

**NATIONAL COUNCIL OF PROVINCES
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 53 [CW82E]
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53. Mr L G Mokoena (EFF-FS) to ask the Minister of Finance:

What is the Government's position on tax evasion and capital flight from South Africa?

CW82E

REPLY:

The government does not tolerate any illegal actions like tax evasion nor the illegal transfer of capital across borders, as was noted by the Deputy-President recently in reply to Parliamentary Question Number CO86E published on 27 August 2014. Since such measures are by definition illegal, and not declared by the transgressors, it is up to the relevant agencies like the South African Revenue Services (SARS) and the South African Reserve Bank (SARB) to continually assess taxpayers and significant financial transactions for compliance with tax and financial sector laws, and take appropriate steps where they believe that such activities are not declared or legitimate.

- (a) With regard to tax evasion, the most significant form of tax evasion practices are done via base erosion and profit shifting (BEPS), which describes tax planning strategies that rely on mismatches and gaps that exist between the tax rules of different jurisdictions. These strategies are designed to minimise the corporation tax that is payable overall by either making tax profits "disappear" or by shifting profits to low tax operations where there is little or no genuine activity. In most cases BEPS strategies are not illegal. Largely they take advantage of differences in tax rules between countries.

This is a global problem, and for this reason the OECD has commenced a major research project to sharpen the mechanisms to deal with transfer pricing and base erosion. In South African, the former Minister of Finance appointed a Tax Review Committee chaired by Judge Dennis Davis, to evaluate the South African tax system against internationally accepted *tax trends, principles and practices*, as well to improve tax compliance and deal with problems of base erosion.

- (b) The South African Reserve Bank (SARB) is responsible for the administration of exchange control in terms a delegation by the Minister of Finance. This entails implementing exchange control policy and administering a robust exchange control system, through regulations and gathering, analysing and disseminating information on cross-border flows, to maintain price stability in the interest of balanced and sustainable economic growth in South Africa.

To the extent that there are any criminal transgressions with regard to taxation or capital transfers, the relevant authorities take appropriate steps including referring cases to the prosecuting authorities. The SARB and SARS work closely together to monitor capital flow movements. Applications for cross-border transactions often require tax-clearance by SARS to ensure that tax risks are being reduced. Ongoing interaction between the two means that as far as possible attempts to move capital offshore illegally are reduced.