

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 404 [NW1376E]
DATE OF PUBLICATION: 26 JULY 2019

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

Whether an estimation of the size of the illicit economy has been conducted; if not, why not; if so, (a) what is the estimated size of the illicit economy and (b) what steps are being taken to tax the illicit economy effectively?

NW1376E

REPLY:

The illicit economy is a continuously changing landscape and a function of the overall levels of societal and tax compliance.

SARS is in the process of conducting scientific and evidence-based research to quantify the size of the illicit economy for South Africa and as such there is no official position yet on the size of the illicit economy. The study also seeks to identify, quantify illicit/illegal activities taking place in both the formal and informal economy. The study will further involve identifying, locating, understanding, registering, managing and monitoring illicit businesses in their different forms and sizes in the illicit economy.

The illicit economy ranges from the underground economy, which operates outside of the rules and regulations of the country, to organised crime. It involves money, goods or value gained from illegal and generally unethical activity. The activities and/or transactions that occur in the underground economy are illegal for various reasons. Transactions in the underground economy are illegal either because the good or service being traded is illegal or because an otherwise licit transaction does not comply with government reporting requirements. People who work in the underground economy do not declare their incomes. In other words, the tax authorities have no official records of their activities or transactions. These activities generate a wide range of economic, social, environmental or political harms and contribute to the tax gap.

a) The outcome of the comprehensive research will assist in determining the size of each illegal trading item. In the absence of SARS own research findings, It is difficult

to put a value to the illicit economy. The research studies, which commenced in November 2018, are expected to be completed by March 2020.

- b) In line with the overall SARS strategy of discouraging non-compliance (and incentivizing good behavior) through education and/or enforcement action as executed by its Enforcement divisions, and in recognition of the need for alternative enforcement responses to non-compliance within the illicit economy, SARS established an interim capability to conduct investigations into the illicit economy. The capability executes integrated enforcement investigations and comprises of multi-disciplinary and collaborative investigations and enforcement debt recovery actions, supported by legal experts and data analytics. The tax and customs legislation administered by the Commissioner for SARS (for example, the Tax Administration Act, 2011) governs the conduct of all units within SARS.