

**NATIONAL ASSEMBLY**  
**QUESTION FOR WRITTEN REPLY**  
**QUESTION NUMBER: 68 [NW73E]**  
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**68. Mr R A Lees (DA) to ask the Minister of Finance:**

- (1) What (a) is the estimated loss of tax revenue due to the illicit trade in tobacco products in the (i) 2015-16, (ii) 2016-17 and (iii) 2017-18 financial years and (b) are the relevant details of all action taken by the SA Revenue Service (Sars) in order to ensure that all taxes on the trade in tobacco products in South Africa are paid;
- (2) Whether Sars has done any research into the actual prices that tobacco products are being sold for; if not, why not; if so, what are the relevant details of the (a) research conducted and (b) results of the research conducted?

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**REPLY:**

- (1)(a)(i) The estimated loss of tax revenue due to the illicit trade in tobacco products for the 2015/16 financial year was R6 billion compared to the estimated loss of R 4.1 billion for the 2014/15 financial year.
- (ii)(iii) The estimated loss of tax revenue due to the illicit trade in tobacco products for the 2016/17 and 2017/18 financial year has not been concluded as yet.
- (b) Steps taken by SARS to ensure that all taxes on the trade in tobacco products in South Africa are paid are:
  - SARS conducted Integrated Audits on the Tobacco industry for years up until 2015.
  - Amending section 113 of the Customs and Excise Act, 1964, (the Act) with effect from 19 January 2017 to prohibit the importation of cigarettes with a mass of more than 1.2 kilogram per 1 000 cigarettes, and the manufacture of cigarettes of which the mass of the tobacco content exceeds 0.9 kilogram per 1 000 cigarettes.
  - SARS is finalising a draft rule amendment to the Act that will be published for public comment shortly to require functional tamper-proof product counters on all the tobacco manufacturing equipment used by the industry at any licensed tobacco excise manufacturing warehouse in the country.

- SARS is in the process of modernising its current fiscal marker and implement technology that will provide information to SARS to enable SARS to track and trace cigarettes that are manufactured throughout the value chain.
- SARS has an integrated Audit team that was established to audit traders across multiple taxes.

There is an increased focus on illicit tobacco and cigarette trade using a multi-pronged approach that includes:

- Establishment of the Illicit Economy Unit with a multi-disciplinary team investigating allegations of non-compliance in the tobacco industry.
- Integrated audits are performed by the Excise team.
- Reviews of the existing licences are conducted in line with the new measure that is under consideration for implementation.
- Targeted port risk alerts driven interventions on raw tobacco in order to follow the trail from foreign exporter to the consignee who is either the manufacturer of the importer who supplies the manufacturer, to ensure that we can align any thread of imported raw tobacco to the volumes of production per manufacturer.
- Audit and inspections are being conducted on cigarette manufacturing machines to ensure that SARS has sight of manufacturing equipment and its production capacity.
- Policy review is being envisaged to enforce the cigarette manufacturing machines counters usage, with possible withdrawal of licences should the counter be found not to be operational.
- Increased inspections at targeted areas identified as being high risk regarding suspected illicit cigarettes sold.
- Deployment of Customs inspectors at the manufacturing sites to inspect, monitor, record and develop an understanding of the entire manufacturing value chain from raw materials that form the inputs into production and the final products in relation to the excise account declared.

(2)(a)(b) SARS does research on a regular basis aligned to its strategic approach and focus. In line with this approach SARS is in the process of conducting research into the tobacco industry.