

NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER 128 [NO1543E]

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Mr M Swart (DA) to ask the Minister of Finance:

- (1) (a) How many tax refunds due to taxpayers have been paid to incorrect recipients by SA Revenue Services in the 2009-10 financial year and (b) what was the total amount incorrectly paid;
- (2) whether any interest has been paid to taxpayers as a result of such incorrect payments; if not, why not; if so, what are the further relevant details?

NO2649E

REPLY:

- (1) Refunds to taxpayers are occasionally paid to the incorrect bank account. The reasons for this are:
 - Where SARS has made an error by either failing to effect a change when requested or erroneously paying a refund into the incorrect account
 - Where banking details have been changed fraudulently
 - Where the taxpayer has failed to notify SARS of a change in bank details

In the period 1 April 2009 to 31 March 2010, SARS considered 64 cases of instances where SARS had paid out refunds to the incorrect account due to a SARS error. The total value involved amounted to approximately R10 million.

During the same period there were 107 cases of fraud which resulted in refunds being paid into the wrong account and the total actual loss value was approximately R86 million and the total potential loss (money that was stopped) value was approximately R59 million

To provide context for these, it is worth noting the total number and value of refunds. In the course of the 2010 financial year the following refunds were made:

- Income Tax (Individuals, Companies and STC): 2,11 million refunds with a total value of R25 billion
- VAT: 756 460 refunds were made with a total value of R117 billion

As such, erroneous and fraudulent payments constituted a very tiny fraction of total refund payments.

Measures to prevent fraudulent payments: Prior to 2007 SARS paid approximately 1 million refunds to clients annually via cheque payments. In order to prevent fraud and prevent the payment of cheques to the incorrect taxpayers, SARS terminated this method of payment. From 2007 it became a requirement for taxpayers to provide SARS with their bank details in order for refunds to be made electronically. This allows for a verification process to verify the bank details.

Following the implementation of this measure, SARS is currently withholding a total of over 88 000 refunds totalling approximately R1,5 billion where taxpayers bank details cannot be verified (are either incorrect or have not been provided). SARS has written to each of these clients to ask them to rectify their banking details and has telephoned those clients for whom we have accurate contact details.

Measures to prevent fraudulent bank detail changes: SARS has reviewed its policies for the changing of bank details and is in the process of making further changes in order to limit the risk of paying the amounts into the incorrect bank account. The process currently for the changing of Bank details is:

- For security reasons and to protect taxpayers from potential fraud, changes to banking details can only be done in person at a SARS branch or via the taxpayers eFiling profile if they are a registered eFiler.
- If the taxpayer is not a registered eFiler, the taxpayer must visit the nearest SARS branch to make the necessary changes. In line with FICA requirements and for security reasons, the following documentation is required:
 - Original identity document, passport or driver's licence; and
 - Any one of the following documents:
 - Cancelled cheque; or
 - Original bank statement that confirms the account holder's name, account number, account type and branch code; or

Measures to prevent instances of mistakes: SARS has also implemented the following measures recently to ensure that capturing mistakes are limited:

- The validation logic on the capturing channels (eFiling and SARS branches) has been enhanced to verify, at capturing time, the validity of account numbers and branch codes (also referred to in the financial services industry as *Automated Clearance Bureau* validations).
- Pre-population of Universal branch codes for EFT payments.

Planned measures to prevent fraudulent bank details changes: As part of SARS's modernisation journey the following interventions are also planned in future:

- Utilising the planned industry solution AVS (Account Verification Solution) which will enable SARS to validate the account owner identity during any update or provisioning of bank details.
- Incorporating more sophisticated risk validations within the SARS Risk Engine to identify possible fraudulent transactions (e.g. the same bank account being utilised across multiple taxpayers).
- Automatic taxpayer notification (e.g. via SMS) when bank details are changed, acting as a warning mechanism when bank details are updated fraudulently, similar to the account activity notifications utilised within the banking fraternity.

Progress in charging persons for fraud: The SARS Anti-corruption and Security Division, which conducts investigations into allegations of fraud, has revealed that an external syndicate was operating in collusion with a SARS employee in effecting the fraudulent change of banking details. The head of the syndicate as well as the SARS employee and 5 other members of the syndicate have been arrested (a total of 7 people arrested) and the case is currently before court. Three other arrests were also effected in three other cases, which are also before court. Furthermore, a total of R26 108 827, 60 in money fraudulently paid has also been recovered with the cooperation of the banks.

Process to follow if a taxpayer believes their refund has been incorrectly paid: In the unlikely event of a refund being paid to the incorrect bank account, a taxpayer should immediately upon becoming aware of the error approach SARS and ask that the matter be rectified. SARS investigates each such case and if it is shown to be a

SARS error the amount is reimbursed to the taxpayer and SARS puts recovery steps in place to recover the money from the person who received it incorrectly.

- (2) Interest is only paid if the legislation mandates the payment thereof. In terms of current legislation, non-provisional taxpayers are not paid interest. It should be noted that while non-provisional taxpayers do not currently receive interest on refunds, liability on assessment also does not attract interest prior to the second due date for payment thereof. In the current Tax Season, non-provisional taxpayers with additional tax on assessment have until 26 November 2010 to submit their returns and will be granted at least 30 days to make payment interest-free. This is at least 10 months after the tax liability was incurred.

A legislative amendment allowing for interest to be paid to all taxpayers (including non-provisional) has been passed. However, this change has not yet taken effect pending the development of systems and process changes within SARS.