

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 1177 [NW1367E]

1177. Mr A N Sarupen (DA) to ask the Minister of Finance:

- (1) Whether any Value-Added Tax (VAT) refunds are overdue for payment; if not, what is the position in this regard; if so, what is the total outstanding amount per economic sector;
- (2) Whether any steps will be taken to resolve any backlog in the payment of overdue VAT refunds; if not, why not; if so, what are the relevant details?

NW1367E

REPLY:

(1)

The payment of refunds injects the much-needed cash into economy as such SARS considers the efficient and effective processing of refunds as fundamental in enabling its strategic intent of voluntary compliance. Payment of refunds however has to be balanced with the need to detect risk to the fiscus. SARS has seen increasing attempts to defraud government through fraudulent refund claims. SARS has seen a proliferation of syndicated schemes that are set for the sole purpose of claiming fictitious VAT refunds. Last year (2020/21 FY), SARS paid out R8.0 billion more VAT refunds than the estimate of R220.2 billion. Notwithstanding, through the additional vigilance by SARS, a total of R 58.5 billion of refunds were stopped across all taxes as they were unjustified and fraudulent. The practice of “pheonixism” (a practice where taxpayers use shelf companies to defraud the VAT refund system and subsequently close such companies and restart a new company) and other VAT carousel schemes, especially in the second hand gold industry amongst others, point to the dire need for SARS to be extra vigilant in the administration of refunds. This is crucial if we are to protect the fiscus thereby ensuring that the legitimate beneficiaries enjoy the much needed cash injection. SARS will continue to use data based insights and machine learning algorithms to detect and curb the flow of illicit VAT refunds whilst making it easier and seamless for legitimate refunds to flow efficiently.

As far as VAT refunds are concerned, it is also worth noting that the VAT Act does not set a time limit within which a refund should be paid. The concept of an “overdue refund” is therefore not stipulated in law. The 21-day turnaround time is a self-imposed limit set by SARS in the interest

of administrative efficiency and taxpayer service, but this is not always exclusively up to SARS. Once a VAT201 return is filed by a Vendor, and a refund amount is indicated as being due, the law allows SARS to first conclude a review/ audit before releasing a refund. The due diligence step of reviewing/auditing is crucial in the light of the fraudulent refunds stopped to date; the review/audit process is risk triggered as such, is machine algorithm based making the case selection objective. Furthermore, a refund would only be released if the vendor has valid bank details with SARS. The VAT Act does though provide for the payment of interest after 21 days for SARS receiving all supporting documents by the taxpayer. On average, as much as 21% (May 2020 to YTD May 2021) of the VAT refunds are stopped for a review/audit. This means that as much as 79% of the VAT refunds are paid out in the first three days if the vendor does not have compliance and/or other issues that will prevent the refund from flowing out.

48,680 VAT refund cases amounting to around R22.0bn are in the review/audit stage. These fall into one of three categories: (1) approximately R7.8bn of cases are awaiting supporting documents from taxpayers; (2) R6.9bn is currently under review and within the 21 days; (3) the balance of 17 807 cases amounting to R7.6 billion is under review and have exceeded 21 days. These are mainly cases where, for various reason, it has taken longer to complete the verification work.

SARS seeks to prioritize focus on these cases to ensure minimization of delays, but balances this with the aforementioned risk to the fiscus. As the result of the heightened VAT refund fraud that has been noted (even during the hard lockdown in 2020/21), SARS continues to see an increase in the number of cases that are alerted for review/audit by its risk engine. The increased caseload relating to fraudulent refunds requires smart balancing of resources and may from time to time affect turnaround times in legitimate cases. The SARS economic/industry classification is reflected in the Table below.

Step Status	Count of CaseNo	Sum of AmtBalance
01 AGRICULTURE, FORESTRY AND FISHING	2477	-R 656,764,772.80
02 MINING AND QUARRYING	245	-R 250,399,729.82
03 FOOD, DRINK AND TOBACCO	328	-R 114,185,295.10
04 TEXTILES	42	-R 28,766,212.74
05 CLOTHING AND FOOTWEAR	44	-R 3,476,691.12
06 LEATHER, LEATHER GOODS AND FUR (EXCLUDING FOOTWEAR AND CLOTHING)	13	-R 3,780,158.45
07 WOOD, WOOD PRODUCTS AND FURNITURE	88	-R 25,361,774.30
08 PAPER, PRINTING AND PUBLISHING	110	-R 45,452,413.44
09 CHEMICALS AND CHEMICAL, RUBBER AND PLASTIC PRODUCTS	220	-R 313,230,204.83
10 COAL AND PETROLEUM PRODUCTS	104	-R 47,731,309.12
11 BRICKS, CERAMIC, GLASS, CEMENT AND SIMILAR PRODUCTS	57	-R 11,059,152.21
12 METAL	107	-R 155,555,427.22
13 METAL PRODUCTS (EXCEPT MACHINERY AND EQUIPMENT)	140	-R 64,479,229.74
14 MACHINERY AND RELATED ITEMS	367	-R 262,324,945.78
15 VEHICLE, PARTS AND ACCESSORIES	248	-R 165,345,414.89
16 TRANSPORT EQUIPMENT(EXCEPT VEHICLES, PARTS AND ACCESSORIES)	113	-R 62,909,131.84
17 SCIENTIFIC, OPTICAL AND SIMILAR EQUIPMENT	56	-R 49,193,799.36
18 OTHER MANUFACTURING INDUSTRIES	198	-R 86,515,179.71
19 ELECTRICITY, GAS AND WATER	143	-R 147,757,151.25
20 CONSTRUCTION	1446	-R 273,710,987.59
21 WHOLESALE TRADE	984	-R 461,848,805.95
22 RETAIL TRADE (INCLUDING MAIL ORDER)	1360	-R 279,423,392.72
23 CATERING AND ACCOMMODATION	506	-R 76,228,188.22
24 TRANSPORT, STORAGE AND COMMUNICATION	810	-R 250,524,019.17
25 FINANCING, INSURANCE, REAL ESTATE AND BUSINESS SERVICES	3764	-R 1,545,144,860.11
26 PUBLIC ADMINISTRATION	63	-R 790,931,239.42
27 EDUCATIONAL SERVICES	102	-R 18,809,137.23
28 RESEARCH AND SCIENTIFIC INSTITUTES	50	-R 27,473,912.30
29 MEDICAL, DENTAL AND OTHER HEALTH AND VETERINARY SERVICES	244	-R 50,263,787.87
30 SOCIAL AND RELATED COMMUNITY SERVICES (EXEMPT INSTITUTION(S)/ ORG	157	-R 49,571,080.28
31 RECREATIONAL AND CULTURAL SERVICES	182	-R 56,554,890.24
32 PERSONAL AND HOUSEHOLD SERVICES	148	-R 10,408,278.42
33 SPECIALISED REPAIR SERVICES	125	-R 15,533,718.61
34 AGENCIES AND OTHER SERVICES	2766	-R 1,148,415,482.99
Grand Total	17807	-R 7,549,129,774.84

(2)

SARS is continually working to streamline and improve the efficacy of the VAT refund processes, but this is dependent on the merits of each matter as well as the available SARS capacity to conduct these investigations.

In the 3rd quarter of the previous financial year (2020/21), SARS set up a refund processing improvement program to address the backlog in audit cases. The interventions included

- enhanced focus on productivity and efficiency levels of the auditing personnel,
- refined case allocation between regions with pronounced volumes against those experiencing lower volumes,
- overtime work where productivity levels were meeting the minimum thresholds.

Resultant from the combination of interventions above, a year-on-year improvement on the payment of refunds from earlier periods that been achieved, this is evidenced by the additional payments in VAT refunds (i.e. R8.0 billion over the estimate) despite the lockdowns and the economic distress brought about by COVID-19 in 2020/21.

SARS remains committed to provide exceptional service to honest and compliant taxpayers, whilst improving our capability to detect and respond to non-compliant taxpayers, or those that seek to defraud the refund system. As we extend the use of data driven case selection and case profiling, we will establish a better balance between delivering great taxpayer service and managing the attendant risks of fraud.