

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER 1501 [NW1533E]
DATE OF PUBLICATION: 10 JUNE 2011

Mrs Dudley (ADCP) to ask the Minister of Finance:

- (1) (a) Why were payments from SA Revenue Service (SARS) frozen for four months resulting in companies not being paid, (b) how many companies were affected by this and (c) what sum of money was frozen;
- (2) whether he has been informed of the effects that this freeze on payments has had on businesses; if so, what steps has he taken to prevent such a situation from recurring in future? **NW1533E**

REPLY:

- (1) There has been no freeze on the payment of refunds from the South African Revenue Service over the past four months or any other period. Combined refunds for CIT and VAT for the four months ended 31 May 2011 amounted to R37.468 billion compared to R40.056 billion for the comparative period in 2010. With regards to VAT refunds specifically, refunds for the four month period in 2011 amounted to R33.691 billion compared to R35.958 billion in 2010.

It must be borne in mind that VAT refund fraud poses a serious risk to the fiscus. On the basis of objective risk criteria, a number of VAT refund claims are selected for further investigation and audit each month. In terms of the law, SARS pays market-related interest on any refunds which are not processed within 21 days of receipt of the refund claim or within 21 days of the receipt of information requested by SARS from the taxpayer necessary to complete an audit or investigation.

The attached explanatory note provides further information about VAT and current measures to reduce the risk of refund fraud to the fiscus as well as improvements to service.

- (2) Not applicable
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ADDITIONAL BACKGROUND INFORMATION ON VAT IMPROVEMENTS:

At the end of May 2011, the South African Revenue Service introduced a new sophisticated risk engine and other enhancements to the VAT system as part of an on-going Modernisation programme.

The improvements to the VAT system, which include a new VAT 201 monthly declaration form, an automated risk assessment tool and a case management system to track the progress of VAT assessments, audits and refund payments, will significantly increase the speed and accuracy with which SARS is able to release legitimate VAT refunds while simultaneously identifying highly risky or suspicious refunds for further review and investigation.

The new process replaces the previous manually-intensive process by which each VAT return was assessed for risk by SARS officials who either released refunds or marked the VAT return for audit. This previous system was not only less efficient but prone to human error and potential interference and corruption.

The new risk engine was born out of an additional verification process which SARS introduced in March this year in a bid to prevent illegitimate refunds and to test the efficacy of the old process as part of the development of new parameters for the risk engine.

Within the first month of this verification process, suspicious VAT refunds to the value of just under R1 billion were identified for further investigation. Over the past six months SARS's focus on VAT refunds has uncovered a number of refund scams involving tens of millions of rand – and led to the arrest of a number of suspects.

In terms of tax revenue collected and refunded, VAT is by far the largest tax administered by SARS. Due to the large portion of refunds, it also has the greatest scope for abuse. In 2010/11 SARS collected R287.2 billion in VAT, of which a total of R103.6 billion was paid out as VAT refunds.

Once paid, illegitimate refunds are very difficult – if not impossible – to recover as the criminals quickly move the money and then disappear. To prevent this, SARS has

introduced a number of measures over the past few years specifically aimed at reducing the risk of VAT fraud.

The first of these measures, announced in November 2008, was aimed at reducing the risk of fraudulent registrations by introducing additional verification measures for VAT registration including inspections of business premises.

This was followed a year later with a clean-up of the VAT register in the removal of taxpayers from the VAT register who failed to meet the criteria. This has been an on-going exercise.

SARS's mandate is to collect all revenue that is due to the fiscus. In fulfilling this mandate it is also imperative on SARS to ensure that collected revenue is not put at risk because of fraud and corruption. This requires a careful balance between efficiency and enforcement.

SARS is mindful of the need by VAT vendors to recoup legitimate VAT inputs as quickly as possible and the impact these have on businesses' cash flows – particularly smaller businesses – especially during difficult economic times. We remain committed to meeting our service standards of processing VAT refunds within 21 days. Where this is not possible, a highly competitive interest rate of 8.5% per annum is payable. At the same time, SARS must ensure that tax revenue is not compromised by unscrupulous and immoral people who seek to defraud the fiscus.

Individual taxpayers have experienced the power of the modernisation process which has resulted in the reduction in processing time for individual income tax returns from an average of three months in 2006 to just 24 hours in 2010.

SARS anticipates that the VAT modernisation programme – when fully implemented over the next two years – will provide similar significant enhancements.
