

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 8 – NW9E

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Adv A de W Alberts (FF Plus) to ask the Minister of Finance

- (1) How many (a) persons, expressed as a (i) number and (ii) percentage have had their returns audited in the (aa) 2010-11 financial year and (bb) during the period 1 April 2011 up to the latest specified date for which information is available and (b) of these audits, expressed as a (i) number and (ii) percentage, have not yet been finalised by the SA Revenue Service (SARS);
- (2) (a) in how many of the audited cases was it found that SARS owed persons money, (b) what criteria are used to determine whether a person's return must undergo an audit and (c) what (i) does the auditing process comprise and (ii) is the period within which the audit should be finalised;
- (3) which (a) considerations play a role when determining which persons' audits must be audited and (b) measures have been introduced to prevent political considerations from playing a role?

REPLY:

Background:

As part of the risk-based approach used by SARS to identify and investigate non-compliance with tax and customs laws, risk-profiling is applied to all tax entities (individuals and businesses) and across all tax types or tax products – including Personal Income Tax (PIT), Corporate Income Tax (CIT), Value-Added-Tax (VAT) and Customs and Excise duties.

As part of the risk-profiling of individual taxpayers which is done solely on the underlying financial risk to the fiscus, SARS uses a variety of sources of information including third party data and risk rules which assist in identifying potential discrepancies between the income declared by taxpayers and the income and assets they are thought to have.

Where such a potential discrepancy is identified, a taxpayer's declaration is selected for further review. This review process has a number of potential steps depending on the nature of the discrepancy and the information provided by the taxpayer. These steps range from a taxpayer submitting a revised return, submitting supporting documents, conducting a formal audit or a criminal investigation. These steps are explained in more detail below.

In the majority of cases where a discrepancy is identified, the first step is to write to the taxpayer explaining that SARS has identified discrepancies between what they have declared in their return and the information at the disposal of SARS. They are provided with two options to address this discrepancy:

1. Submit a revised return: Where the discrepancy is the result of a genuine error by the taxpayer in the completion of their return (e.g. misplacing of a decimal point in which income of R10 000 was mistakenly declared as R100 000), they are provided the opportunity to submit a revised return correcting the error. Where the revised return corrects the discrepancy, the revised return is immediately finalised.
2. Submit supporting documents: Where the taxpayer believes their declaration to be accurate, they have the opportunity to submit supporting documents to SARS to justify and support their declaration. These documents are then inspected by SARS officials and where they account for and justify the declaration, the return is immediately finalised.

In cases in which either the submission of a revised return or the submission of supporting documents fails to adequately address the discrepancy, the return is referred for a formal audit. This process takes various forms depending on the complexity of the tax affairs of the taxpayer and is usually followed up with further engagements between SARS and the taxpayer. Such engagements may occur in person, telephonically or in writing. Where discrepancies have been confirmed, the SARS auditor would then typically issue an additional assessment to take into account income not previously considered, and would usually have an interest consequence and additional tax consequence. In addition, under certain circumstances, penalties may also apply.

1. (A) and (B)

	No. of cases identified for review	Expressed as % total returns received	No. of cases resolved through revised return	No. of cases resolved through submission of supp docs	No. of cases referred for formal audit	Total no. of cases finalised	Total value of all assessment revisions of finalised cases in SARS's favour	No. of cases not yet finalised-	Cases not yet finalised as a % of total cases
2010/ 2011 Financial Year	592,977	10.2%	243,796	259,143	56,212	591,991	R2,428,579,295	986	0.16%
2011/ 2012 Financial Year to date	853,991	15.1%	270,649	480,640	53,791	689,037	R2,785,711,997	164964	19%

Set out in the table above a summary of data for the 2010/11 Financial Year and the 2011/12 Financial year to date in respect of the review process for Personal Income Tax (returns submitted by individuals).

2. (A) The net result of the review process in respect of revision of assessments is contained in column 8 in table above and reflects that the review process resulted in additional tax or reduced refunds totalling R2.4 billion in 2010/11 and approximately R2.8 billion in the financial year to date.
- (B) The exact criteria used to determine whether a person's return should undergo a review are never made public. However, as noted in the background explanation above, SARS uses a variety of sources of information including third party data and risk rules which assist in identifying potential discrepancies between the income declared by taxpayers and the income and assets they are thought to have.
- (C) (i) Refer to background note above.
- (ii) While legislation does not prescribe the timeline in which a review/ audit should be completed, SARS endeavours to complete all reviews within 30 days and limited scope audits within 60 days. However, these cycles only commence once the taxpayer has submitted to SARS all required documentation. The majority of cases not yet finalised by SARS, as depicted in the table above fall within this performance objective. Note further that some cases finalised within a given financial year may relate to a prior period. Of 164 964 cases that are not finalised as yet, 67% (over 110 000) relate to cases where the taxpayer has failed to provide SARS with the required documentation in order to conclude the review.
3. In addition to the above, it must be emphasised that over time a very objective and risk-based approach has been developed by SARS (also based on global best practice) to auditing.