

**PRESENTATION TO
STANDING COMMITTEE ON FINANCE**

“ILLICIT ECONOMY”

ILLICIT ECONOMY CAPABILITY – ESTABLISHED

SARS has recently established an integrated illicit economy enforcement capability which strives to provide a credible threat and response to the illicit economy. This approach provides an integrated investigative capability that incorporates Financial Investigation, Debt, and Legal functions working in unison to provide a comprehensive and rapid response to the following areas:

Illicit Trade:

- Fraud
- Illicit imports – cross border smuggling
- Illicit domestic production – evading associated taxes
- Trade mispricing - intentional under declaration
- Phoenixism, abusive liquidation and business rescue practices; and
- Syndicated refund fraud

Illicit Financial Flows (IFFs):

- Tax evasion
- Money laundering
- Bribery
- Corruption
- Smuggling

Currently, there are **18 projects** comprising of **764 active investigations** focusing on the illicit economy. To date an **estimated prejudice value** of the active investigations amounts to **R30.8 billion**.

Results to date – TOTAL IMPACT = R 1.425 Billion:

- Cash collected (Banked) = **R 416 million**
- Preservation orders to secure assets (Granted) = **R 480 million**
- Proven claims in liquidated assets = **R 529 million**
- Cases referred to Law Enforcement Agencies = **20 cases**

SARS COOPERATION WITH THE COMMISSIONS AND LAW ENFORCEMENT AGENCIES

1. **179** requests for information have been received from mainly the PIC commission, ZONDO commission, Investigating Directorate and SIU to date
2. The requests involve **1385 taxpayers with 2984 linked entities**
3. **24** cases involving around **350 entities** are under ongoing SARS investigation or audit
4. To date, **19 tax criminal charges** have been referred to the law enforcement agencies

FOCUS ON CONCERNING COMPLIANCE AREAS

1. **TRANSFER PRICING:** per the Davis Tax Committee, between 2008 & 2011, more than R200bn left SA as service charge outflows. Our preliminary review, for 2017 shows approx. R93b left SA in service charges, including R31 billion in interest payments against loans
2. **ASSESSED LOSSES:** carried forward by Large Corporates surged from +R130bn (2015) to +R280bn (2017).
3. **CRIMINAL AND ILLICIT ECONOMIC ACTIVITIES:** represents a serious problem to the economy. The prejudice to the fiscus by initial estimates well in excess of R100 billion
4. **BASE EROSION AND PROFIT SHIFTING** behaviours are of concern to SARS as it severely erodes the current and future tax base. In addition, **AGGRESSIVE TRANSFER PRICING PRACTICES**, profits actually earned through key SA activities end up in tax and favourable tax jurisdictions (i.e. Switzerland).
5. **GENERAL COMPLIANCE:**
 - a. **ESTIMATES OF PROVISIONAL TAX COMPANIES AND INDIVIDUALS** manipulated
 - b. **VAT REFUNDS** manipulation of payments and refunds claimed.
 - c. **PAYE** Compliance levels are low
 - d. **PAYMENT COMPLIANCE** levels remain a concern

COMPLIANCE ACTIVITIES – AREAS OF OPPORTUNITY

<p>Tax Gap Study Conclusion & Attendant Opportunities</p>	<ul style="list-style-type: none"> • Conclusion of the tax gap study approach/plan by the end of April 2020 • Focusing on key streams within the DTC: <ul style="list-style-type: none"> ✓ International taxes ✓ VAT Leakages ✓ Effective Tax Rates – CIT 	<ul style="list-style-type: none"> • R10bn • R1-2bn • R3-4bn • R5bn over 2 FY's
<p>Revenue Leakages due to Syndicated Fraud & other non-compliance</p>	<ul style="list-style-type: none"> • Undervaluation of Imports • Fraudulent Refunds (Prevented) • Leveraging Third Party Data to detect non-compliance 	<ul style="list-style-type: none"> • R8bn • R25-30bn prevented • R1.0bn p/a
<p>Response to Commissions</p>	<ul style="list-style-type: none"> • Consideration of responses to disclosures made at the various commissions of inquiry e.g. Zondo Commission, etc. including preservation orders 	<ul style="list-style-type: none"> • R1.2bn
<p>Large Business & International Taxpayers</p>	<ul style="list-style-type: none"> • Transfer Pricing practices and abuse & Connected Party - interest or service fees paid for in low tax jurisdiction • Abuse of Assessed Losses Prevented • Tax Clearance for HNWI and expatriation of funds • LBC Audit WIP (Assessments) 	<ul style="list-style-type: none"> • R20bn (assessments) • R1bn (savings) • R3bn • R10bn

Total Planned Compliance Activities

R89.2bn

COMPLIANCE ACTIVITIES – VALUE REALISATION TO DATE

DEBT COLLECTION

Through the use of enhanced of data analytical application (i.e. Probability modelling) Debt Collection efforts had been to directed towards priority yielding cases. Additionally, We had launched customized SMS campaigns directed at taxpayers with outstanding returns to improve filing compliance.

R 3.9bn

AUDIT

Through the use of leveraging 3RD Party Data, the case selection methodology had been enriched to intelligently with the use identify potentially areas of under declaration.

The approach to enhance Customs Audits in the clothing, textile, leather & footwear industries included cross government collaboration.

For example, rental income, CGT, investment income, Customs Valuations, fringe benefits, etc.

- Large Business = R 1.60bn
- Customs = R 2.60bn
- Excise = R0.01bn
- SMME = R4.1bn

R8.31bn

Total Achievement YTD from Compliance Activities

R12.3bn

DISCUSSION...

