

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 376

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Dr D T George (DA) to ask the Minister of Finance:

- (1) Whether an implementation plan has been drawn up for the proposed SA Revenue Service (SARS) audit of individuals whose lifestyles do not match their declared earnings; if not, why not; if so, what are the relevant details;
- (2) whether an audit will be conducted into the affairs of a certain person (name furnished); if not, why not; if so, what are the relevant details?

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REPLY:

- (1) The South African Revenue Service (SARS) employs a risk-based approach to identify and investigate non-compliance with tax and customs laws. The “lifestyle audit” has been used over many years as one of several methods to establish non-compliance with tax / laws and obligations.

Risk-profiling is applied to all tax entities (individuals and businesses) and across all tax types or tax products – Personal Income Tax (PIT), Corporate Income Tax (CIT), Value-Added-Tax (VAT) and Customs and Excise duties.

Over time SARS has improved its capability to gather and analyse taxpayer information. This has significantly improved SARS’ risk rules that identifies undesirable tax planning and tax evasion.

SARS obtains taxpayer information from various sources – verification and analysis from 3rd party data sources, the SARS anti-corruption and fraud hotline, income tax returns a taxpayer submits to SARS and suspicious activity reports from members of the public.

A lifestyle questionnaire is one method of obtaining information from a taxpayer and – together with other information sources – assists SARS in matching the lifestyle trends, income streams and the asset base of a taxpayer, to what has been declared in an income tax return. The accumulated wealth has to be explained by the taxpayer for tax purposes. Any unexplained wealth is taxed.

The Compliance and Risk Unit within SARS conducts the risk analysis of taxpayer information. If there is a mismatch between what the taxpayer has declared and what SARS has found, the case is referred for an audit.

If it is confirmed that the taxpayer has evaded tax, penalties are levied, interest is charged and additional tax of up to 200% of the evaded tax is charged. Depending on the circumstances, the case may then be handed to SARS criminal investigation who then engages the South African Police Service (SAPS) and a Specialised Tax Unit for criminal prosecution within the National Prosecuting Authority (NPA).

A total number of 72 926 audits – across all tax types and on all categories of taxpayers - with varying degrees of depth were concluded during 2008/09. Of these 1 740 were in-depth investigations of individual taxpayers.

The key message to all South Africans is that they must declare all their income in their income tax returns and pay their fair share of tax in accordance with the law. Government's ability to deliver services to the vast majority of poor people in South Africa and implement its economic and other programmes depends upon the taxes paid by all citizens.

- (2) Section 4 (1) of the Income Tax Act requires SARS to preserve and aid in preserving secrecy with regard to all matters that may come about in the performance of its duties and prevents the communication of any such matter to any person whatsoever other than the taxpayer concerned or his or her lawful representative. As a result, SARS is not legally in a position either confirm or deny whether an audit is being conducted on any particular person or legal entity.