer behaviour

Respondent profile

Top 10 industries represented

Q: Which industry is your company in?

Figure 1: Which industry is your company in?



Source: PwC analysis

Participants in this year's survey represented 21 industries. As in previous years, the Financial Services industry attracted the highest participation rate, followed by Retail & Consumer, Automotive and 'Other' industries.

The audit process

The filing of a tax return results in an original assessment and reflects the information submitted by a taxpayer. Thereafter, SARS may select the taxpayer for verification or audit.



For purposes of the verification process, SARS will conduct a high-level enquiry into the affairs of a taxpayer by comparing the information submitted by the taxpayer (or third parties) against the financial and accounting records and/or other supporting documents to ensure that the taxpayer's return is a fair and accurate representation of their tax position. An audit by SARS involves a more in-depth enquiry.

For purposes of the audit process, SARS may request certain financial and accounting records and/ or supporting documents from the taxpayer or any other party that may be in possession of relevant material (such as the banks, clients or other institutions) to determine whether the taxpayer has correctly declared its tax affairs to SARS.

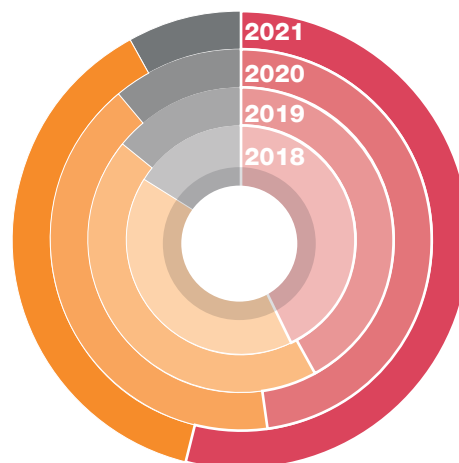
Corporate income tax

Likelihood of an audit or verification

We tested taxpayers' perception of the likelihood of being selected for verification/audit following submission of their annual corporate income tax returns. The 2021 results indicate that 54% of the participants believe it is extremely likely that they will be selected for verification/audit, compared to 48% in 2020 and 42% in 2019. This shows a steady year-on-year increase in the number of participants that believe they will be selected for verification/audit.

An increase in verifications/audits is not surprising given the statements of both Acting Commissioner, Mr Kingon and current Commissioner, Mr Kieswetter, that tax compliance is a high priority to SARS. This sentiment has also been echoed by the Tax Ombud, Judge Bernard Ngoepe. The results could be indicative of SARS performing verifications/audits more frequently in recent years — possibly in an effort to detect non-compliance as well as to enable SARS to reach its revenue collection targets.

Figure 2: How likely is SARS to verify/audit your company post submission of CIT return on an annual basis?



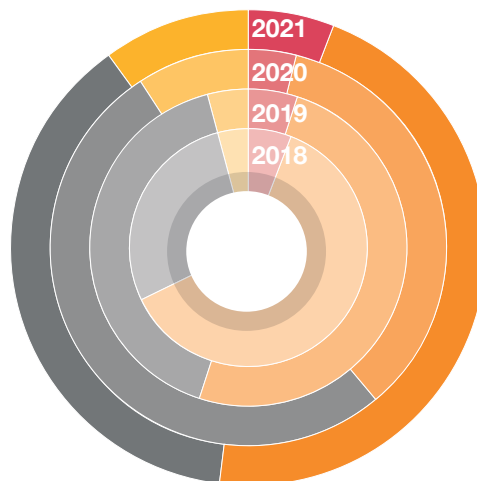
Source: PwC analysis

	2021	2020	2019	2018
Extremely likely	54%	48%	42%	43%
Somewhat likely	38%	41%	44%	41%
Unlikely	8%	11%	14%	16%

Requests for information

We asked participants to indicate whether SARS' requests for information for purposes of a verification/audit met the requirements as outlined in the Tax Administration Act No. 28 of 2011 (TAA). In 2021, just 10% of participants believed requests for information 'always' meet the formal requirements of the TAA and 46% said such requests only 'sometimes' meet the provisions of the TAA. This is a concerning result given SARS' duty to comply with the TAA.

Figure 3: Do Section 46 requests from SARS for relevant material usually meet the criteria as set out in the Tax Administration Act, No. 28 of 2011 (TAA)?



Source: PwC analysis

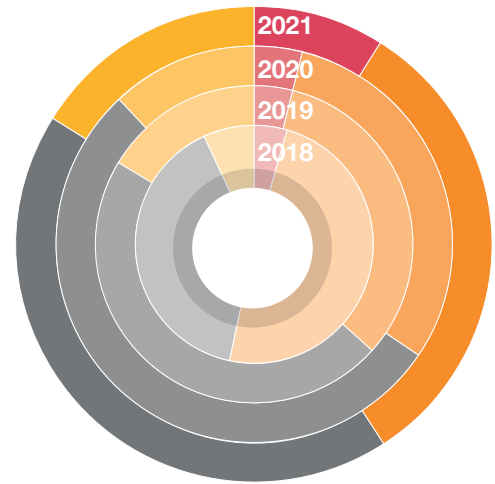
	2021	2020	2019	2018
Never	6%	4%	5%	6%
Sometimes	46%	35%	50%	62%
Most of the time	38%	52%	41%	28%
Always	10%	9%	4%	4%

Granting of extensions

For various reasons, it is not always possible for taxpayers to gather, assemble and submit the information requested by SARS within the time frame provided (especially during lockdown levels). In such a scenario a taxpayer may request an extension of the time period to submit material. The survey tested the likelihood of SARS granting such a request for extension.

This year, the proportion of respondents who said SARS granted their requests for extensions ‘most of the time’ decreased to 43% from 54% in 2020. This suggests that SARS has become less flexible in granting requests for extension over the past year, which is interesting taking into account the constraints on many taxpayers’ ability to access the required information during the various levels of lockdown.

Figure 4: How likely is SARS to grant extensions for submission of responses to Section 46: ‘Requests for relevant material’?



	2021	2020	2019	2018
Never	9%	4%	4%	4%
Sometimes	32%	31%	32%	43%
Most of the time	43%	54%	46%	35%
Always	16%	12%	16%	6%

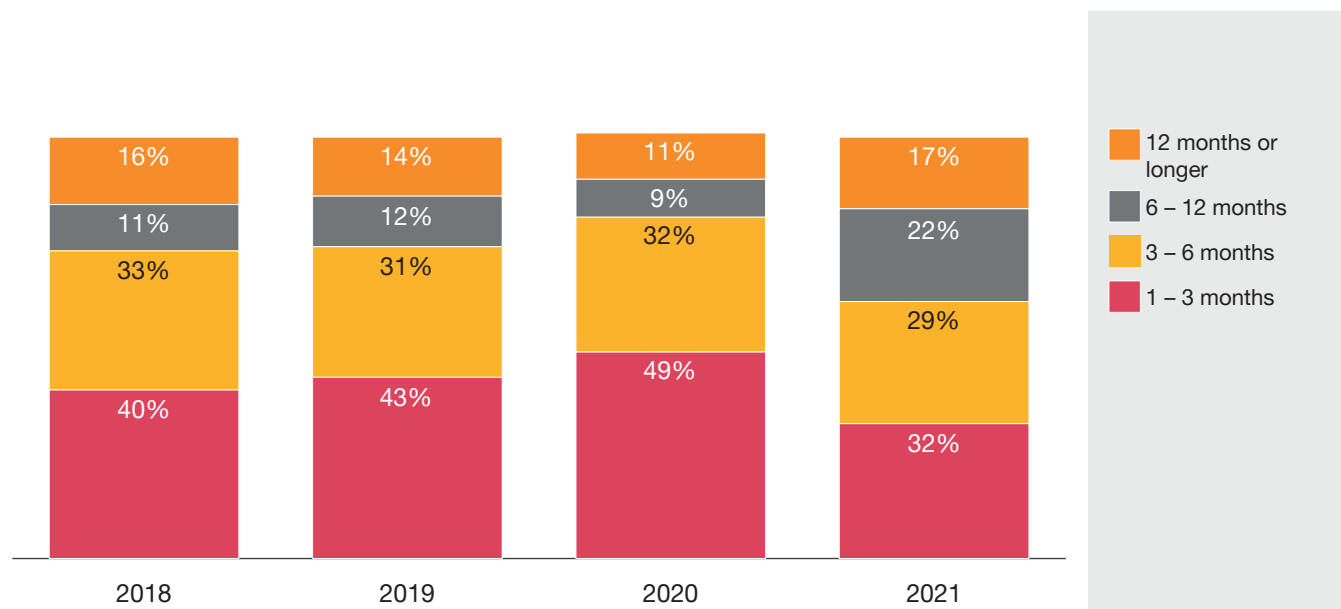
Source: PwC analysis

Time taken to finalise a verification process

This year's results show that only 32% of participants have had their income tax verifications finalised in 1–3 months, which is a sharp decline from last year's 49% and 2019's 43%. The results also indicate that more participants (17%) are experiencing an extended turnaround time on finalisation of the verification process of '12 months or longer' in comparison to 2020 (11%) and 2019 (14%).

The increase in time taken to finalise a verification could be linked to a greater likelihood of being selected for a verification/audit, as discussed above. This may be attributable to the fact that tax audits have been conducted remotely (with SARS' auditors having been working from home) over the past year or so, alternatively a performance management risk.

Figure 5: In your experience, how long does it typically take SARS to complete a verification audit (not referring to an investigative audit)?



Source: PwC analysis

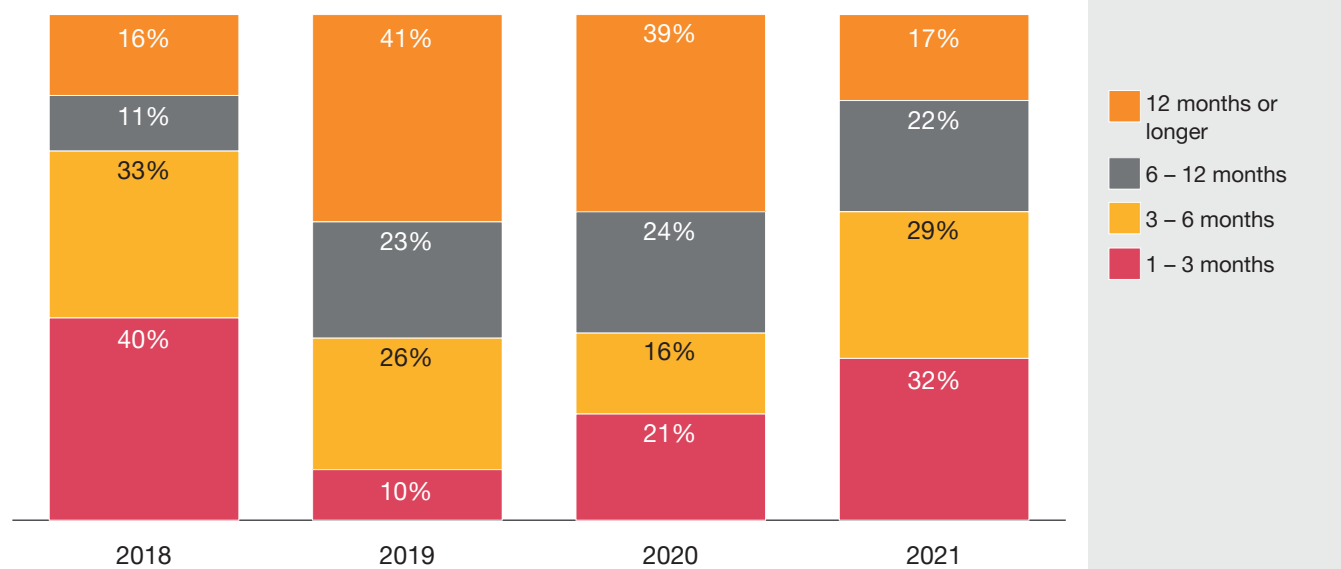
Time taken to finalise an investigative audit

Once the verification is complete, SARS retains the right to refer the matter for an investigative audit. SARS divides its audits into business-as-usual audits (being a more in-depth enquiry versus a verification) and investigative audits, which entail a full scope investigation into the tax affairs of a taxpayer.

We asked participants about their experiences with investigative audits, specifically focusing on turnaround times. In this regard, 32% of participants reported that SARS took 1–3 months to complete an investigative audit, compared to the 21% reported in 2020. This indicates a significant year-on-year positive increase from just 10% reported in 2019. This year's result is still, however, not as positive as the 40% reported in 2018.

Although there has been some improvement over the last few years, these findings suggest that the investigative audits may be complicated, and that SARS may be under-capacitated, or that SARS lacks the required skill to swiftly and efficiently deal with these matters alternatively that there is a communication gap between taxpayers and SARS. Whatever the reason, it inevitably results in additional costs, delays and uncertainty for taxpayers.

Figure 6: In your experience, how long does it take SARS to typically complete an investigative audit (usually post verification audit)?



Source: PwC analysis

Issuing of progress reports

During the audit process, it is important for SARS to take cognisance of taxpayers' rights and to follow due and fair administrative processes, which includes the issuance by SARS of reports regarding the stage of completion of audits. These reports are aimed at keeping the taxpayer informed during the audit process. Importantly, the TAA compels SARS to issue these progress reports every 90 calendar days.

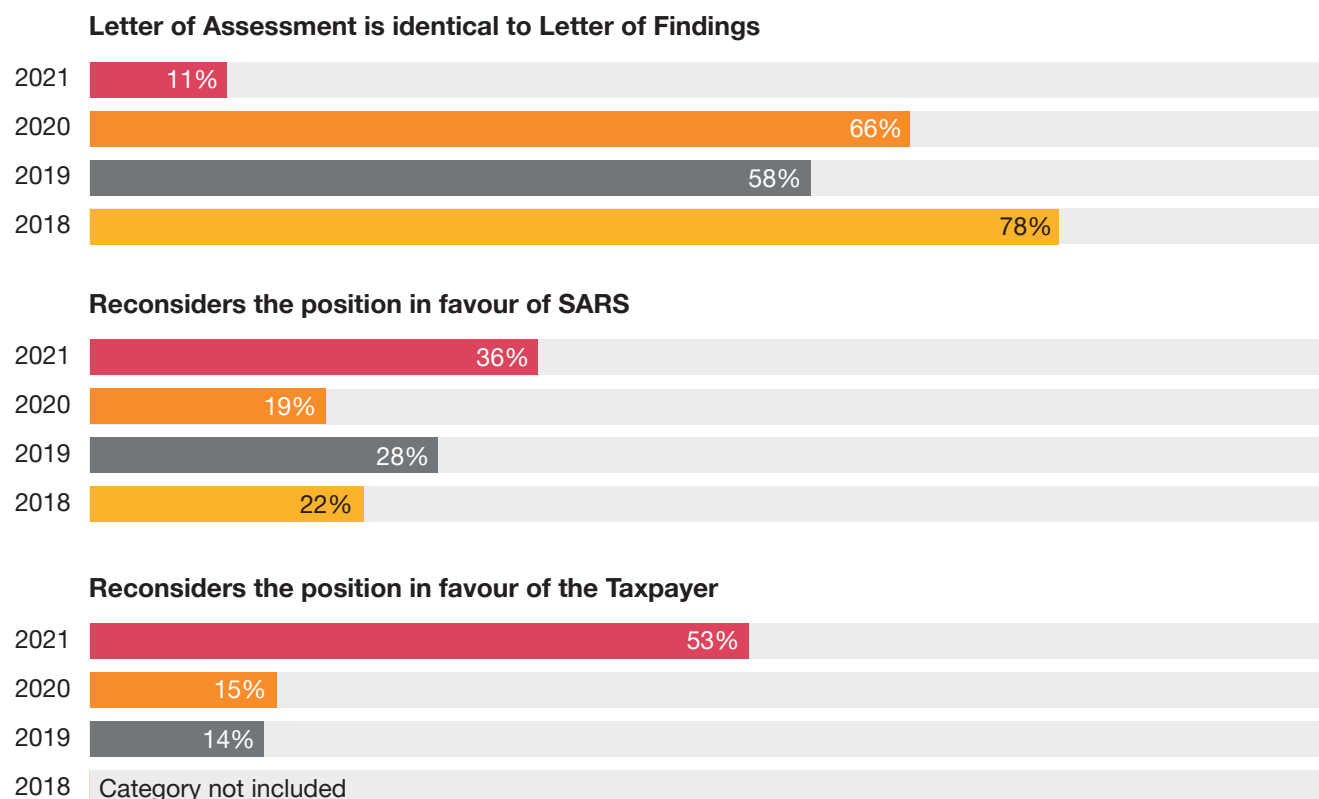
Survey participants report a widespread and ongoing failure by SARS to issue progress reports to taxpayers, as required by the TAA. No less than 97% of participants confirmed that progress reports were not always received from SARS, a slight decline from 95% in 2020.

Audit Findings Letter

Once the audit is finalised, SARS is compelled to deliver a Letter of Audit Findings, as prescribed in section 42 of the TAA. The taxpayer in turn has the right to respond to the Letter of Audit Findings (usually within 21 days) outlining its tax position, either agreeing or disagreeing with SARS' findings.

We asked participants whether they believe SARS actually considers their responses and applies their minds to the merits of each case in relation to the responses submitted by taxpayers to SARS. This year, only 11% indicated that the Letter of Assessment (Finalisation of Audit letter) was identical to the Letter of Audit Findings. This is a significant improvement from the 66% and 58% reported in 2020 and 2019, respectively, suggesting that there has been a vast improvement at an operational level within SARS, i.e. indicating that SARS is considering taxpayer submissions prior to just issuing a Letter of Assessment.

Figure 7: When you lodge a response to the letter of findings, do you find that SARS truly reconsiders its position (including submissions on understatement penalty) or does it seem that SARS automatically defaults into a letter of assessment?



Source: PwC analysis



Letter of Assessment

Once SARS has considered the taxpayer's response to the Letter of Audit Findings, SARS will issue a notice of assessment (also referred to as a Letter of Finalisation/Completion), which is in most cases additional assessment to the taxpayer. In addition to issuing a notice of assessment, SARS is obliged to issue an assessment letter, which outlines the factual and legal grounds for SARS' assessment. The letter includes a description of the particular type of assessment, the basis of the adjustment(s) as well as reasons why the assessment may have been raised beyond the period of limitation for the issuance of assessments (three years in the case of income tax and five years in the case of self-assessments such as VAT or PAYE returns). SARS must also outline the factual and legal grounds upon which it relies for the imposition of understatement penalties. The Letter of Assessment must convey sufficient information to enable the taxpayer to formulate their grounds of objection should they wish to lodge an objection against SARS' assessment.

Our 2021 findings show there has been a slight improvement (from 2% in 2020 to 6% in 2021) in the percentage of participants who believe that SARS has provided adequate reasons for taxpayers to understand the basis for the assessment raised. Additionally, 58% said that SARS' assessment letters 'sometimes' contain sufficient grounds to enable a taxpayer to understand the basis of the assessment raised.

These results may explain the large number of disputes being raised by taxpayers which could again point to poor communication between SARS and taxpayers.

Understatement penalties

As mentioned above, the Letter of Assessment needs to make clear reference to whether SARS has raised an understatement penalty. SARS also needs to ensure that the percentage of the penalty matches the appropriate behavioural category outlined in section 223 of the TAA. The onus in this regard rests with SARS to prove that the taxpayer's behaviour justifies the imposition of the requisite underestimation penalty.

This year, 72% of the participants reported that SARS is 'always' or 'most of the time' aggressive in raising understatement penalties, indicating a slight increase from 2020's 69% and 2019's 70%.

Debt management process

SARS' debt collection function runs parallel to the dispute resolution process. Where a debt is under dispute, a request for suspension of payment, which is governed by section 164 of the TAA, is available to taxpayers to suspend the payment of taxes, penalties and interest to SARS. The 'pay now, argue later' rule can only be suspended by a senior SARS official if there is an intention to dispute the assessment and the suspension meets the criteria contained in section 164 of the TAA.

Response to suspension of payment requests

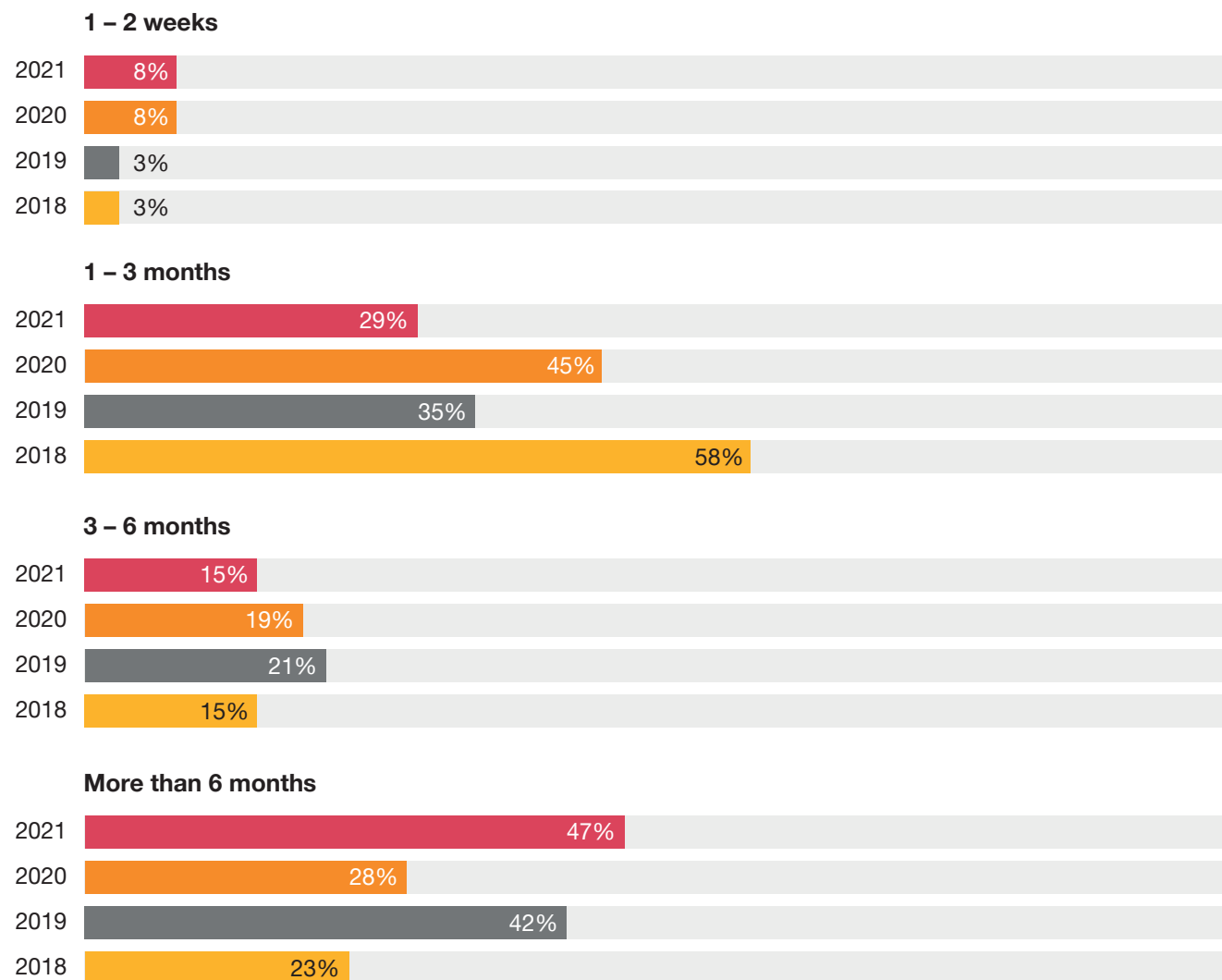
This year, only 16% of participants reported that their requests for suspension of payment were accepted, a 15% decrease from 31% in 2020. Another 36% said their requests were rejected 'without adequate reasons', up from 25% in 2020. Seven percent of taxpayers stated that their requests had been rejected 'with adequate reasons' that meet the criteria, up from 1% in 2020. These findings could be indicative of the severe pressure that SARS is under to collect revenue in a very depressed economy.

Time taken to get feedback on settlement proposals

Settlement is a mechanism for SARS to reduce litigation costs and resolve disputes timeously. In this regard, there has been no change in the proportion of participants that received feedback on their settlement proposals within 1–2 weeks in the 2020 and 2021 years, with both years recording 8%.

There has been a decline in the proportion of participants that received feedback on their settlement proposals within 1–3 months (2021: 29%, 2020: 45%) and 3–6 months (2021: 15%; 2020: 19%). Consequently, a far higher percentage of taxpayers are receiving feedback more than six months after their proposals have been submitted to SARS (2021: 47%, 2020: 28%). This is potentially a delay on the receipt of revenue for SARS.

Figure 8: How long does it typically take to get feedback on settlement proposals (Section 146 TAA) made to SARS?



Source: PwC analysis

Requests for correction

Section 93 of the TAA outlines a potential method to correct returns that contain errors of a non-contentious nature. The correction of these errors should, once approved by SARS, result in reduced assessments being issued by SARS (i.e. in favour of the taxpayer). The threshold for purposes of utilising this remedy is that the return was erroneous due to a 'readily apparent undisputed error'.

This requirement may (and has in the past) caused significant disputes as SARS interprets a 'readily apparent undisputed error' very narrowly compared to how a taxpayer might view it.

Lobbying the National Treasury over a number of years has yielded no change and SARS continues to interpret the threshold narrowly and sometimes even inconsistently. Our survey findings speak for themselves with 27% of participants confirming that their applications have been rejected by SARS and 51% saying that SARS accepted their explanations of errors only 'sometimes'.



Value-added tax

VAT refunds are a potential drain on SARS' revenues if they fall prey to dishonest practices. The verification process is therefore a vital first step in combating dishonesty and fraud. By the same token, a delay in receipt of a valid VAT refund from SARS can also cause severe cash flow constraints, frustration and lack of ability to trade to some taxpayers. That being said, it would only become apparent during a verification or audit whether the information submitted by a vendor is reliable.

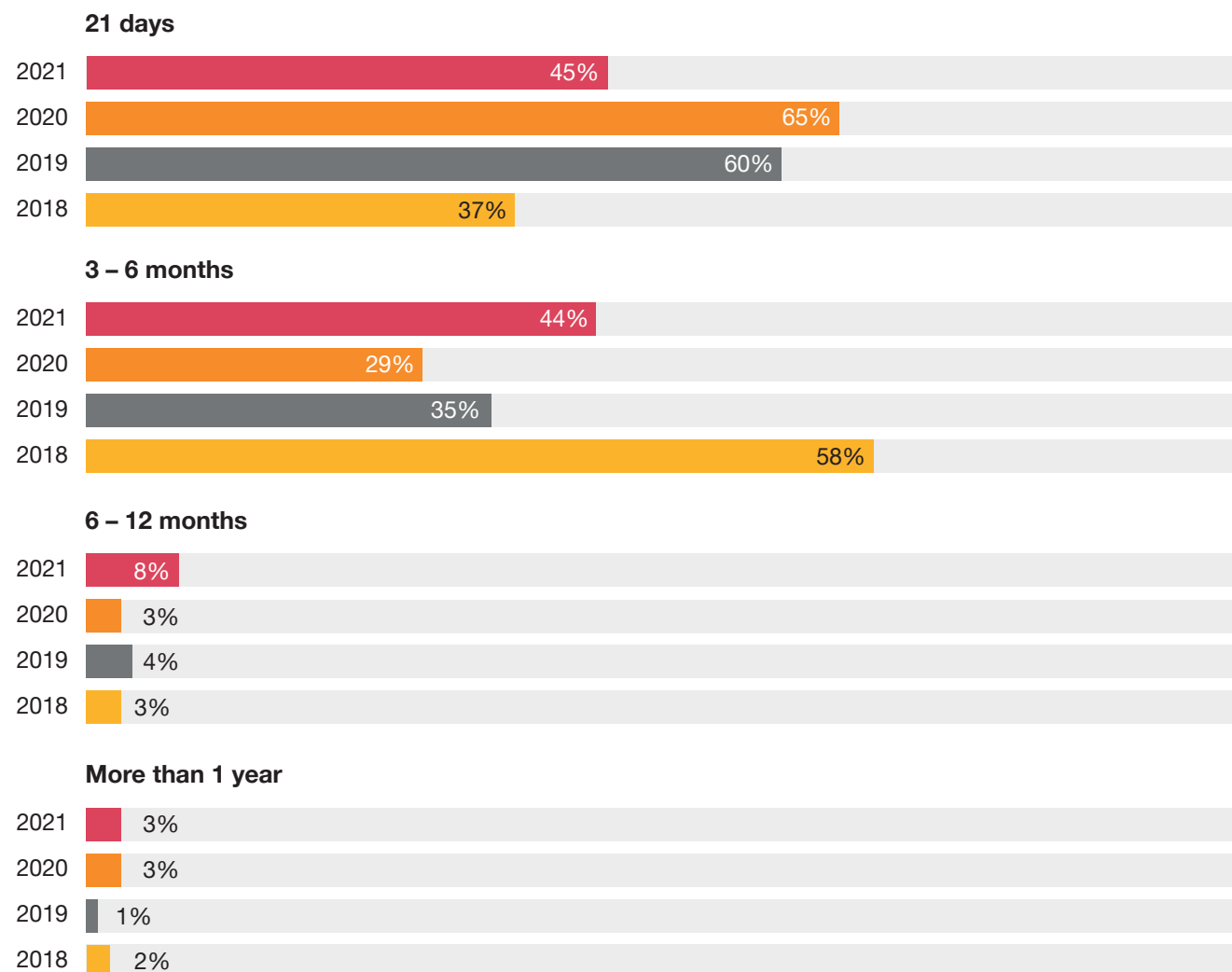
Selection for VAT201 verification

A third of participants reported being selected for verification every time they submit a VAT201 or whenever the return results in a refund. However, the declining frequency of VAT201's being verified after 'every submission' (down from 34% in 2020 to 32% in 2021) could suggest that SARS is becoming more efficient, enhanced by its drive to update systems/risk engine and perhaps reducing interventions (verifications) on each refund VAT return.

VAT verifications and payment of refunds

The turnaround time for the finalisation of VAT verifications and the payment of VAT refunds has deteriorated compared to prior years, contrary to metrics published by SARS. Less than half of participants (45%) reported that their verifications were finalised within 21 days, a sharp decline from 65% in 2020 and 60% in 2019.

Figure 9: When submitting documentation in support of a VAT verification, how quickly does SARS finalise the verification?



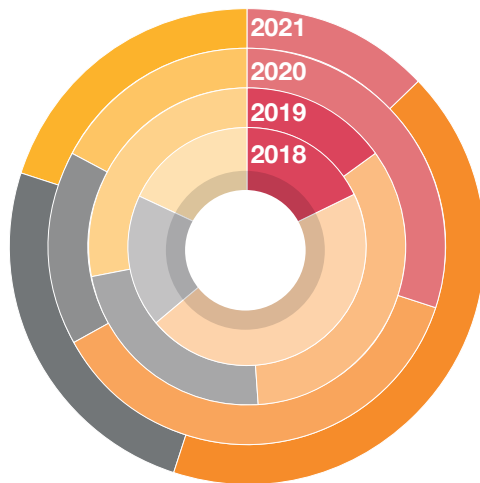
Source: PwC analysis

Pay-as-you-earn

Challenges with PAYE accounts

This year, only 13% of participants reported that they have never experienced PAYE-related issues — a sharp decline from 30% in 2020. This indicates that companies are encountering greater difficulty in dealing with SARS in relation to PAYE accounts. It is notable that the Commissioner, Mr Kieswetter, has in several media statements made it known that SARS has detected an increase in non-compliance with regards to employees' taxes. It is possible that SARS is focusing on this particular tax type as a high-risk area, which could explain why participants/employers are finding it difficult to deal with SARS.

Figure 10: Are you experiencing issues in relation to PAYE account/s with regards to multiple journal entries or difficulty in unpacking the account?



	2021	2020	2019	2018
Never	13%	30%	15%	18%
Sometimes	42%	37%	34%	46%
Most of the time	25%	16%	23%	18%
Always	20%	17%	28%	18%

Source: PwC analysis



Transfer pricing

SARS has been stepping up transfer pricing risk reviews and audits since October 2017 and we expect that this trend will continue. In this year's Budget Speech, Minister of Finance, Mr Tito Mboweni, stated that SARS is 'expanding specialised audit and investigative skills in the tax and customs areas to renew its focus on the abuse of transfer pricing, tax base erosion and tax crime'.

In the context of base erosion and profit shifting (BEPS), multinationals should review their transfer pricing policies, document transactions/decisions taken appropriately and be audit-file ready.

It is vital for taxpayers that are engaged in cross-border transactions to have supporting documentary evidence readily available in the event of a transfer pricing audit.



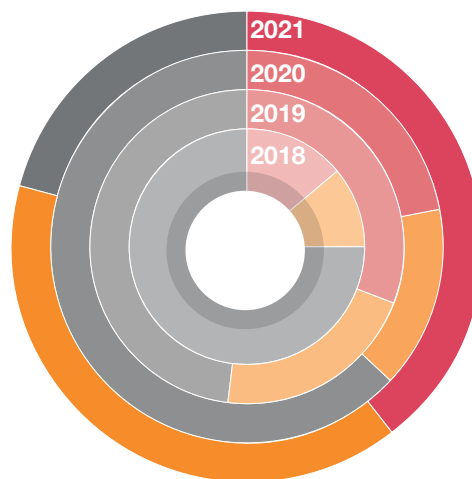
Company transfer pricing policy

Among participating companies that conduct cross-border transactions where transfer pricing would be applicable, 86% confirmed their company has a transfer pricing policy that is applied in practice. This is a 4% increase on last year. This steady increase could be due to the impact of the compulsory transfer pricing documentation introduced as a part of the BEPS Action 13 initiative and global awareness campaigns conducted by the OECD.

Frequency of transfer pricing audits

This year, 39% of participants stated that they were selected for an audit, up from 22% in 2020. This may be due to increased capacity building within SARS' LB&I division.

Figure 11: Have you been subjected to a SARS audit relating to transfer pricing?



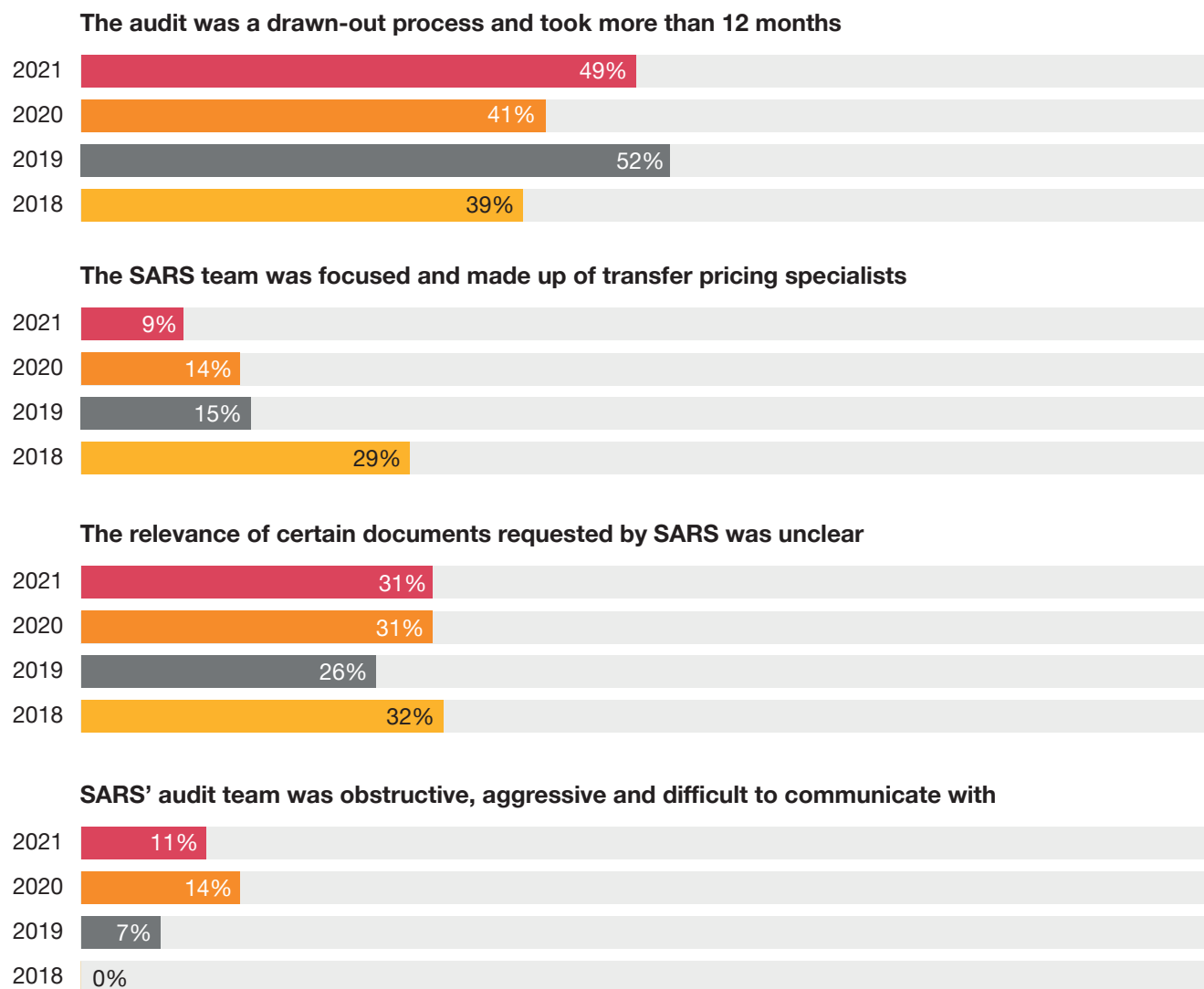
	2021	2020	2019	2018
Yes	40%	22%	31%	14%
No, but SARS has raised questions	40%	15%	21%	11%
No	21%	63%	48%	74%

Source: PwC analysis

Experience of transfer pricing audits

In 2021, 49% of affected participants indicated that the process is drawn-out and takes more than 12 months to finalise, an 8% increase from 2020. The proportion of participants that believe the relevance of certain documents requested by SARS was unclear has remained unchanged from 2020 at 31%. A more worrying statistic is the fact that 11% believe that the SARS audit team was obstructive, aggressive and difficult to communicate with.

Figure 12: If your company has been subjected to a transfer pricing audit, what was your experience? (select all that apply)

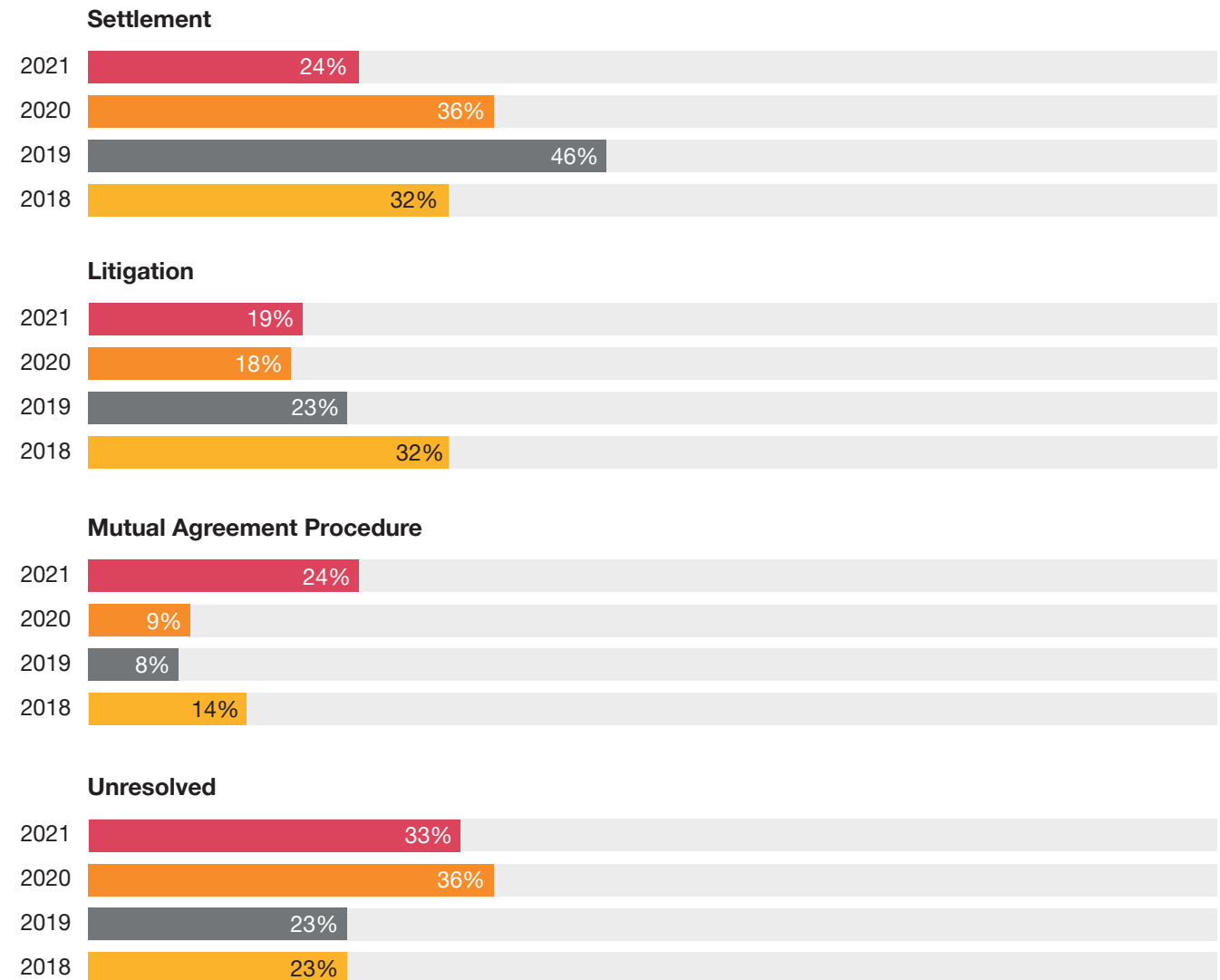


Source: PwC analysis

Transfer pricing assessments

The resolution of transfer pricing disputes appears to be continuing to migrate away from adversarial actions towards seeking resolution with SARS via the settlement process. The reduction in litigation is indicative of an improvement in the climate for settlements and reluctance by parties to go to court over transfer pricing disputes. This suggests that the gulf between taxpayers and SARS is narrowing, making settlement more possible. We note that there has been a slight decrease in unresolved assessments from 36% in 2020 to 33% in 2021 (33%).

Figure 13: If you received a transfer pricing assessment, how was it resolved?



Source: PwC analysis

Voluntary Disclosure Programme

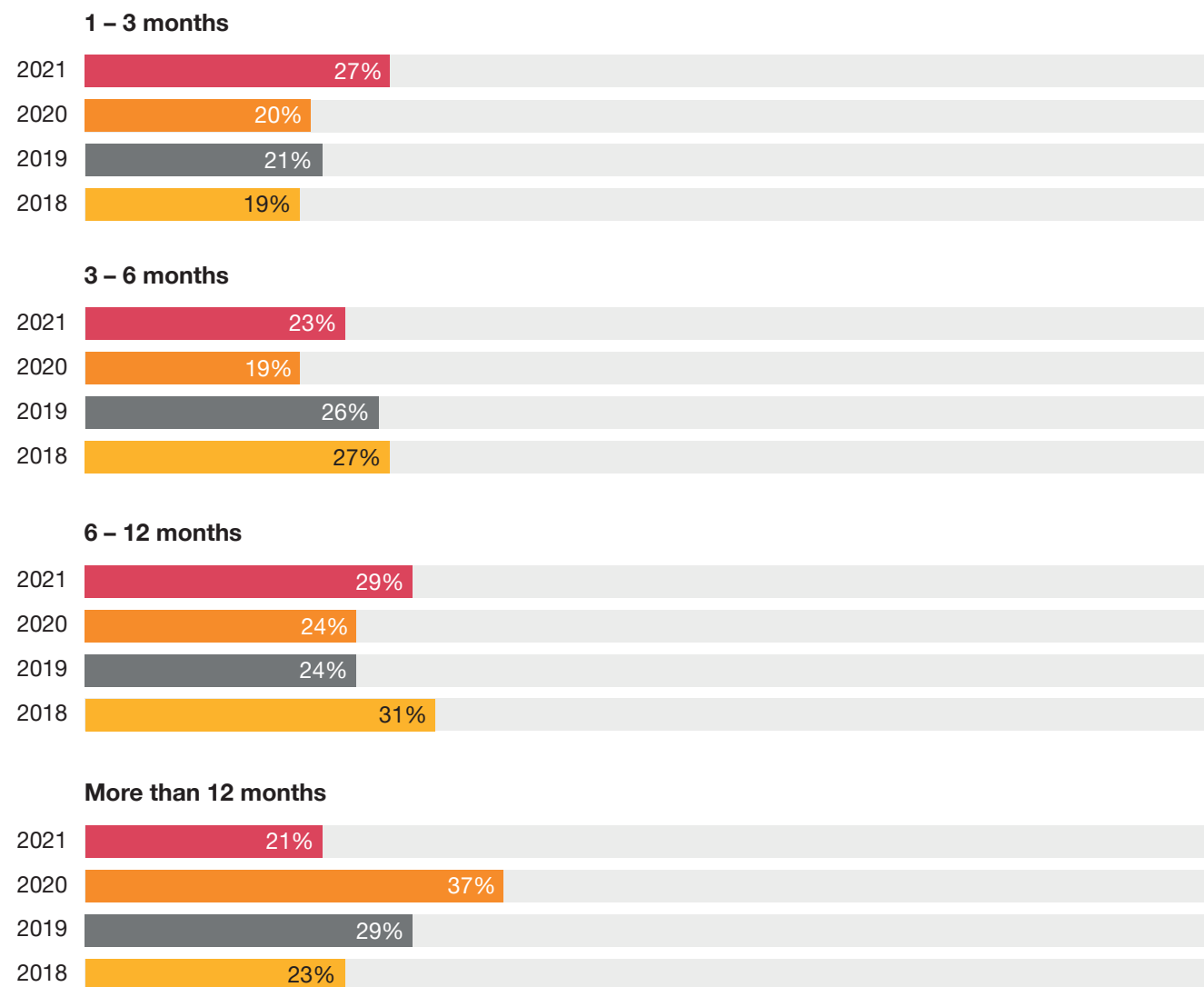
The VDP facilitates a process in which taxpayers voluntarily disclose prior defaults or understatements and make full disclosure of their tax affairs, thus relieving SARS from engaging in time-consuming audits. While the VDP grants protection against criminal investigation and certain penalties, it is also a valuable means of revenue collection for SARS.



VDP applications

The VDP gives taxpayers the opportunity to correct compliance defaults without incurring potentially significant penalties. This year, 40% of survey participants said they had made use of the VDP process, a decrease from last year's 46%. Only 27% of taxpayers reported that their VDP was finalised within three months, while 21% stated that their VDP application was finalised more than 12 months later — both being improvements from the previous year. The turnaround time for finalising VDP applications remains slow, but we hope to see a continuation of this positive trend.

Figure 14: What is the current turnaround time for a VDP application to be finalised?

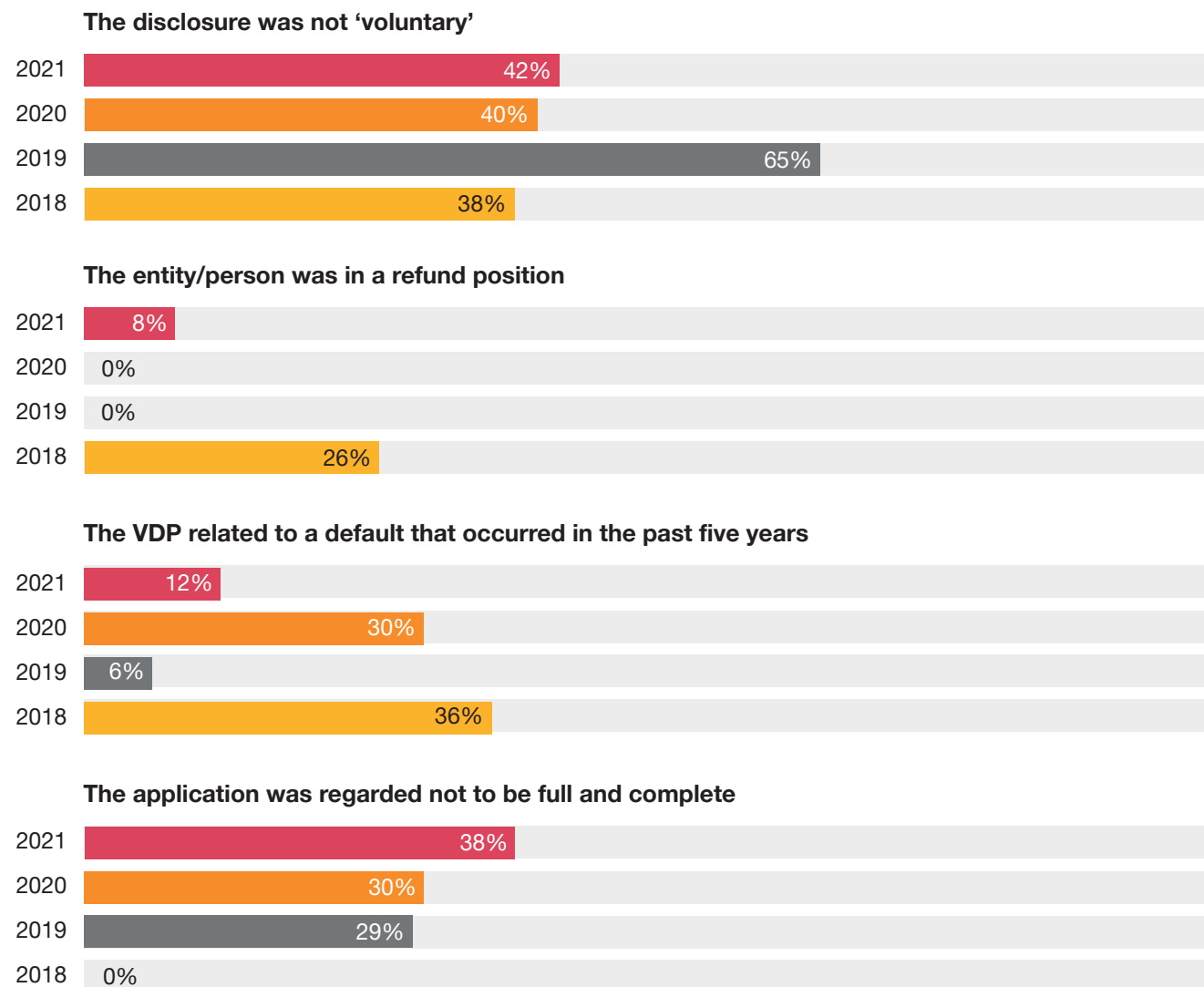


Source: PwC analysis

VDP applications denied

Where VDP applications have been denied due to non-compliance with the criteria set out in the TAA, the most frequent reason given by SARS was that the application was 'not voluntary'. When asked what explanation SARS gave for this decision, 38% of participants stated that 'the application was not full and complete'. In our experience, this could be because applicants are not disclosing the defaults as far back as when they arose (there is clearly uncertainty with taxpayers on this element as to how far back they should declare).

Figure 15: When a VDP application is denied, what do you find is the most likely reason given?



Source: PwC analysis

In addition, 45% of participants stated that the VDP was denied on the basis of it not being voluntary, due to the taxpayer being subject to a verification. This is a contentious area as SARS also views the issuance of an IT14SD notice as a verification, which automatically eliminates the taxpayer from the process. Clarity is required from SARS to understand the basis for viewing an IT14SD notice as indicative of the fact that a taxpayer is not making disclosures voluntarily.

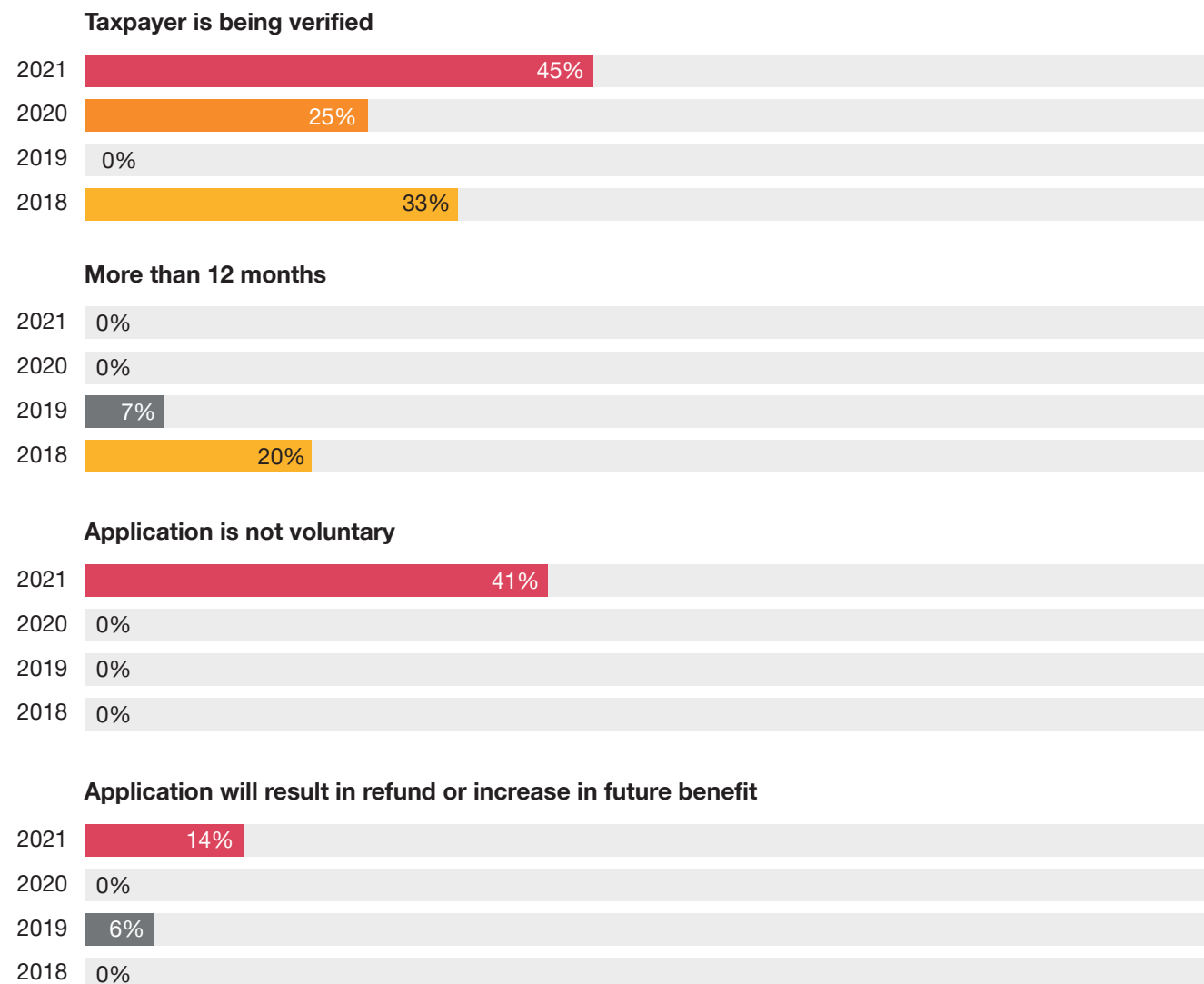
Value of VDP relief

Only 21% of participants do not believe that the VDP assisted their company to obtain the required relief. This is a significant improvement from 54% in 2020. It is possible that SARS is taking a more reasonable approach to considering VDP applications, resulting in regularised tax affairs for taxpayers, while reducing the resources employed by SARS during audits.

VDP guidance

Many taxpayers still find the VDP process to be complex and 84% of respondents confirmed that they would find an interpretation note to be helpful when considering or drafting and submitting a VDP application. It is encouraging to note that SARS' interpretation notes are used by taxpayers and that they find them helpful. Providing guidance up front could lead more taxpayers to utilise the VDP process, resulting in further benefits to SARS.

Figure 16: If the VDP was denied on the basis of not being voluntary, what is the most common reason given?



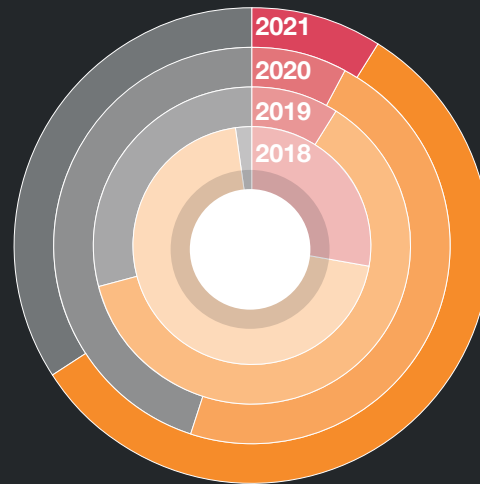
Source: PwC analysis

SARS' service delivery

SARS' Service Charter

No less than 57% of survey participants believe that the SARS Service Charter makes 'no difference' to the quality of SARS' service delivery, up from 47% in 2020. This suggests that the level of buy-in on the part of SARS officials to comply with the SARS Service Charter is low or that taxpayer experiences are disappointing.

Figure 17: Do you think the SARS Service Charter (issued July 2018) makes a difference to the quality of service and behaviour of SARS officials?

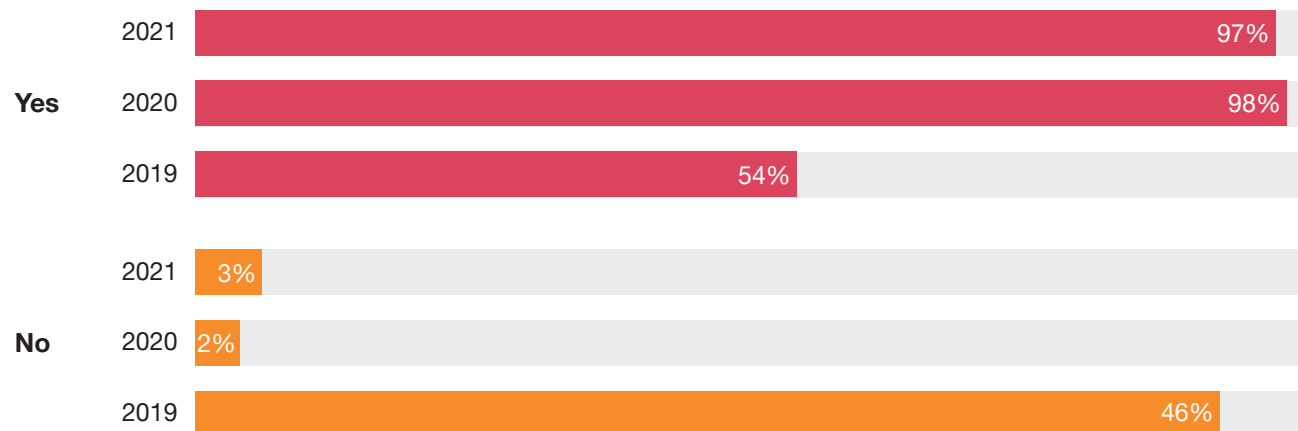


Source: PwC analysis

Behaviour of SARS officials

SARS officials' key performance indicators should be linked to the SARS Service Charter in order to incentivise improved performance. This is a view shared by 97% of participants in our 2021 survey. This suggests that SARS could do more to ensure that officials produce the standard of quality and service promised in the SARS Service Charter and SARS' May 2021 Strategic Plan 2020/21–2024/25. It also highlights the seriousness with which taxpayers view the SARS Service Charter and only time will tell whether this translates into more complaints being lodged with the Tax Ombud this year.

Figure 18: Do you believe the SARS Service Charter should be linked to SARS officials' key performance indicators (KPIs)?

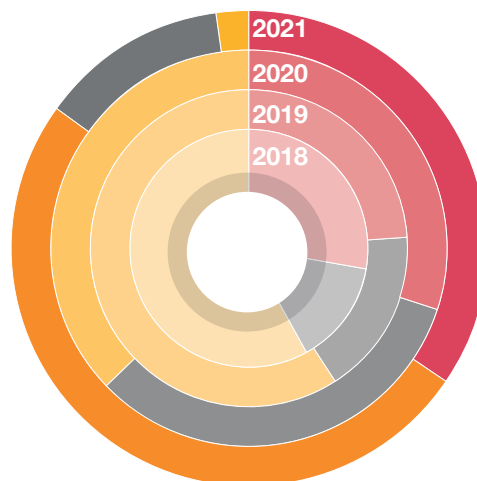


Source: PwC analysis

SARS' compliance with time periods in general

This question was not specific to any processes undertaken by SARS, but was aimed at determining the general perception of taxpayers regarding SARS' response time. SARS' compliance with time frames has significantly decreased since our 2020 survey with only 1% of participants stating that SARS 'always' adheres to time periods, compared to 37% in 2020 and 59% in 2019.

Figure 19: Does SARS comply with the time periods provided in general (including lodging complaints with the CMO)?



	2021	2020	2019	2018
Never	35%	30%	24%	28%
Sometimes	51%	0%	0%	0%
Most of the time	13%	33%	17%	14%
Always	2%	37%	59%	58%

Source: PwC analysis

COVID-19 tax relief

In April 2020, the Minister of Finance announced certain tax relief measures to alleviate the financial burden placed on taxpayers as a result of the COVID-19 pandemic and associated lockdown.



Now, approximately 18 months after the lockdown level 5 announcement (into the COVID-19 pandemic), we asked participants questions aimed at measuring whether the relief measures were sufficient and if taxpayers actually made use of them.¹

¹ Kindly note that the new ETI, Excise duties and PAYE measures announced in July 2021 were not taken into account.

Tax relief measures

Qualifying taxpayer

Just over half of survey participants (52%) indicated that they met the definition of a qualifying taxpayer (i.e. a taxpayer that conducts trade, with gross income below R100m per annum, and is fully tax compliant). Amongst all the respondents, 47% believe the requirement for 'only compliant' taxpayers was too restrictive.

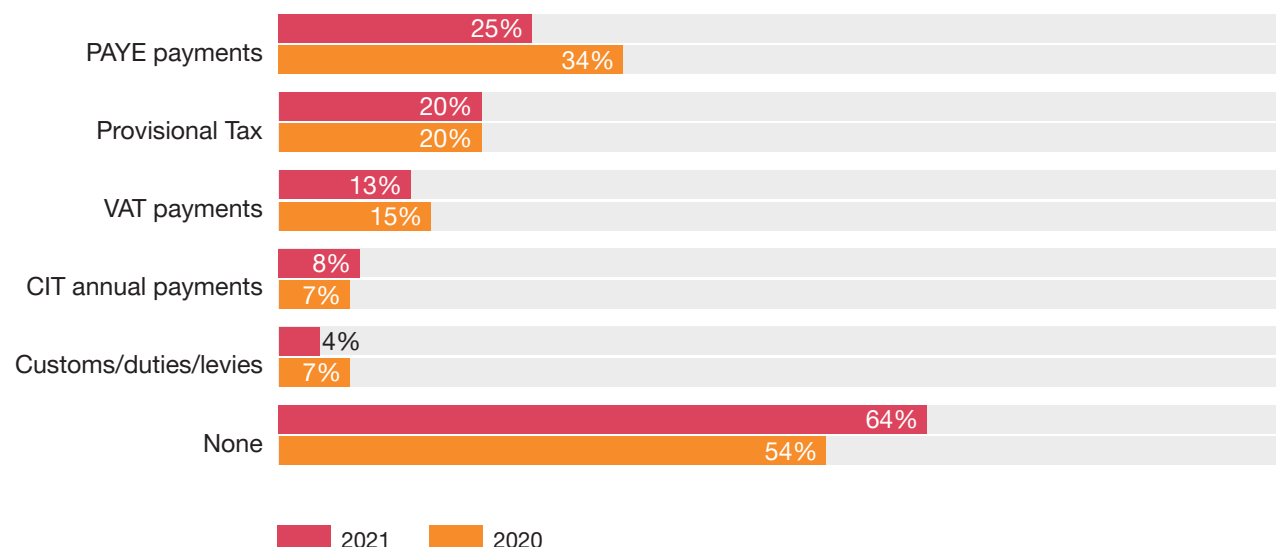
Adequacy of relief measures

Half of participants believe that SARS and National Treasury has not done enough to assist taxpayers with tax relief during the COVID-19 pandemic and lockdown to relieve liquidity and promote business continuity. This is a significant 25 % decline from 75% in 2020.

Discontinuation or reduction of payments

Sixty-four percent of participants stated that they did not discontinue or reduce any tax payments. Of the participants that did discontinue or reduce tax payments, 25% stated that they reduced or discontinued PAYE payments and 20% discontinued or reduced their provisional tax payments. A small percentage of participants utilised the relief for VAT, CIT annual payments and customs duties and levies.

Figure 20: Which tax types did your company discontinue or reduce payments on during or post lockdown? (select all that apply)

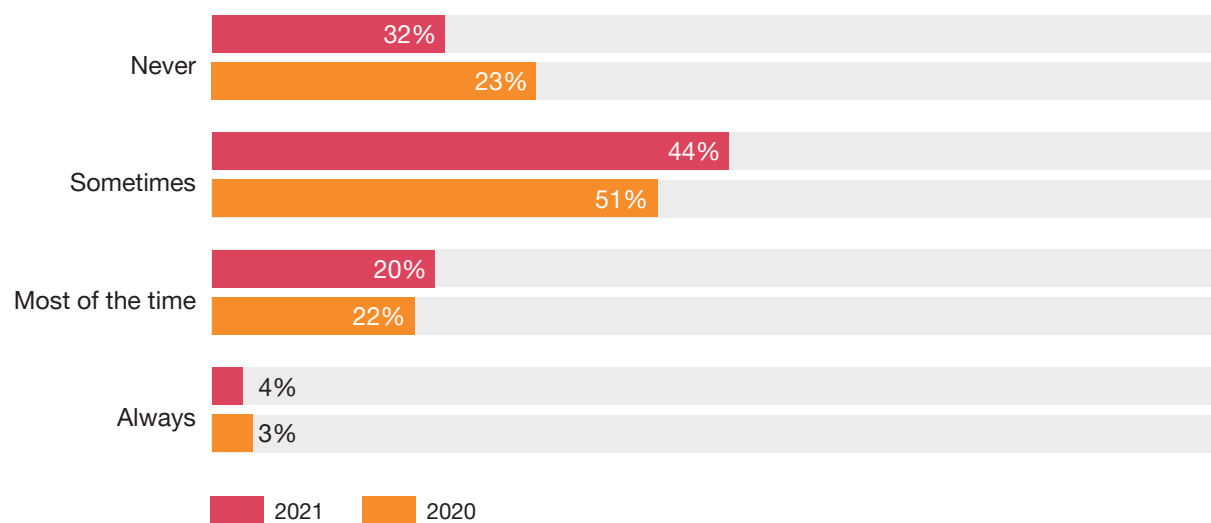


Source: PwC analysis

SARS' service delivery during COVID-19

When asked whether SARS was equipped to handle their company's queries or service-related issues during lockdown, only 4% felt that SARS was 'always' equipped and 32% believed that SARS was 'never' equipped to handle their queries, which is cause for concern.

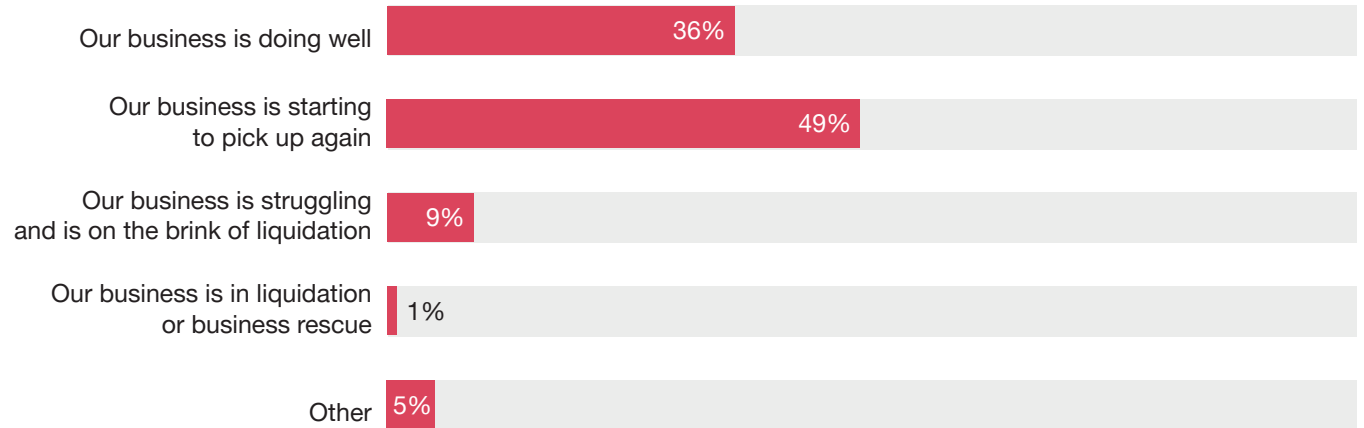
Figure 21: Did you think SARS was equipped to handle your queries or service-related issues during or after the COVID-19 lockdown?



Source: PwC analysis

When asked how their business was recovering after the disruptions caused by COVID-19, 36% of respondents, in 2021, said that their business is doing well and 49% said that business was starting to pick up again.

Figure 22: How is your business recovering after the disruptions caused by COVID-19?



Source: PwC analysis

Taxpayer behaviour

The dynamics of enforced and voluntary taxpayer compliance are reliant on a number of factors. Empirical evidence has shown that in addition to deterrence through the threat of detection and punishment for non-compliance, further psychological and behavioural aspects also play an important role.²

These include taxpayers' perceptions of the tax authority, of wider government and of fellow citizens. In this section, we analyse responses to survey questions concerning deterrence, complexity of the tax system, and fairness and trust, each of which influence taxpayer behaviour and the tax authority's success in collecting revenue.



² Pickhardt & Prinz, 2014; Mascagni, 2018; and Alm, 2019; and Dahl, 2021

Deterrence

Deterrence refers to the likelihood of getting caught for non-compliance and the threat of punishment. One method for deterrence is frequent audits. Deterrence is generally regarded as the main way for a revenue body to promote compliance. While some studies demonstrate that certain deterrence activities (large audit adjustments and monetary penalties) have actually emboldened non-compliance in subsequent years, for the habitual non-complier, a deterrence strategy involving recurring audit activity may be required.³

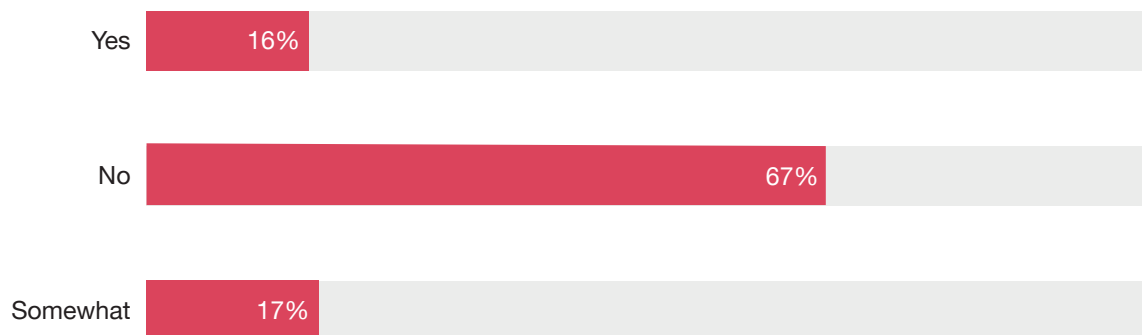
As discussed earlier, 92% of respondents in our survey believe it somewhat likely or extremely likely that they will be audited by SARS during the tax year. This is an increase from 89% in 2020, 86% in 2019 and 85% in 2018. This increase is expected to lead to increases in future tax compliance, all else being equal.

³ Beer, Kasper, Kirchler, and Erard, 2019

Fairness and trust

Trust in government matters for compliance. So does trust in the tax authority itself. In our survey we asked participants if they think public trust is being restored in SARS and were surprised when 67% said 'no' and only 16% said 'yes'.

Figure 23: Do you think public trust is being restored in SARS?



Source: PwC analysis

This continued distrust may stem from distrust in wider government. Research among taxpayers in the US found trust in government to have a significant influence on both perceived fairness of the tax system and compliance decisions.⁴ Similarly, trust in government in general was found to be systematically linked to tax justice perceptions and tax compliance among independent accounting professionals in Turkey.⁵

⁴ Jimenez, P. & Iyer, G.S. (2016). Tax compliance in a social setting: The influence of social norms, trust in government, and perceived fairness on taxpayer compliance. *Advances in Accounting, incorporating Advances in International Accounting* 34: 17-26.

⁵ Güzel, S.A., Özer, G. & Özcan, M. (2019). The effect of the variables of tax justice perception and trust in government on tax compliance: The case of Turkey. *Journal of Behavioral and Experimental Economics* 78: 80-86

Additional comments by survey participants

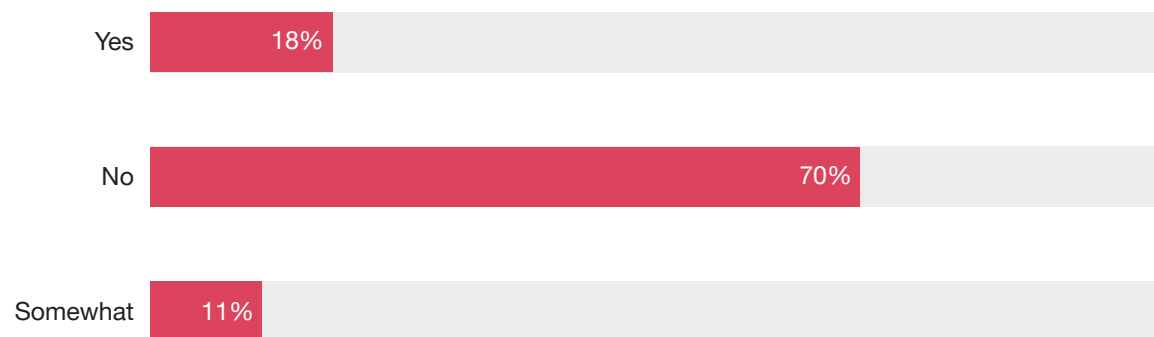
- The appointment of Mr Kieswetter and now Judge Davis will bring a bit of confidence in the organisation that things will improve.
- Mr Kieswetter does appear to be driving the correct behaviour and focus. It is still unclear how this will flow down to the workforce, as there appears to be certain behaviours that are embedded in certain auditors.
- SARS is on the right track. SARS is focusing on collections rather than increasing tax rates. This will take time and persistence.
- Taxpayers view the recent recruitment drive to be positive. There is good news about appointments and some high-profile cases in SARS' favour.
- Taxpayers believe that SARS is more reliable, but feel that SARS does not see the relationship with taxpayers as a partnership.
- The focus on non-compliant industries is a start.
- SARS is doing well to upgrade its IT systems, to appoint the correct people and to engage with taxpayers more. As a result, taxpayers feel more confident in the fact that SARS is trying to gain public trust.
- The knowledge base of SARS employees is still of concern. SARS employees are not sufficiently and efficiently trained and thus unable to assist taxpayers adequately.



Working with stakeholders and regulatory bodies

We also asked participants if they felt SARS is doing enough to work with stakeholders and regulatory bodies to improve the tax ecosystem and 70% of participants said 'no', while 18% said 'yes'.

Figure 24: Do you feel that SARS is doing enough to work with stakeholders/regulatory bodies to improve the tax ecosystem?



Source: PwC analysis

Additional comments by survey participants

- SARS relationship managers at the Large Business Centre (LBC) appear to be contacting taxpayers with the aim of meeting them. It seems like SARS is moving in the right direction.
- Taxpayers are hopeful that SARS will look after their interests better, with a quicker turnaround time on queries raised
- SARS also needs to ensure consistency amongst SARS branches / officials to a single standard in decision making on assessments / objections.
- SARS needs to consistently apply the law to all taxpayers.
- There must be reciprocal duties of professional care, and SARS officials must be held accountable for their decisions and failures, based on the same criteria applied to taxpayers and tax professionals.

Complexity of the tax system

In the *Wealth of Nations* (1776) Adam Smith presented the four canons of taxation: equality, certainty, convenience and economy. Smith advocated for certainty and simplicity of tax laws as a means to improve voluntary compliance. If complying with tax obligations is complicated and unclear, people will be less inclined to comply and more inclined to make mistakes or to evade payment. Difficulty in complying with tax requirements is generally quantified in terms of the number of payments made and time needed to comply with the tax system.

Empirical research consistently shows that lower tax complexity reduces tax evasion.⁶ Meanwhile, lack of transparency and predictability in the tax system reduces taxpayers' willingness to comply and may create opportunities for evasion. For example, McKee, Siladke and Vossler show a strong and positive effect of information services on tax compliance.⁷

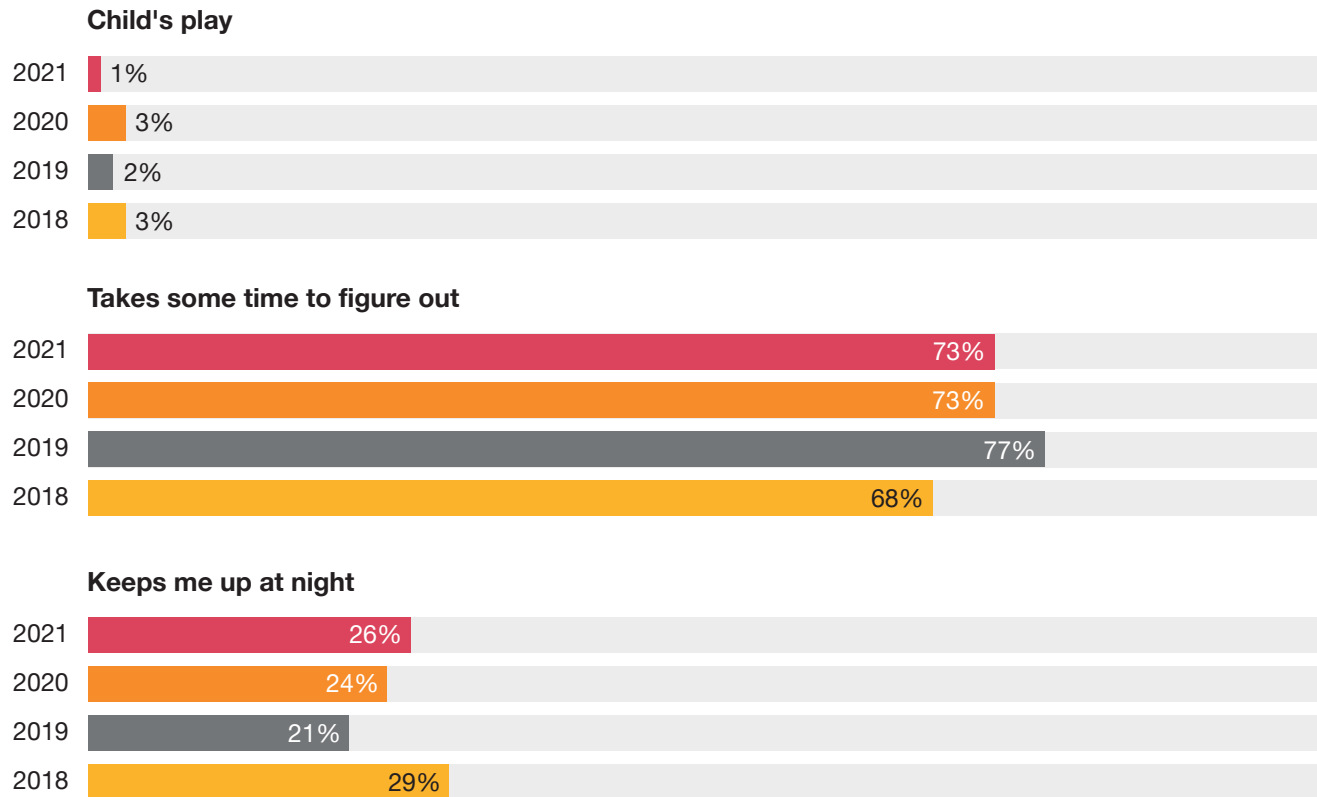
As was the case last year, about three-quarters of survey participants found that it takes them some time to fully comprehend the TAA and SARS' processes. This year, 26% said these processes keep them up at night (2020: 24%).

⁶ Dahl, Casper Hunnerup, 2021. Trust-based Tax Compliance: A survey of empirical evidence from a tax administration perspective. Working Paper Fiscalis Project Group no. 98: Trust and Compliance Project

⁷ McKee, M., Siladke, C.A. & Vossler, C.A. (2018). Behavioral dynamics of tax compliance when taxpayer assistance services are available. *International Tax & Public Finance* 25: 722-756.

These findings suggest that many taxpayers find the tax system too burdensome and complex and that there are insufficient tools to enable them to understand the system and TAA better. In SARS' Strategic Plan for 2020/21–2024/25 one of the nine objectives outlined is to make it easy for taxpayers and traders to comply with their obligations. SARS should consider releasing clear step-by-step Interpretation Notes to assist taxpayers to understand the system and TAA better.

Figure 25: How do you feel about the TAA and SARS' processes?



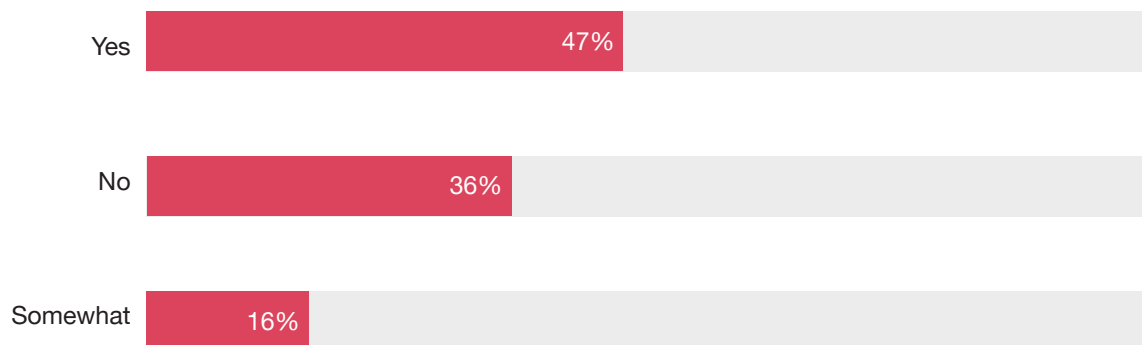
Source: PwC analysis

Lastly, with the revitalisation of the High Net Worth Division, we asked participants if they believe this revival and renewed focus on high income earning taxpayers will assist in closing the tax gap. Less than half (47%) believe it would, 36% said it wouldn't and the remaining 16% indicated that they 'somewhat' believed this measure would assist in closing the tax gap.

Additional comments by survey participants

- Although some high net worth individuals are out to avoid or evade tax, the closing of the tax gap cannot be relied upon by only a small percentage of taxpayers.
- Widening the tax net and assisting entrepreneurs, SMEs, etc. are equally important. Basic tax principles should be taught in secondary schools.
- Taxpayers believe that we need to retain the few high net worth individuals we have in South Africa and incentivise them to invest in the country. At the same time, SARS must ensure that they are not driving such people out of the country.
- SARS also needs to increase the number of taxpayers at the bottom end.

Figure 26: Do you think the revival of the SARS High Net Worth Division and renewed focus on high income generating taxpayers will assist in closing the tax gap?



Source: PwC analysis



The way forward

Improving services

We asked participants what they think SARS should do to improve its service to taxpayers. This year, 18% said that SARS should improve the technical skills of its officials, as opposed to 55% last year.

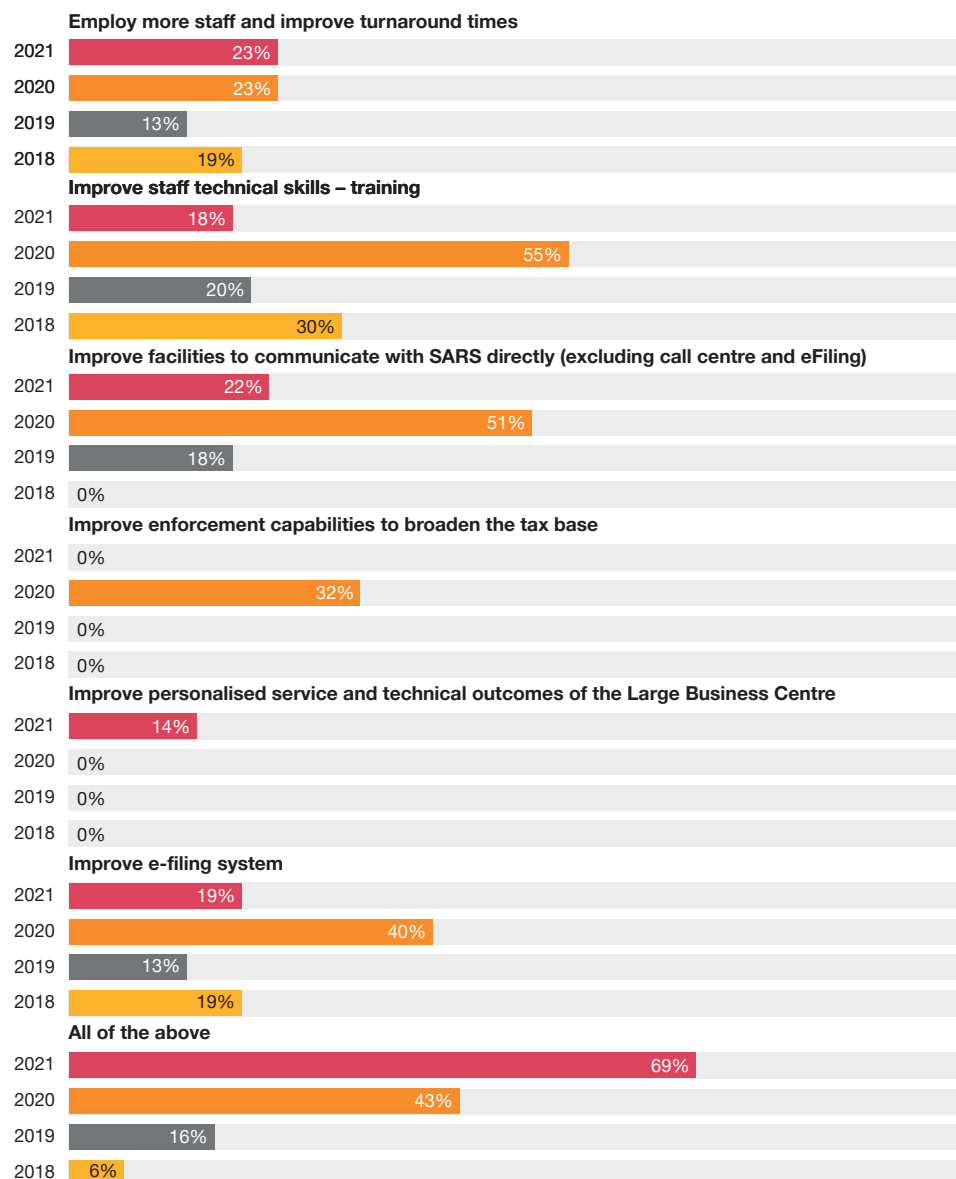


Twenty-three percent of participants believe SARS should employ more staff and improve turnaround times, and 22% stated that facilities to communicate with SARS should be improved.

Additional feedback from participants

- Improve the risk/benefit approach in the selection of clients for audits/verifications.
- Employ competent staff at SARS based on merit.
- Simplify customs and excise processes and communication between taxpayers and officials.
- If an engagement letter is issued by SARS, the name and contact of the SARS official should be included.
- SARS must ensure that its technology is thoroughly tested before being released.
- SARS should only request necessary documentation from taxpayers and store the documentation received adequately.

Figure 27: What can SARS do to improve its service offering to clients?



Source: PwC analysis

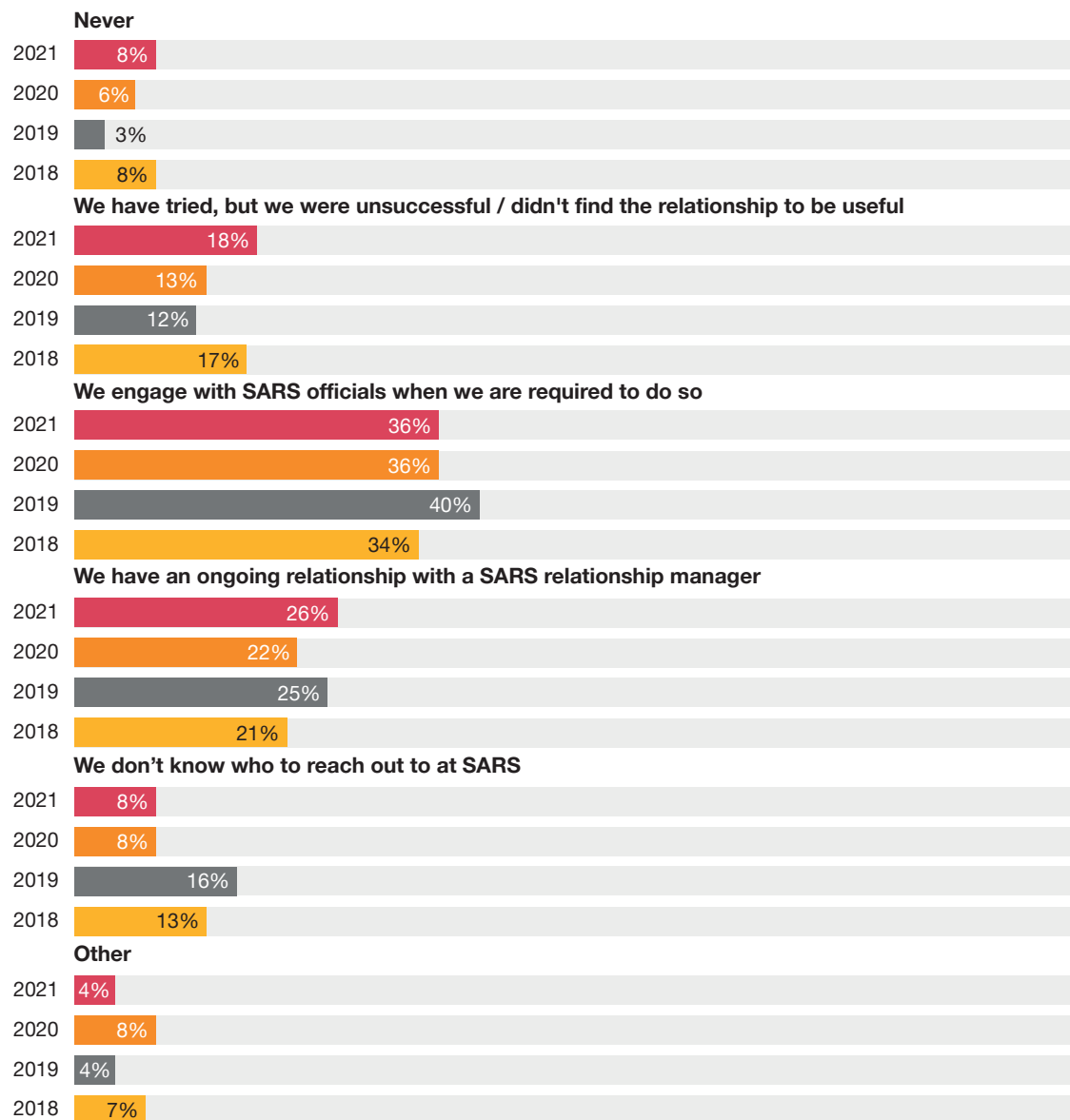
Engaging with SARS

Similar to last year's findings, 36% of participants reported that they only engage with SARS when they are required to do so, while 26% have an ongoing relationship with a SARS relationship manager. Eighteen percent indicated that they have tried to engage SARS but were unsuccessful.

Additional feedback from participants

- Large Business clients are not always contacted by SARS' relationship managers.
- Some taxpayers are not aware that SARS has relationship managers allocated to them.
- Taxpayers do not deal directly with SARS.
- Taxpayers use their tax practitioner to liaise with SARS.

Figure 28: Does your company actively try to engage with SARS to build an ongoing relationship?



Source: PwC analysis

PwC's Tax Controversy and Dispute Resolution services

Key lessons about the tax controversy life cycle

Successfully managing a SARS audit (or even regularising a tax position) requires an understanding of the relevant legislation as well as the policies and procedures that SARS implements. When receiving a final assessment from SARS, it is paramount to ensure that all the elements of the audit adjustment are adequately addressed (dispute is comprehensive) and timeously filed and that SARS' debt management activities are managed.

Our team of lawyers and accounting professionals are here to help clients prevent, efficiently manage and favourably resolve tax audits and disputes throughout the world. PwC has tax specialists who can assist and support taxpayers during these trying times as we are forced to adapt and reinvent ourselves while living and working through COVID-19. We combine deep technical understanding, local knowledge, strong relationships with government officials, tax litigation experience, and a global perspective to provide you with unrivalled service.

PwC is able to assist with:



- liaising with SARS on a preventative basis, such as assisting clients with tax strategy/opinions, advanced tax rulings, binding rulings as well as VDP applications.



- end-to-end management of tax audits.



- SARS disputes, i.e. objections/appeals (ADR).



- debt management matters with SARS, including compromises and settlement as well as instalment payment solutions.



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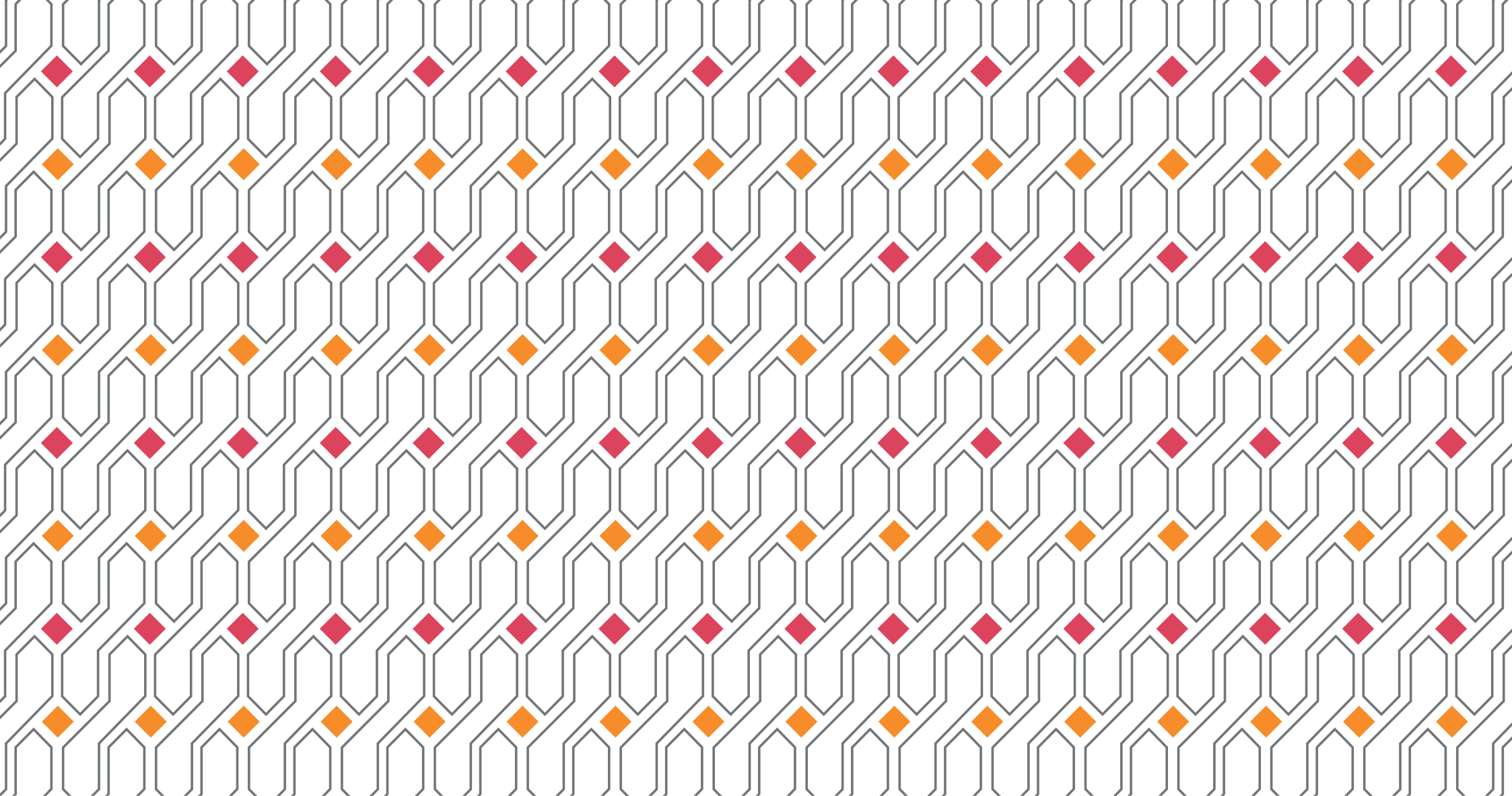


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