

**NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER 2160 [NW2582E]
DATE OF PUBLICATION 16 AUGUST 2013**

2160. Mr N J J van R Koornhof (Cope) to ask the Minister of Finance:

(a) What has he found to be the level of corruption, bribery, VAT fraud and tax evasion in the country since 1 January 2009, (b) what is the scale thereof that was identified in (i) local companies and (ii) international and (iii) foreign companies in this regard, (c) what measures have been put in place to stem this tide and (d) how is the message with regard to these measures being put across?

NW2582E

REPLY:

(a) Level of corruption, bribery, VAT fraud and tax evasion

(i) Corruption and bribery

SARS's mandate is to collect all tax revenue, ensure maximum compliance to all the tax and customs laws that SARS administers and provide a customs service that optimises revenue collection, protects our borders and facilitates legitimate trade. From a statutory point of view SARS does not *per se* directly investigate bribery and corruption. It is, therefore, difficult for SARS to express an authoritative view on corruption and bribery in South Africa.

It is so that in the course of its daily activities, SARS does come across evidence of corruption and bribery. The Tax Administration Act, 2011, does make provision for a process to be followed to report such cases.

Reported incidents within SARS since 2009, however, are as follows -

2009/10	2010/11	2011/12	2012/13
39	53	60	81

Factors contributing to the detection of corruption reporting within SARS in each year since 2009 include the launch of a modernisation programme, the impact of a revised Tax Administration Act that greatly strengthens SARS enforcement powers, the establishment of a dedicated integrity promotion unit and the enlistment of new technology to enhance efficiency and cross checks in every aspect of the institution.

Within the SARS Anti-Corruption and Security Unit (ACAS), continuous risk assessments are done to identify priority areas/risks. The findings are used to develop action plans in order to address weaknesses as well as to engage and sensitise managers in high risk operational focus areas to fraud and corruption risks.

There is also continuous vetting and screening of personnel to ensure a workforce of integrity.

In addition, continuous training and awareness campaigns on fraud, corruption and general security as well as information security awareness sessions are done with personnel. SARS sites are also provided with a variety of posters on Anti-Corruption and the anti-Corruption Hotline. Anti-corruption is a theme in the SARS Induction Programme conducted monthly, which is compulsory for all new employees.

(ii) Tax evasion (including VAT fraud as one form thereof):

Tax evasion occurs in multiple forms, but can essentially be categorised into three distinct categories.

Non-registration

One category pertains to activities where taxpayers choose not to be visible and known to SARS. (Unregistered taxpayers and traders) Anecdotal information suggests that this practice is most common among local individuals and small and micro businesses.

Aggressive/Impermissible tax avoidance

These types of arrangements border on tax evasion and are often based on the manipulation and abuse of the tax laws involving contrived and artificial schemes.

Outright Tax Evasion and fraud

The third category relates to very pertinent acts of fraud e.g. non-disclosure, under-declaration, fictitious entities committing VAT fraud, interception of refunds by hijacking bank accounts, employers deducting tax and collecting VAT but not paying it over to SARS. Anecdotal information suggests that this practice is more common among local small and medium-sized businesses.

SARS measures non-compliance in respect of a range of categories, tax types and sectors. It is from these analyses that SARS develops its Compliance Programme. Details of measured non-compliance are contained in the Compliance Programme document.

(b) What is the scale thereof?

Worldwide countries encounter difficulties in determining the extent of corruption, bribery and tax evasion (of which VAT fraud is one form). South Africa faces this challenge too. No accurate figures exist that scientifically confirms the levels of these practices in South Africa.

(c) **Measures put into place by SARS to address tax evasion:**

During the submission of tax returns and customs declarations, a risk engine enabled by SARS new Modernisation Program uses a multitude of risk rules and algorithms to compare data from third parties and what had been declared by the taxpayer in order to assign a risk factor to that vendor.

Where a taxpayer or trader is selected for verification or in-depth audit, the auditors would use the relevant mechanisms in tax law to obtain information from the taxpayer or third-parties.

When a VAT vendor registers with SARS, certain minimum requirements are imposed on the vendor in order to allow SARS to ensure that the vendor does exist. These would include, for instance, physical inspections and visits to the registered address of the vendor before it is registered.

Additional tools utilised to collect information include interaction with whistle-blowers, search and seizures and tax inquiries as authorised by a judge.

SARS has a hotline where taxpayers may call and report suspected non-compliance, as well as a link on its website which enables people to complete what is known as a suspicious activity report which also feed information into the risk engine.

SARS also receives information from foreign law enforcement, tax and customs agencies in terms of various international instruments that exist.

SARS receives information from various state institutions, including the SAPS, NPA, AFU, SIU and Hawks.

SARS also participates in multiple governmental formations where information is also provided to SARS i.e. JCPS, various sub-groupings under the JCPS etc.

Third party information is gathered from various sources such as employees and financial institutions.

SARS engages with organised labour that provides information periodically at various levels i.e. NEDLAC, SACTWU etc.

SARS engages with various organised representative bodies in business that provides SARS with information periodically.

(d) **Message with regard to these measures**

SARS is building a data-base of fiscal citizenship in which every South African and all businesses operating in South Africa are included in the scope of SARS's view, even if at any particular point in time they are not eligible to pay tax or submit returns. This also includes building a relationship with all South Africans to educate them on the importance of their tax contribution.

The SARS Compliance Programme is an important building block in achieving and maintaining public confidence. It identifies key areas where compliance is not at the levels it should be at and highlights a range of measures to address this over a period of time. The Compliance Programme is one example of how SARS ensures that the measures are clearly defined and communicated to all citizens.