



# SARS PRESENTATION

19 AUGUST 2014

Portfolio Committee on Trade & Industry

# What informs what we do

## SARS STRATEGIC FRAMEWORK

### The SARS Strategic Outcomes

- Increased Customs Compliance
- Increased tax compliance
- Increased ease and fairness of doing business with SARS
- Increased cost effectiveness, internal efficiencies and institutional respectability

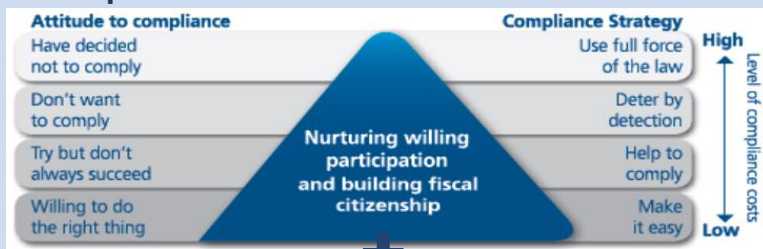


### The SARS Strategy

- Building fiscal citizenship
- Move from a gate keeper to a risk manager approach
- Integrated economic view of the taxpayer and trader
- Differentiated service offering
- Automated, digital and self service environment
- Whole of government view
- Reduced administrative burden environment
- Enable our people to perform at their peak



### The Compliance Model



### The SARS Compliance Programme Priority Areas

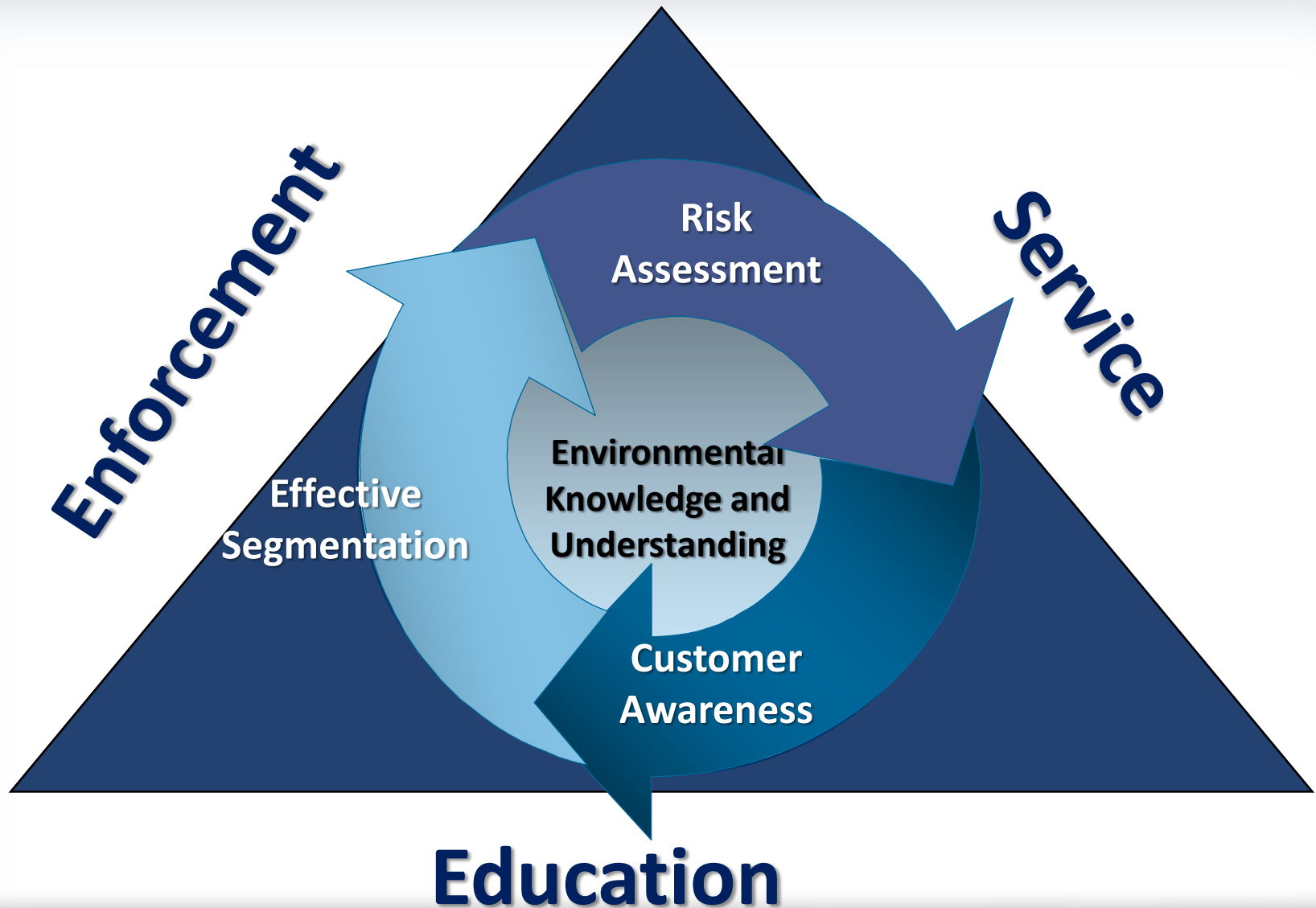
### The SARS Illicit Economy Strategy

### The SARS statutory obligations & Mandate

## GOVERNMENT AND INTERNATIONAL ENFORCEMENT

### We are part of larger law enforcement system

- Forming part and strengthening the Criminal Justice System and align (capacity, input, output)
- Forming part and strengthening the Financial System and align (capacity, input, output)
- a) and b) to be executed in accordance with selected focus areas in illicit economy where SARS has a direct influence and interest (focus areas of illicit economy as per business plan)
  - JCPS
  - ACTT (Anti-Corruption Working Group)
  - Other multi-agency workgroups formed e.g. Tannenbaum/Ponzi scheme
- Fulfilling legal obligations i.r.o legislation related to law enforcement in general at both national and international level:
  - FICA
  - FATF
  - AFU – POCA requests
  - Prevention and Treatment of Drug Abuse Act
  - DPCI – SAPS Amendment Act incorporates SARS



# Legal Framework & The New Customs Control & Duty Acts

- Defines the 'mandate' for Customs.
- Provides the 'legal framework' within which all goods, conveyances and travelers must be administered.
- It is designed to 'enable Customs operations to evolve' within the confines of the Law



# Customs - Key Strategic Outcomes

## FISCAL

- Efficient trade administration
- Assist with compliance
- Provide trade policy support
- Collect duties and taxes lawfully (16% of SARS revenue collected)
- Managing incentive schemes & Free Trade Agreements

## ECONOMIC & SOCIETY PROTECTION

- Prevent harm to the community, the economy and environment
- Protect industry from harmful, and unfair trade practice

## BORDER CONTROL

- Prevent smuggling
- Collaborative Border Management
- Promote SA as secure trading partner

## DELIVERY STRATEGY

MAKE IT AS EASY AS POSSIBLE  
FOR THOSE TRYING TO COMPLY

Improve Service

MAKE IT AS HARD AS POSSIBLE FOR THOSE  
TRYING TO AVOID PAYING THEIR FAIR SHARE

Improve Enforcement

## ENHANCED COMPLIANCE

*Key to this approach is ensuring that taxpayers/traders understand their obligations*

# Customs Risk Based Role & Value Chain

## Compliance Management

*"Reconciliation of facilitation, control & enforcement efforts"*

- Binding Rules (WTO & Bilateral)
- Data Standards (EDI)
- Document Standards (SAD)

- Movement Controls
- Audit based Controls
- Stops & Detentions

- Risk Management
- Enforcement Audit
- Investigation & Referrals for prosecution

Trade  
Facilitation

Regulatory  
Controls

Enforcement

Bookings

Packing/Stuffing

Transport

Destination / Planning



Consolidator /  
Distribution  
Center

Road  
Transport

Port of  
Loading

Vessel

Transit Port

Vessel

Port of  
Discharge

Road  
Transport

Road  
Transport

Entity  
Management

Individual Trade  
Entities  
Industry Clusters

Cooperation  
&  
Partnership

- Collaboration with trade partners
- Co-operation Agreements
- MOU/MAAs & SLAs

Technology

- Automated Risk Management
- Cargo Tracking – e seals (RFID)

**Risk Management (presupposing strategic & operational intel)**

*"Culture, Process & Structure to maximise opportunity & minimise threat"*

### Risk Areas:

Terrorism  
Drugs  
Counterfeits  
Revenue  
P&R

Fiscal

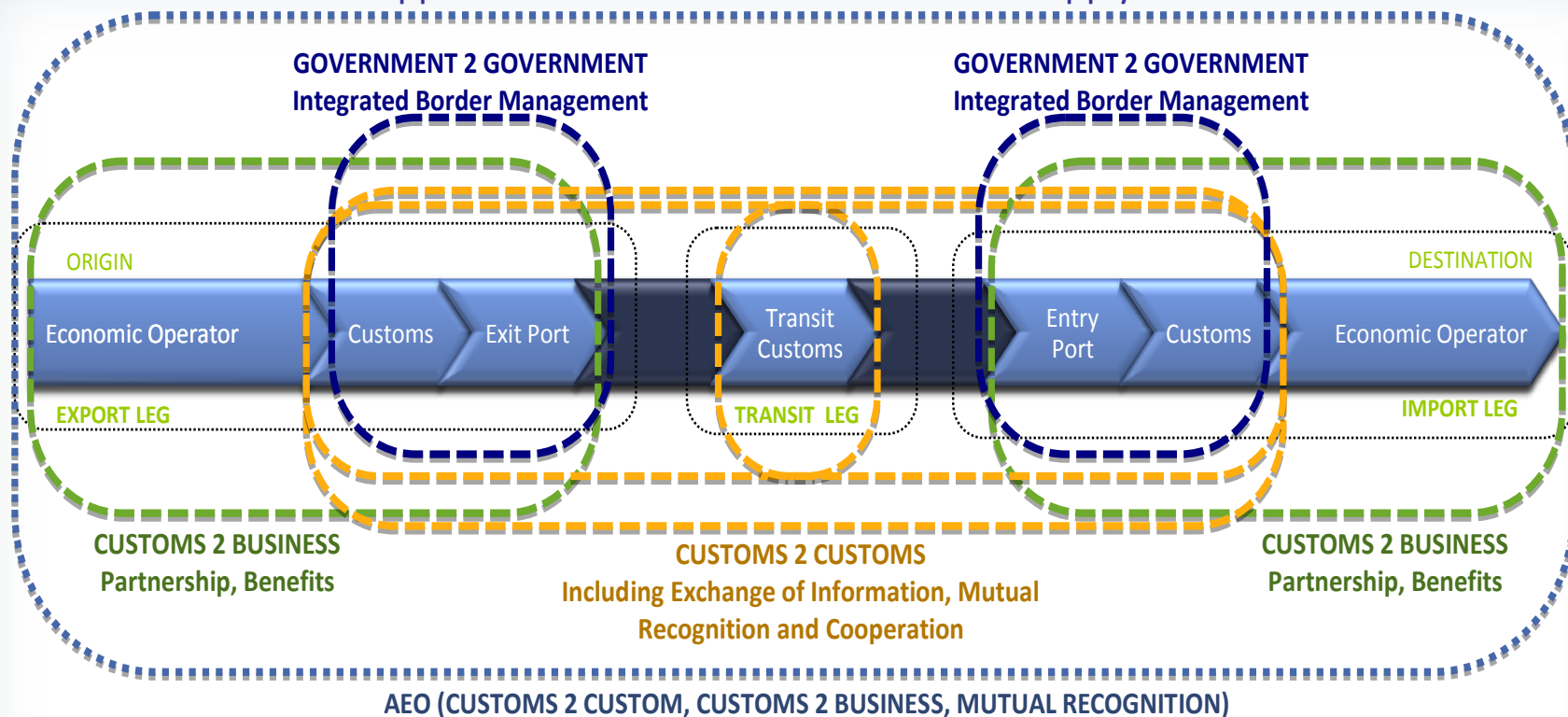
Economic  
& Society  
Protection

Desired  
Outcomes

Border  
Control



## Opportunities to lever the international supply chain



Registration &  
Licensing

Automation:  
workflow  
messaging

Improved  
inspection  
capability: NII

Inter  
Connectivity:  
Single window

CBM: BCOCC  
PECC (Cowrie  
Place)  
BMA  
OSBP

# Single Registration

*The Single Registration technology platform will provide the foundation for the new automated Tax Compliance Status (TCS) system and the proposed Legal Entities Register. The TCS system will replace the paper-based Tax Clearance Certificate (TCC) system. The introduction of the Single Registration platform will also improve the risk management of the VAT registration process.*

Phase 1	Phase 2	Phase 3	Phase 4
Technology platform for a consolidated register of all entities	Addresses requirements of recent tax practitioner legislation (modify rules for authentication and confirmation of permission processes).	Data cleansing and creation of customer profiles	Extend the Customs profile introduced to traders in the first phase of the project
Outcomes			
<ul style="list-style-type: none"> <li>Provide SARS with a profile of every registered entity and all the tax and customs products each entity uses.</li> <li>Provide comprehensive information about each entity, such as the personal identity number or company registration number of the entity and details of relationships between entities.</li> </ul>	<ul style="list-style-type: none"> <li>Provide for security purposes the functions that Tax Preparers can perform on the e-Filing system.</li> <li>Address the responsibilities of the Public Officer as well as improve the security profiles of companies on the tax register.</li> </ul>	<ul style="list-style-type: none"> <li>This will merge SARS' vast number of tax and customs product accounts into a single consolidated entity register</li> <li>Improve the quality of its client data and rectify omissions in information provided by taxpayers.</li> </ul>	<ul style="list-style-type: none"> <li>Eases administrative burden on small businesses.</li> <li>Provides SARS with a single profile of each of its clients that includes all related product information.</li> <li>Enables entity records to be easily updated to accommodate further product registrations or the amendments to client information.</li> </ul>



# What are the numbers

	2013/14	2012/13	2011/12
Net Revenue	R 898 101 million	R 807 707 million	R 755 397 million
Customs	R 44 179 million	R 38 998 million	R 34 198 million
VAT on imports	R 131 085 million	R 111 427 million	R 101 813 million

## OUR FOCUS AREAS

Focus area	Our intention	Our intervention
<ol style="list-style-type: none"> <li>1 Large business and Transfer Pricing</li> <li>2 Construction sector: Government tenders</li> <li>3 Wealthy South Africans and their Trusts</li> </ol>	Improve compliance	<b>Increase Enforcement focus:</b> <ul style="list-style-type: none"> <li>➤ Tighten legislation</li> <li>➤ Integrated audits</li> <li>➤ Third party data sources</li> </ul>
<ol style="list-style-type: none"> <li>4 Illicit cigarettes</li> <li>5 Clothing and textiles: Under-valued imports</li> </ol>	Protect the local economy	<b>Tighten border control:</b> <ul style="list-style-type: none"> <li>➤ Intergovernmental collaboration</li> <li>➤ Strengthen risk identification</li> <li>➤ Cross-border collaboration</li> <li>➤ Strengthen controls along supply chain</li> </ul>
<ol style="list-style-type: none"> <li>6 Small business: Reduce cost of compliance</li> </ol>	Make it easy	<b>Improve Service focus:</b> <ul style="list-style-type: none"> <li>➤ Simplify tax regime/requirements</li> </ul>
<ol style="list-style-type: none"> <li>7 Tax Practitioners: Improve own and Trade Intermediaries compliance</li> </ol>	Regulation	<b>Improve Legislation focus:</b> <ul style="list-style-type: none"> <li>➤ Strengthen ties with professional organisations</li> <li>➤ Introduce new regulation/legislation</li> <li>➤ Penalising non-compliant Tax Practitioners</li> <li>➤ Effective monitoring and engagement with Tax Practitioners</li> </ul>

- SARS Enforcement follows a segmentation approach to the illicit economy which is in turn aligned to the compliance strategy.
- This has created enhanced knowledge around the various industries which in turn allows for more focused interventions into dealing with detected non-compliance.
- SARS has embarked on campaigns into specifically the tobacco , cigarettes , clothing and textile industries which has in certain cases resulted in increased levels of compliance in terms of higher values being declared as well as an increase in numbers of excise manufacturing volumes being submitted.
- Dedicated projects that are focused on the tobacco sector with multiple companies, their related directorships and associated entities are subjects of SARS focused investigations.
  - Actions taken to date include, weekly factory visits , suspension of licences , raising of schedules , liquidation of assets and sequestration of the responsible individuals.

# Statistics 2013-2014

Detentions	YTD	Value
Clothing & Textiles	380	R 73 635 055
Cigarettes & Tobacco	3864	R 718 339 619
CITES	6	R 129 556 500
Counterfeit Goods	1804	R 341 096 315
2 <sup>nd</sup> Hand Motor Vehicles	948	R 120 828 063
Narcotics	0	R 18 516 616
Other	816	R 391 147 021
<b>Total Detentions</b>	<b>7818</b>	<b>R 1 793 119 188</b>

Seizures	YTD	Value
Clothing & Textiles	54	R 70 717 125
Cigarettes & Tobacco	3501	R 70 196 009
CITES	9	R 34 168 557
Counterfeit Goods	1426	R 1 502 065 888
2 <sup>nd</sup> Hand Motor Vehicles	279	R 26 742 880
Narcotics	18	R 3 652 241
Other	513	R 582 857 113
<b>Total Seizures</b>	<b>5800</b>	<b>R 2 290 399 812</b>

Interventions	YTD
Premises Searches	8703
Joint Operations	1210
Cargo Examinations	1993
Road Blocks	2815
Control Deliveries	112
Vehicle Searches	10399
<b>Total Interventions</b>	<b>25232</b>

## Criminal Cases 2013/2014

	Cases to NPA	Cases Found Guilty
Clothing & Textiles	3	0
Cigarettes & Tobacco	20	23
Other	17	11
<b>Total Cases</b>	<b>40</b>	<b>34</b>

## Criminal Cases 2014/2015

	Cases to NPA	Cases Found Guilty
Clothing & Textiles	0	1
Cigarettes & Tobacco	1	6
Other	0	1
<b>Total Cases</b>	<b>1</b>	<b>8</b>

# The Illicit Trade In Tobacco (A SARS Perspective)

- 1 in 4 cigarettes smoked in South Africa are illegal products, this equates to more than 29% of the total market.
- It is estimated that some 15 million cigarettes (equivalent to 750 000 packets of 20s) are sold illegally in the country every day.
- Revenue loss to the Government is more than R3-billion in excise and VAT annually.
- Revenue loss to the legitimate tobacco industry is more than R2 billion.
- 52% of the cigarette price consists of excise and VAT.



- **The Incentive to trade in illicit tobacco (Costing)**
  - Excise Duty and Value Added Tax makes up approximately 52% of the retail price of cigarettes.
  - Currently the excise duty on a packet of 20 cigarettes is R11.60 and VAT R1.62 per pack
  - The estimated manufacturing cost per pack of 20 cigarettes is R1.00
  - A packet of cigarettes should ideally not be sold for less than R16.50 to include manufacturing cost, distribution cost and some profit margin as well as the relevant taxes.
  - A smuggled 40 foot container with 1100 master cases of cigarettes amounts to a loss of approximately R 7, 2 million to the fiscus and clean profit to the smuggler.

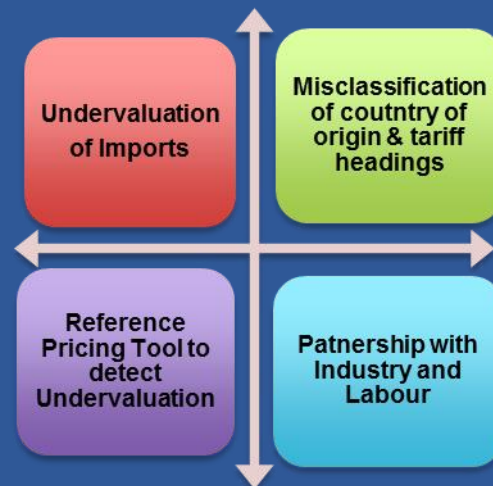


- The EU and American sanctions against Zimbabwean Tobacco created an opportunity
- Porous border lines make it easy to smuggle
- The sophistication and complexity of the smuggling depends upon the size and ambition of the groups involved and the nature of the commodity.
- SARS has seen Organised Crime Groups (OCG) move from supplying counterfeits 10 years ago to now managing all aspects of the production process, from sourcing raw tobacco product, through to developing specific tobacco packaging that will generate suitable market interest.
- Others will rely on the work of key facilitators, often based overseas, who engage with smaller legitimate tobacco manufacturers in sourcing the tobacco goods and associated packaging. The OCG then agrees a distribution route with the facilitator and agrees risk mitigation mechanisms to ensure successful delivery.
- Certain groups simply exploit lower cross-border prices of genuine tobacco products and smuggle them to their chosen destination for sale.

# Tobacco – Illicit Cigarettes Results

		<b>Financial Year 2012/13</b>	<b>Financial Year 2013/14</b>
	Unit	Value	Value
<b>Number of cigarettes seizures</b>	Number	3,320	6,547
<b>Quantity (No. of sticks)</b>	Number	54.3 million	173 million
<b>Value</b>	Rand	N/A	R109 million
<b>Number of bond store warehouse audits</b>	Number	N/A	947
<b>Number of cases referred to NPA for prosecution</b>	Number	N/A	26
<b>Prejudice from NPA referrals</b>	Rand	N/A	R319.4 million

- Undervalued imports pose a significant risk not only to the fiscus but to local industry and job creation.
- SARS will continue to work together with other government agencies and industry stakeholders to clamp down on this practice which include amongst others the establishment and frequent revision of a Reference Pricing database to detect undervaluation



# Clothing & Textile

Government, labour and industry joined forces to manage compliance risks by the introduction of a **“Reference Pricing”** database as a mechanism to identify under valuation of imports for certain clothing and textile products.

Since inception in November 2011 reference pricing risk rules have increased from 17 to 125. The following increases in prices declared to customs have increased as follows:

	Import Price in Rands						
	Blankets	Bed Linen	Clothing	Curtains	Napkins	Textiles	Toilet & kitchen linen
2011/2012	36.64	73.27	56.24	52.61	43.03	62.05	65.14
2012/2013	48.45	76.29	55.66	70.96	49.86	74.94	71.93
2013/2014	50.52	94.75	68.49	87.88	80.96	85.42	84.38

# Clothing & Textile – Results

		<b>Financial Year 2012/13</b>	<b>Financial Year 2013/14</b>
	Unit	Value	Value
<b>Number of Clothing and Textile seizures</b>	Number	644	274
<b>Quantity (pieces)</b>	Number	420 218	N/A
<b>Value</b>	Rand	R155.9 million	R28.3 million
<b>Number of Audits</b>	Number	N/A	14
<b>Number of cases referred to NPA for prosecution</b>	Number	N/A	3
<b>Prejudice from NPA referrals</b>	Rand	N/A	R10.9 million



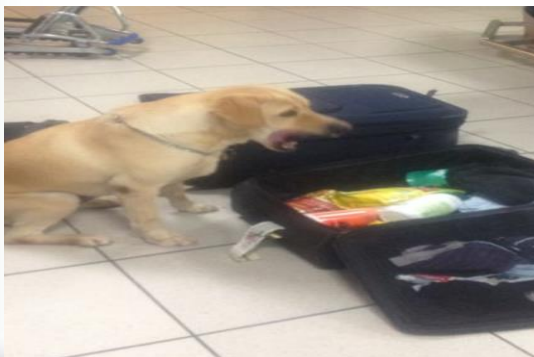
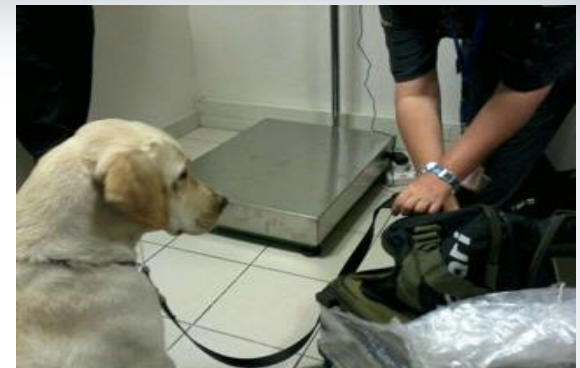


Dogs and Handlers are trained to detect substances / goods hidden in vehicles, vessels, aircraft, rail, mail, cargo, containers, luggage and buildings: (3 Month Practical Training with Authentic Samples in the Toy, Ball, Food and Clicker Reward Methodology):

- ***Narcotics***: Mandrax, Cocaine, Heroin, Crystal Meth, Cannabis & MDMA (Ecstasy);
- ***Explosives***, Firearms and Ammunition;
- ***Endangered Species***: Rhino Horn, Abalone, Crayfish, Lion Bones;
- **Currency, DVD's, Copper Wire, Cell Phones & Tobacco Products.**
- Dogs are ***dual trained*** to detect different substance / goods.
- ***Theoretical training include:-***
  - Identification and Handling of the substance / goods;
  - Basic Animal Behaviour, Legislation, Policies & General Care of a Working Dog.

***Sustainability*** – Assessment & Certification on Working Standards.

# Detector Dogs in Action



**Thank you**