**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER: 653 [NW1693E]**

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**653. Ms L L van der Merwe (IFP) to ask the Minister of Finance:**

(1) What is the annual contribution by foreign-owned businesses operating within the borders of the Republic to the gross domestic product, in particular businesses owned by (a) Chinese, (b) Pakistani, (c) Somali, (d) Bangladeshi, (e) Nigerian nationals and (f) all others;

(2) (a) what number of the specified businesses are registered for value-added tax and pay tax and (b) has he found that this constitutes 100 per cent of all businesses owned by foreign nationals trading within the Republic;

(3) whether he has been informed of reports that the Republic allegedly loses R7 billion annually in revenue due to foreign-owned tuck shops that have replaced local spaza shops; if so, (a) can he verify such reports and (b) what are the relevant details in this regard?

 NW1693E

**REPLY**:

South Africa has enjoyed substantial Foreign Direct Investment (FDI) and seeks to grow FDI in order to improve economic growth. FDI ranges from small investments to billion Rand investments by multinational enterprises.

“Business ownership” structures and compositions are varying in nature. Businesses can be incorporated and established in the Republic for example as either a sole proprietorship, partnership; proprietary limited company and, public company.

The shareholder ownership composition as well can vary between 100% locally owned, 100% foreign-owned, a combination of both local and foreign ownership (i.e. Foreign-owned can include 100%, 50.1%, 25% or something in between). Furthermore, stock exchange listed companies can be owned by persons from over 240 countries worldwide.

Foreign-owned businesses can include companies, sole proprietorships, partnerships and so forth that have indicated to be non-South African in their records with SARS.

The top three countries that contribute to foreign-owned businesses in the Republic are the United Kingdom, United States and Germany.

1. Per the SARS records, the annual contribution by foreign-owned businesses that include but are not limited to companies, sole proprietorships and, partnerships that are trading in the Republic is approximately R2.4 trillion gross income declared per tax returns submitted for the tax year 2017.

(a)(b)(c)(d)(e)(f)

The SARS does not maintain a distinction of foreign-owned businesses based on country of nationality in our records. Our records only reflect the classification of foreign-owned businesses where the taxpayer completed the required indicator or specified the country of nationality.

1. (a) Of the 14 269 foreign-owned businesses on our records, 1 266 are registered and contribute to value-added tax (VAT).

(b) The VAT return filing rate is 52.09% with a correlating VAT payment compliance rate of

 88.15% as per the SARS annual report for 2018/19. SARS is on an ongoing journey to .

 improve compliance and close the tax gap through compliance interventions in both the

 formal and informal sectors.

1. The report in question *Shifting Market Frontiers: Africa Rising* indicates that South Africa has an estimated annual revenues of R7 billion from “spaza shops” that are operated in the Republic that can be owned by both South Africans and Foreign nationals.

There has been no record or evidence found that “*the Republic allegedly loses R7 billion…*”, it has been noted per aforementioned report that the “*estimated annual revenues of R7bn, spaza shops are a significant retail channel in South Africa, especially in townships and informal settlements. This stems from the fact that their business structure is established to cater to the buying patterns, rising purchasing power and product preferences of consumers living there*”. As such, spaza shops play a vital role in serving local communities as part of the informal economy.

This segment does contribute to indirect taxes (Value-add Tax) through their purchasing from suppliers and direct taxes (Income Tax) on their income earned. SARS endeavors to expand efforts through our outreach programme by way of clarification, awareness and education to improve compliance efforts with traders alike.