

NATIONAL COUNCIL OF PROVINCES
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER 256 (CW319E)
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MR M W MAKHUBELA (COPE-LIMPOPO) TO ASK THE MINISTER OF FINANCE:

Whether, in light of recent reports regarding value-added tax (VAT) payments, the National Treasury has instituted or will institute any new measures to curb the problem of false VAT claims; if not, why not; if so, what measures? **CW319E**

REPLY

The South African Revenue Service is responsible for the administration of the VAT Act. 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.

As part of the new process, VAT vendors selected for further verification of their refund claims are requested to submit documents in support of their declaration or to revise their declaration (submit a revised return) where an error is suspected.

To date, almost a quarter of all vendors given this option have opted to revise their refund claims downwards in the total amount of over R2 billion rather than to submit supporting documents. SARS sees this as a vindication of the new risk system.

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. In part, the need for further scrutiny was informed by an increase in VAT refund claims during the prior financial year which were not supported by a similar increase in corporate income tax. While not directly linked, one expects a correlation between VAT activity and corporate profitability linked to economic growth. At the same time, a recent survey by the OECD's Forum on Tax Administration found strong evidence that tax fraud increases during times of economic downturn when company profits and cash flows are under pressure. (*Tax Repayments: Maintaining the Balance Between Refund Service Delivery, Compliance and Integrity, May 2011*)

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.