SARS gets top marks from PwC

South Africa's tax system measures up well against those of other countries, but will need to reform further as other countries are catching up.

PwC's global *Paying Taxes 2013* report ranks South Africa's tax system 32nd out of 185 countries on efficiency and easing the compliance burden for taxpayers. This is four positions better than in the previous report, but substantially worse than the 23rd position the country was awarded in the 2009 and 2010 reports.

Charles de Wet, PwC tax partner, said at the South African release of the report that the high ranking was due to the success with electronic filing and the way returns are submitted and paid through eFiling. However, he said South Africa's ranking moved down from three years ago because its tax reforms have been static.

"It is not that we have changed anything for the worse, but simply that other countries have been more successful in introducing reforms and thus moved up the list," he said.

De Wet warned that staying static in terms of tax system reform will eventually have a negative effect on investment.

"If other countries can do it better than we can, then why invest here? At some point [South Africa's tax system] will need attention again. The debate is where it should happen: on the rates side or the compliance side? I am not sure it can really happen on the rates side, looking at the play-off between tax rates and economic growth.

"A lot of the [potential] changes must happen in the compliance space and streamlining compliance processes. Companies are spending a significant amount of money on tax risk management and processes and SARS should get into a position where they can start relying on that information to try and streamline the process."

De Wet said the level of queries on the tax returns for South African businesses has increased substantially and this has increased the tax compliance burden on businesses, despite the fact that the submission of tax returns is as easy as it has ever been.

"If you submit a VAT return, they can ask you almost immediately why your return is different from the previous month. The variance is sometimes set quite low. The problem of the technology is that it does not take into account things like cyclical movements of a business."

According to the report, it takes an average of 200 hours a year for a business in South Africa to be tax compliant, compared with the global average of 267 hours and the African average of 313 hours.

De Wet said the hours to comply in South Africa may be somewhat understated because of all the follow-ups from SARS, which are not taken into account in the report.

The effect that eFiling in South Africa had on the time it takes to comply is clear. In the 2008 report South Africa ranked 131st in terms on the time to comply to tax, but in the most recent report the country ranks substantially higher at 74.

De Wet said Africa's average hours to comply will also decrease as more countries introduce technology and electronic filing. At the moment, only South Africa, Mauritius and Tunisia have electronic filing and payment commonly used for their major taxes.

Electronic filing of labour taxes, like the Unemployment Insurance Fund and Skills Development Levy payments, and VAT also helped lower the average number of tax payments a business needs to make in South Africa to nine. Globally the average is 27.2 and in Africa the average number of tax payments is 37.

According to the report south Africa's total tax rate for a business is 33.3%, of which 24.3 percentage points relate to profit, 4.1 percentage points to labour taxes and 4.9 percentage points to "other" taxes, including VAT.

The global average total tax rate is 44.7% and Africa's average total tax rate is 57.4%, according to the report. De Wet said the cascading sales tax, as opposed to VAT, which is still used in the Comores, The Gambia and the Democratic Republic of Congo, contribute heavily to Africa's high average total tax rate.

Source: *Business Times* via I-Net Bridge

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