Budget deficit resulting in more pressure on Sars, thus putting more pressure on taxpayers

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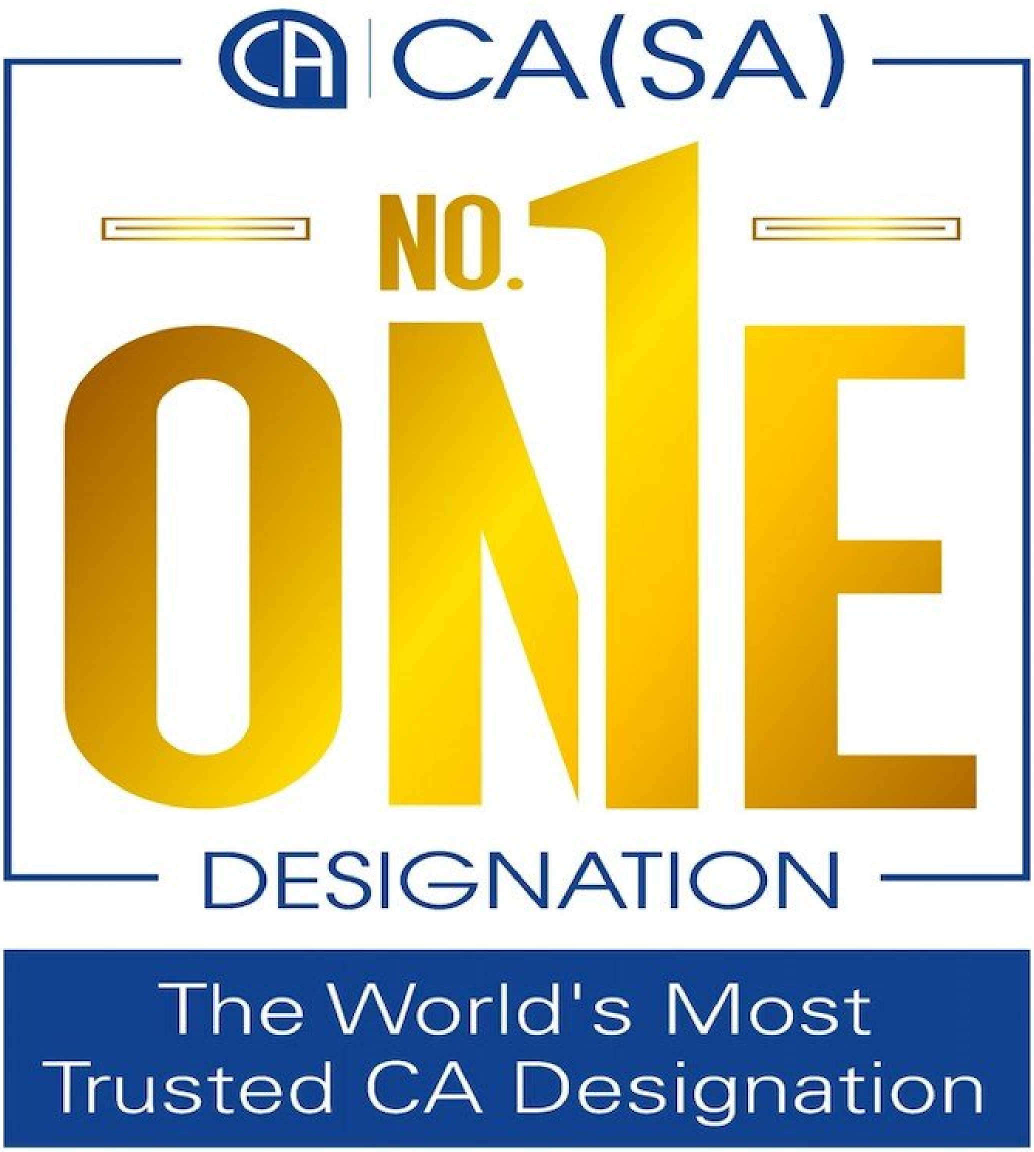
The South African Institute of Chartered Accountants (Saica) says that South Africa does not have a revenue problem, it has an expenditure problem. Somaya Khaki, project director: tax operations and administrative advocacy at Saica explains why, despite this, there is growing pressure on Sars to increase collections from the current taxpayer base.



The government has, for years, tried to make up the budget deficit by focusing on measures to increase tax revenue, until the realisation hit – overburdening an already overtaxed sector of society by continuously increasing taxes and reducing allowances was not the optimal solution.

That said, given the revenue shortfall and significant budget deficit estimated for the 2023/24 year, there is still more pressure than ever on Sars to improve overall collections as a way of reducing the shortfall.

More unwarranted pressure on Sars to collect to make up for overspending and poor budgeting, means more pressure on taxpayers to pay – and is potentially driving the wrong behaviour at Sars.

This may have been evident from the recent SMS message that certain individuals received from Sars last week in respect of companies that were apparently non-compliant with tax return submissions. Following multiple complaints, it was clear that in many instances the SMS was unjustified and Sars later issued an apology in this regard. Whilst some taxpayers were happy that they could breathe a sigh of relief without having to follow a long process to resolve the issue, there was still a sense that more care should have been taken upfront to avoid errors that create panic and offence. Similarly, the complaints about refunds and processes used to delay refunds such as audits and verifications, have continued.

In April 2012, the Accounting Standards Board approved the adoption of Generally Recognised Accounting Practice (GRAP) Standards to replace the Modified Cash Basis of Accounting (MCB) in the public sector though the implementation has been continually deferred, including by Sars. In essence, under GRAP, Sars and Treasury would not account for cash received, but on revenue it is entitled to and not subject to dispute. The MCB as relates to Sars, is at great risk of overstatement, given the Pay Now Argue Later rule in tax.

Sars have in the past sent taxpayers requests to prepay their taxes before the end of the fiscal year even if only due thereafter. These Sars requests for pre-collection and practices of VAT refund deferral are not a challenge only to taxpayers, but as noted by the Minister of Finance in the 2016 MTBPS, results in budget challenges for Treasury as well, which sees below anticipated refunds at the end of the fiscal year and then above average refunds in the first half of the following fiscal year.

There are many channels and Sars processes to follow up and query these practices, but most are cumbersome or ineffective in actually providing clarity on these 'non-standard' issues. Unfortunately, it is often the compliant taxpayers that are caught up in this Sars process web when the focus should rather be on those not within the tax net and those not paying the full amounts due to Sars.

The question that needs to be asked is why is this happening?

Collecting taxes in a static economy, large informal economy, low fiscal morality by government and a declining taxpayer morality, is not an easy task to begin with. Couple that with insufficient capacitation at Sars, an accounting standard that supports bad Sars collection practices and a lack of political oversight to protect compliant taxpayers from overly punitive systems and it sets the scene. It is widely accepted that good governance and more efficient service from a country’s revenue authority will improve tax collections. It is human nature to focus on 'low hanging fruit' and trying to find 50/50 tax matters of compliant taxpayers who seek to comply and cooperate is a lot easier than seeking compliance and tax revenue from those who seek to evade the tax system, both big and small.

It therefore requires a strategy of less Sars focus and resources spent on compliant taxpayers and more resources and focus spent on tax evaders, with proper management oversight to enable the distinction and enable 'ease of use compliance'. Furthermore, from a Sars perspective, an efficient revenue service requires more resources in the form of appropriately knowledgeable staff and suitable technology.

However it all starts with a Budget that is overly optimistic on the sustained revenue side and understates expenses, resulting in political pressure on Sars to fix a gaping fiscal hole they never created.

We hope that this medium-term budget policy statement will provide insight as to how the issue of overspending and poor budgeting will be addressed to reduce the budget deficit without requiring Sars to 'flog the dead compliant taxpayer horse'. Furthermore, we hope that consideration is being given to addressing the resource deficiencies within Sars to make for a more efficient revenue service that will benefit the country as a whole.

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