



# **Update to the Standing Committee On Finance**

**Illicit Economy**

19 March 2019

# Context

- In recent years, SARS presented issues regarding Illicit financial flows ( IFFs) and Base Erosion and Profit Shifting (BEPS) to the SCOF Parliamentary committee as well as to the Finance, Trade & Industry and Minerals Committees. This, as a result of SARS being provided with a list of referrals by the FIC, which the FIC classified as Tax Evasion or Money Laundering.
- SARS highlighted that the classification of Tax Evasion could not be determined by the FIC as it is not within their mandate and that this list only related to Suspicious Transaction Reports.
- The FIC identified a the lack of co-ordination amongst Law Enforcement Agencies and subsequently sought to rectify this by calling a number of Law Enforcement Agency meetings.
- The need for defining IFFs was also identified, this is outlined on the next slide.

## Context Cont.

- Multi-agency, multi-disciplinary approach established for coordination on IFFs (IAWG)
- Definition of IFF:
  - ❑ universal - ‘money that is illegally earned, used or moved and which crosses an international border.’ (WB, IMF, GFI, UN & OECD)
  - ❑ adopted working - *illegal movement of money or capital from one country to another when funds are **illegally earned, illegally transferred** and/or utilized.*
- Case Criteria for the IAWG :
  - ❑ *minimum financial threshold of R100 million;*
  - ❑ *minimum of three investigative agencies involvement; and*
  - ❑ *any other significant matter*
- Inventory – 8 cases, estimated financial flows in excess of R9 billion

# SARS Mitigation Strategy

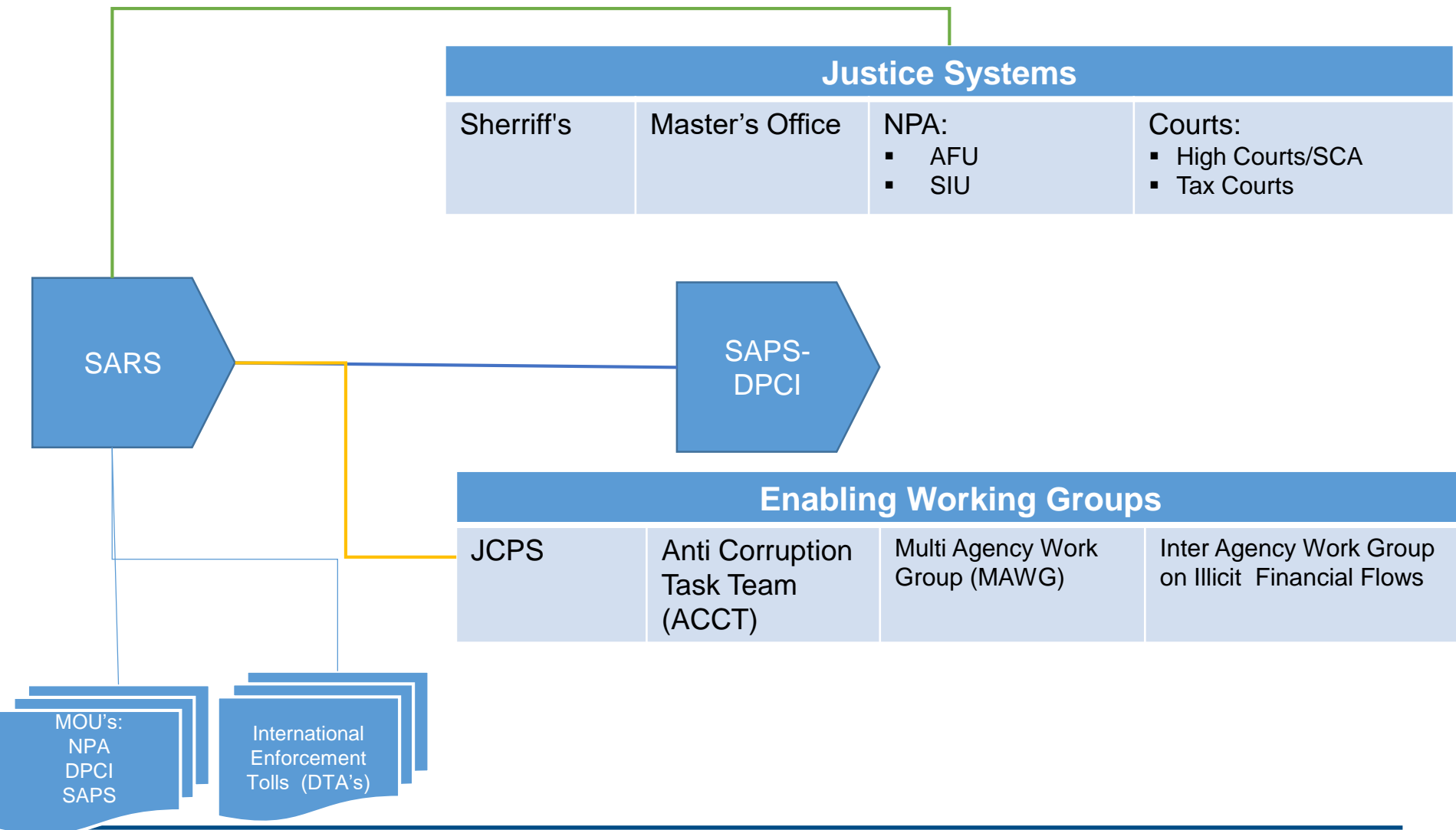
## Strategic level

- Public cooperation: Inter-governmental consensus including Trilateral agreement with all economic and security cluster stakeholders
- Private cooperation, SARS to Business, SARS to professional Industry bodies
- International cooperation and participation in organisational structures with leading stakeholders WCO, OECD, IMF, WB, Interpol, SADC amongst other
- Cooperation in capacity building on SARS core discipline in Tax and Customs & Excise critical skills (Transfer pricing, BEPS)
- Conduct a country by country reporting (trade asymmetries) - Automatic Exchange of Financial Information, Implement OECD/G20 BEPS initiatives, Curtailing Trade Mis-invoicing
- Digital economy strategy to enhance legislation for the challenges associated with Industry 4 and the Gig economy (registration for E-commerce, cybersecurity, big data, Blockchain).
- Enhanced and integrated risk management approach – group focus compliance intervention and targeting strategy
- Single view concept

## Tactical and Operational level

- Established an integrated investigations across all the taxes to deal with the illicit economy, Criminal Investigations and prosecutions with NPA
- Priority focus on Organised crime in Tax, Customs and Excise evasion schemes
- Increase of electronic Cargo Manifest by Sea and Air carrier by 70%
- Implementation of 'Track & Trace' marker for cigarettes including excisable products & physical presence of Customs & Excise official at manufacturing plants
- Customs intrusive and non-intrusive driven intervention - Deployment of Air cargo scanner at ORTIA and Mobile cargo scanner at City Deep
- Improve Customs & Excise risk identification and targeting capabilities
- Accreditation of 27 level 2 Preferred Trader (PT) clients

# We are part of larger government system



# FIC Referrals including MAWG

FIC referrals:

SARS	2014/15	2015/16	2016/17	2017/18	2018/19 (to Dec 2018)	TOTAL
Total Cases	81	17	107	221	197	623

- Information utilised to profile entities
- Taxpayer filing requirement in excess of year after STR receipt from FIC
- 58 Cases - low risk
- 9 Investigative audits completed yielding R1 068 164 933 in assessment results

MAWG referrals:

- 8 Cases identified. 6 disseminated
  - 2 Cases audits finalised – Letter of findings issued
  - 3 Cases profiled referred to audit
  - 1 Case in return collection process

# SARS additional actions taken

Entrenching Inter-agency Cooperation			
<ul style="list-style-type: none"><li>Tobacco task team between SARS and SAPS DPCI: Operational terms of reference finalised.</li><li>Money Laundering (ML) and Terror Financing (TF): SARS in collaboration with FIC and other agencies in the development of the country risk assessment.</li><li>SARS &amp; the SSA operating terms of reference in relation to intelligence cooperation currently being developed</li></ul>			
Customs and Excise	Base Erosion Profit Shifting Audits		Criminal Investigations
<ul style="list-style-type: none"><li>During the period 1 April 2018 to 26 February 2019: 14 cash seizure with a value of R 64,9 million</li><li>Deployment of personnel at cigarette manufacturing sites.</li><li>R 464 mil - Schedules raised in Tobacco, Clothing, Alcohol and Fuel industries</li><li>381800kg tobacco and 20309 Cartons of Cigarettes detained</li></ul>	Audit type	Audits completed	<ul style="list-style-type: none"><li>277 active inventory of VAT fraud cases (fictitious invoices and fictitious entities) .</li><li>69 VAT fraud cases referred to the NPA for prosecution with a total prejudice of R 379 113 345</li><li>35 convictions on VAT Fraud by the NPA</li></ul>
	Transfer Pricing	7	
	International Tax	32	
	CIT & Dividends Tax (Cross-border)	3	
	TOTAL number	42	
	Assessments raised	R651 mil	
Illicit Economy Unit – Investigations Underway			
Focus Area	Number of Projects	Number of cases	Notes
Tobacco	15	902	R9.8 billion in Prejudice Various preservation orders amounting to R1.4bn million assets attached
Gold			
Alcohol & Fuel			
Cash & Carry			
Textiles			
Illicit Financial Flows – including			
VAT Carousel			

# SARS SVDP

- Number of applications received 2030
  - 1806 finalised
  - 1664 successful completed
  - 224 application WIP
- Value of signed agreements R4,363bn of which R4,126bn has been banked
- Value of foreign assets disclosed through SVDP amounts to R27, 274bn
- “Panana Papers” related VDP and SVDP agreements relate to R 104 million to date



# Way Forward

- Continue to strengthen inter- governmental cooperation
- Strengthen capability regarding BEPS case profiling and auditing
- Increased presence at cigarette manufacturing sites
- Build and capacitate permanent IEU

*Thank you*  
*Re a leboha*  
*Re a leboga*  
*Ndza Khensa*  
*Dankie*  
*Ndi a livhuwa*  
*Ngiyabonga*  
*Enkosi*  
*Ngiyathokoza*