PRESS RELEASE

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New study estimates 1 billion rand revenue loss, and offers way forward

Some multinational businesses use trade mispricing to avoid taxes.

New research using tax data

A researcher with the SA-TIED programme has used SARS tax data to estimate the cost of tax-motivated transfer mispricing on goods imports. The paper by Ludvig Wier suggests that the amount of revenue loss, as a result of corporations' use of transfer mispricing, is equivalent to 2% of foreign-owned firms' tax payments. This is a relatively small, yet important, loss in tax revenue, corresponding to almost 1 billion rand every year. The research also suggests a way forward to support SARS' efforts to enforce the current legislation and minimize transfer mispricing.

Transfer mispricing, a method of tax evasion, by corporations is unlawful. The South African legislation on transfer mispricing was amended and updated in 2012 in accordance with the international best standards of the OECD's Base Erosion and Profit Shifting programme (BEPS). While the evidence shows that transfer mispricing decreased momentarily after the amendment it has since returned to former levels. The researcher notes this may be because mispricing corporations do not believe they can be identified and audited.

Curbing mispricing

The researcher argues that the use of digital tax enforcement measures, as recommended by the IMF and the OECD, can help limit this kind of tax avoidance. His research indicates that firms reduce their transfer mispricing behaviour when the likelihood of an audit by SARS increases. A digital flagging system, using data that SARS collects at present, to identify companies as candidates for audit, could help cheaply and easily.

SA-TIED research

SA-TIED is a research programme between the economic cluster in South Africa and local and international research institutes. It is dedicated to creating evidence-based, policy relevant research. A unique aspect of the collaboration is the creation of a high-quality anonymized database using tax data by the National Treasury and SARS to improve research and policy.

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Notes to editors:

The paper is titled, *'Tax-motivated transfer mispricing in South Africa: Direct evidence using transaction data'* by Ludvig Weir. It can be found here.

Statements are available from Ludvig Weir.

Profit shifting is when multinational firms move profits made in a higher-tax-rate country to another branch in a lower-tax-rate country to reduce their overall tax bill. Transfer mispricing is one method of profit-shifting, when a multinational imports goods or services from another branch in a lower-tax jurisdiction at inflated prices to increase their costs and reduce taxable profits in the higher-tax jurisdiction. Transfer mispricing is illegal.

The SA-TIED programme

This research is a part of the Southern Africa – Towards Inclusive Economic Development (SA-TIED) programme. The programme's official partners are the United Nations University World Institute for Economic Development (UNU-WIDER), the National Treasury (NT), the South African Revenue Service (SARS), the Department of Planning, Monitoring, and Evaluation (DPME), the Department of Trade and Industry (dti), Trade and Industrial Policy Strategies (TIPS), and the International Food Policy Research Institute (IFPRI).

SA-TIED is a research programme between the government of South Africa and local and international research institutes. It is dedicated to creating evidence-based, policy relevant research. The data used in the study is from a completely anonymised database of SARS tax data located at the National Treasury of the Republic of South Africa in Pretoria, South Africa. The anonymisation of the data is a part of global best practice in data security and privacy.

http://sa-tied.wider.unu.edu/