SARS turns spotlight on tax evasion

PRETORIA: The South African Revenue Service (SARS) says it is tightening the screws on enterprises that are using increasingly sophisticated financial schemes to evade tax obligations.

"We have detected an increase in the use of cross-border structuring and transfer pricing manipulations by businesses to unfairly and illegally reduce their local tax liabilities," SARS commissioner Oupa Magashula said on Tuesday.

Briefing Parliament's Standing Committee on Finance on SARS' strategic plan for the next five years and its annual performance plan for 2012/13, Magashula said developing economies, especially in Africa, were at a higher risk of revenue loss due to such practises. He attributed this partly to pressure placed on profits because of the prevailing economic conditions.

These economies, he said, often lacked the knowledge and skill to detect and prosecute such tax crimes.

Another risk faced by the revenue service was managing the debt book, which was crucial to an organisation's profitability.

"Given the scale of revenue which we manage, debt management is a particular area of focus for SARS," he said, adding that progress was being made through a combination of account maintenance and debt collection.

Preliminary figures for the 2011/12 financial year showed that the debt book rose by 1.3%, a significant amount against a 14-year debt growth rate of 8%.

Magashula said there was pressure on SARS to release legitimate refunds for VAT as quickly as possible, especially for small business whose cash-flow was prone to suffer. Above this, they had to keep a hawk's eye on the increase of incidences of VAT fraud.

"Our modernisation of VAT last year has already resulted in significant improvements to both these areas. The yield achieved since the introduction of the new VAT risk engine in May last year is R11 billion in revised assessments in the fiscus's favour," said the commissioner.

The revenue service was also working towards providing an efficient and effective complaint management process for taxpayers to help track and resolve service challenges.

SARS plans to strengthen border control and inter-governmental coordination at border posts to increase customs compliance. It also aims to develop a customs risk screening tool, and develop and implement an integrated customs and border management solution for itself via its subsidiary, Interfront.

On increasing tax compliance, SARS is working on improving risk management through enhanced risk tools, administrative penalties and debt management as well to continuing its outreach programmes to citizens.

It also plans to implement the Tax Administration Act once it is enacted later in the year.

SARS will also implement several targeted intervention in high risk areas like the clothing and textile industry, the illicit cigarette industry, the transfer pricing by large business as well as wealthy citizens and the trusts they use to reduce their tax.

"We will also focus special attention on the construction sector, of which research has shown to be the least tax compliant sector in the formal economy," noted Magashula.

In efforts to increase the ease and fairness of doing business with the taxman, SARS plans to digitise taxpayer and trader records and transactions, as well as improve the speed of legitimate trade through South African borders. This will be done through the customs modernisation programme, which is entering its third year.

SARS' projected expenditure over the medium term is R9.5 billion for the current financial year, growing approximately 5% to R9.99 billion for next year; and a further 5% to R10.55 billion for 2014/15.

"We aim to hold ourselves accountable in the eyes of the government and its people against clear, objective and specific targets for each of our outcomes," said Magashula.