

**2008**

## **SARS Act to Protect Taxpayers from VAT Abuse**

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13 November 2008

The South African Revenue Service has this week implemented a range of additional security measures to safeguard the VAT system from attempted abuse and fraud. The new measures include more stringent verification of applications for VAT registration, investigations of existing VAT vendors who are under the turnover threshold and a review of risk measures for refunds.

South Africa's tax system is based on self declaration and depends to large extent on the integrity of taxpayers to make full, accurate and honest disclosure and pay all tax that is due. The vast majority of VAT vendors are compliant and we thank them for making their fair contribution to the fiscus. However, monitoring of VAT registrations and refunds over the past six months by SARS has revealed a disturbing increase in attempted fraudulent registrations and other attempts to defraud the VAT system.

Among the trends SARS has picked up over this period are:

- \* Vendors with turnover of less than R20 000 per annum are registered for VAT despite being below the legislative threshold and we are seeing an increase in registrations by small businesses with zero or very low turnover.
- \* In conducting follow up verifications, we find that many VAT vendors cannot be traced using the contact details supplied and their business premises are fake or occupied by different businesses. This cannot be allowed and SARS has taken steps to secure the system from criminal elements and anyone within SARS colluding with them. Last week a VAT vendor was arrested by Germiston South African Police Service (SAPS) in conjunction with SARS for suspected VAT fraud. The suspect registered a company for VAT and submitted fraudulent VAT claims of R305 000 since February this year. And over the past year a total of 29 SARS staff and their accomplices have been arrested and a further 41 staff members dismissed. But prevention is better than cure and measures are also required to ensure unscrupulous and criminal elements do not gain entry to the VAT system.

In this regard SARS has implemented additional registration checks including:

- \* Applications for VAT registration are to be done in person or by a duly authorised and registered practitioner.
- \* Applications must be accompanied by proof of identity document (ID), bank particulars and physical address of the business.

Where applicants are unable to visit a SARS branch to apply in person or to send a legal representative, applications may be done via post but will require additional verification measures before activation. Where necessary, inspections of business premises will take place to check trading activity before activation of VAT accounts.

SARS is also considering implementing additional verifications including the use of biometric tests (fingerprinting of applicants) for VAT and other tax registrations. In South Africa and internationally, the use of biometrics as a safety mechanism is growing in use and SARS is investigating this as a longer term solution.

Regarding existing VAT vendors, SARS is to suspend the accounts of VAT vendors who have declared under R20 000 turnover for the past 12 months in line with legislation. These vendors will be notified of their suspension and given a period of time to contact SARS to motivate why they should not be deregistered.

SARS yesterday met with representatives of South African Institute of Chartered Accountants (SAICA) and the South African Institute of Professional Accountants (SAIPA) to discuss cooperation in finding ways to both protect the system while retaining its efficiency. We are very encouraged by the support by these practitioner representative bodies in this endeavour.

SARS has set up a dedicated VAT helpline on 0860 121213 for any queries regarding the new process.

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