NEWS ARTICLE:
BUSINESS DAY 29-05-2016

BUSINESS/NEWS /

29 May 2016 at 10:51am

By: **CRAIG DODDS**

Cape Town - South Africans who made use of the Panamanian law firm Mossack Fonseca to hide their riches from Sars have a nail-biting four-month wait before an amnesty announced by Finance Minister Pravin Gordhan in his February Budget kicks in.

If they take advantage of the voluntary disclosure window – which will run from October 1 to March 2017 – they will be able to declare funds they have moved out of the country without paying appropriate taxes and face a more lenient penalty.

But if Sars gets to them before the legislation is passed to provide for the amnesty, or before they come clean, they are in for a financial hiding.

Already Sars has identified 1 700 South Africans whose names cropped up in the so-called Panama Papers, a massive data leak containing details of clients of Mossack Fonseca, a firm that specialises in helping rich foreigners hide their wealth.

This was disclosed at a special briefing on the Panama Papers and progress in combating base erosion and profit shifting in Parliament this week.

Around the globe, the noose is tightening on tax evasion, with an international information-sharing arrangement set to come into effect next year which will make it harder for individuals and companies to hide their money from authorities by shifting it from one jurisdiction to another.

Sars is also cracking down on profit shifting, with its manager for large business transfer pricing, Nishana Gosai, telling MPs the authorities were “tired of saying just because a legal owner is sitting in a low-tax jurisdiction they should be entitled to intangible related returns”.

Sars would no longer “blindly accept legal contracts and legal ownership without looking at the substance of where the economic activity… was performed”.

“Last year we reported that over a three-year period we tracked income and made adjustments to the tune of R20 billion, which resulted in R5bn in actual tax collection,” Gosai said.

Vlok Symington, Sars group executive for product oversight, legal and policy, said people implicated in the Panama leaks would be allowed to make use of the voluntary disclosure programme “if we don’t get to them first”.

“If we get to them before October 1, which I think we may, then they won’t be able to make use of the special VDP,” Symington said.

Sars had found a total of 560 offshore entities among those listed in the Panama Papers and had matched 79 of these to its own database, linked to 81 South African residents.

“We are now doing our best to match the rest of the names with the entities so we can start to look at their tax profiles,” Symington said.

It was also co-operating with foreign tax authorities to get the remainder of the Panama data, which is being released in tranches, as well as the underlying information detailing the company structures used to conceal wealth and the sums involved.

It was “too early” to predict the level of tax evasion, Symington said.

“We must remember that we do not have any amounts or any estimate of the values in those bank accounts – no one has it.”

Sars had also identified 56 South African intermediaries.

Financial Intelligence Centre director Murray Michell said he had authorised inspections of intermediaries to determine whether they had complied with all the requirements of the Financial Intelligence Centre Act.

“Those actions are taking place at the moment, have they met the FIC obligations – customer due diligence provisions, registration and reporting,” Michell said.

Reserve Bank head of financial surveillance Elijah Mazibuko said it was comparing the Panama data to its cross-border system, which captures all declared flows of money in and out of the country.

“We are still evaluating the tax compliance status of individuals implicated in the leaked information, we work with Sars in this regard, consider possible contraventions of relevant financial disclosure requirements and to determine whether offshore funds have any nexus to criminality,” he said.

The Reserve Bank was also checking whether the “enablers” – intermediaries that facilitated the transactions – had violated any laws or regulations.

But Treasury deputy director-general Ismail Momoniat warned that co-operation was required among all relevant government departments, if the government was to make a significant impact on the problem.

Referring to controversy around the operations of an alleged “rogue” intelligence unit at Sars, he said the service needed intrusive powers to gather information.

“If you look at cigarette smuggling… in Sars that was always a focus and all this stuff in the news was around cigarette smuggling, because these syndicates are sophisticated, they are five steps ahead of us,” Momoniat said.

Without this capacity he said Sars would always be “behind the curve”.

“And if Sars has no intrusive capacity, lots of people will use that not to pay their taxes,” Momoniat warned.

Chairman of the standing committee on finance Yunus Carrim agreed the police and prosecuting authority should be called when Parliament sits again in August to determine whether all cases referred to them by the FIC and Sars were investigated.

“The question is, do all of the allegations made go to the SAPS in general or to organised crime – the Hawks – or what. And then, what happens?” Carrim said.