

1 June 2023

Attention:
Mr. Mark Kingon
Head: Stakeholder Relations Integrity and Anti-Corruption
South African Revenue service
By email: mkingon@sars.org.za

Mr. Allen Wicomb
Committee Secretary
Standing Committee on Finance
Email: awicomb@parliament.gov.za

RE: A Proposal for a Reward-Based Tax Compliance System

Dear Mr. Kingon and Mr. Wicomb,

As representatives of tax practitioners and professionals in South Africa, we have followed the recent amendments to the Tax Administration Act, 28 of 2011 particularly the introduction of penalties for single outstanding returns.

While we appreciate the need for robust tax compliance and SARS's mission to enforce it, we believe it's crucial to balance enforcement with a system that encourages compliant behaviors and fundamentally aligns with the purpose of our tax system.

The recent changes have led to SARS [reportedly](#) imposing penalties amounting to R381 million on 690,000 taxpayers for outstanding returns, R243 million of which are for taxpayers with a single outstanding return, many of whom do not owe SARS any taxes. These people include retirees, unemployed, and single-family households barely surviving post lockdown and the threatening economic recession.

Whilst this will increase the tax revenue collected by SARS, it also raises serious concerns about the costs of compliance for taxpayers and the ethical implications of the perceived utilizing of penalties as a significant tax revenue source.

In essence, the primary objective should be to obtain the outstanding tax returns and not to use penalties as a mechanism to generate tax revenue.

This perceived 'penalty as revenue' approach deviates from the core principle of a fair and equitable tax system and raises potential ethical questions.

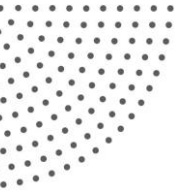
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A calculation based on an average cost of R1,200 for professional assistance to file a tax return, puts the potential compliance cost to the 690 000 taxpayers at a staggering R828 million. This cost is likely to be much higher due to the varied tax types and tax complexities involved and is therefore a conservative estimate.

This disparity between compliance costs and the perceived penalty-generated revenue underlines the need to rethink our approach to tax compliance.

To foster a healthier, more equitable relationship between SARS and taxpayers, we propose an alternative approach:

rewarding taxpayers for consistent and timely compliance.

This approach will encourage proactive behavior, reduces the administrative and financial burdens associated with penalties, and aligns with the fundamental principle that the tax system is about compliance, not punishment.

Specifically, we propose an amendment to the Tax Administration Act to provide incentives for timely filing. For instance, a lower tax rate or a tax credit could be offered to taxpayers who consistently file their returns on time for several consecutive years. The rewards could be incremental, increasing for each subsequent year of timely filing, up to a capped limit.

We believe that shifting from a purely punitive model to one that rewards positive behavior will foster sustained compliance and create a more cooperative interaction between SARS and taxpayers.

However, we recognize that implementing such a provision would require careful consideration to ensure fairness and to prevent misuse. We should ensure that the benefits are equitably distributed and not skewed towards higher-income taxpayers.

Additionally, robust mechanisms must be put in place to verify compliance and administer the rewards. Despite these challenges, we believe that this proposal marks a significant shift towards a tax system that promotes compliance through encouragement rather than punishment.

As a professional body, we are committed to collaborating with SARS, lawmakers, and our members to explore this proposal further, contributing towards an equitable, fair, and efficient tax system.

We look forward to discussing this proposal in greater detail.

Yours faithfully,

Eszter Rapanos
Technical Manager
Chartered Institute for Business Accountants

APPENDIX 1: BACKGROUND TO CIBA

CIBA is a Professional Accountancy Organisation (PAO) and Self-Regulatory Organisation for accountants, tax practitioners, financial managers, and financial directors, in the public and private sector, with offices in South Africa and Namibia. We are associate members of the Pan African Federation of Accountants (PAFA) and full members of the International Association of Finance Executive Institutes (IAFEI). CIBA is authorised to issue designations as registered with the South African Qualifications Authority (SAQA) and our designated members are recognised as accounting officers, independent reviewers, and independent accounting professionals.

CIBA is a statutorily recognised professional accountancy organisation performing a public service in terms of the following empowering legislation:

South Africa

- Recognized Professional Body and Registered Professional Designations: National Qualifications Framework Act 67 of 2008.
- Recognized Controlling Body for Tax Practitioners: Section 240A of the Tax Administration Act, 2011.
- Professional Accountancy Organisation for Assurance and Non-assurance providers: Regulation 29(4) of the Companies Act, 2008 and Section 60(2) of the Close Corporations Act, 1984.

Namibia

- Professional Accountancy Organisation for Accounting Officers: Section 60(2) of the Close Corporations Act, 1988

CIBA's objectives are to protect the public interest by adopting and enforcing standards of ethics, conduct, quality, and service engagement standards that seek to ensure the delivery of accountable and transparent professional service by CIBA members.

We do this by offering executive education and continuous professional development (CPD) via our training platform CIBA academy, technical news updates via accounting weekly and CFO talks, and enforcing ethical conduct thorough monitoring and disciplinary procedures.

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