

TAX AUDITS COULD INCREASE AFTER BUDGET SPEECH: By Jonathan Hore

Well, the 2020/2021 national budget was delivered by the Minister of Finance & Economic Development, Dr Thapelo Matsheka, on 3 February 2020 and it has been lauded by many analysts as setting a footing for the transformational agenda. I had the opportunity of presenting at two different budget review workshops last week and I must state that almost all the presenters I co-presented with had something positive to highlight from the budget. As a tax practitioner, I want to share with you one of the things that I found very interesting from the budget speech and that has to do with the increase in tax collection efficiencies. In this article, words importing the masculine shall be deemed to include the feminine.

WHAT THE MINISTER SAID

The Minister made it clear that, 'BURS will also redeploy resources in key operational areas to enhance revenue collection. Specifically, intensifying debt reduction efforts and increasing inspections on imported goods to curb instances of non-compliance by importers at ports of entry.' He also went on to state that, 'priority would, in the interim, be on improving efficiency in the collection of existing taxes...' The above statements paint a picture that BURS' tax collection targets are likely to be increased, which will come with its own implications on taxpayers. I will analyse the effect of increased tax collection efforts on taxpayers.

REDEPLOYMENT OF RESOURCES

You may be aware that currently, BURS conducts tax audits on taxpayers to check compliance with the tax laws and where tax underpayments are detected, penalties of 200% as well as annual interest of 19.56% could be charged. To put things into perspective, if a tax audit unearths P2m in underpaid tax, this could attract a penalty of P4m, making the tax bill P6m, before interest. Now, what does the redeployment of resources mean to taxpayers?

As a former tax collector (now a tax consultant, of course), I am very much aware that the Audit & Investigations divisions of any tax authority bring more undetected taxes than any other division. It is likely that the taxman will react to the budget by moving staff from other divisions to beef-up his tax Audits and Investigations division, thereby enhancing tax collections. That simply translates to increased tax audits on taxpayers as well as the chances of bearing hefty tax penalties, where non-compliance is detected.

Businesses can also prepare themselves for this by embarking on the following:

- **Conducting a Tax Gap Analysis:** Taxpayers can work on closing tax gaps that exist in their systems by requesting tax consultants to conduct tax gap analysis exercises on their business affairs before the taxman knocks on the door. These exercises help in remedying tax compliance either going backwards or forwards.
- **Consultation:** Corporates are advised to always consider the tax consequences of major business decisions such as disposal or acquisition of businesses to avoid creating tax gaps. This can be done by ensuring that tax consultancy is sort before such critical decisions are done.

AGGRESSIVE DEBT COLLECTION

One thing that irks any taxman is unpaid tax debts, especially those that remain outstanding for years. The Minister stated that tax collection efforts will be intensified and considering that BURS was owed over P2.7bn in the 2016/2017 year, it is likely to be more aggressive in debt collection efforts. We are likely to witness an upsurge in the usage of garnishee orders,

an arrangement where BURS instructs banks and taxpayer's debtors to pay it from moneys they hold or owe to the taxpayers. Once a garnishee order is issued, the bank or debtor has no option but to comply, otherwise, the liability falls on them.

POST CUSTOMS CLEARANCE AUDITS

The Minister also stated that BURS will intensify post clearance Customs audits. This entails that the Customs division will check customs documentation for goods which would have already been cleared for, among others, the use of correct Customs tariff rates and under-declaration of invoice values. The under-declaration of the actual purchase price of goods usually manifests itself in the form of trade mis-invoicing. For example, goods worth say P1m could be cleared for Customs purposes using P400 000 invoices. Trade mis-invoicing is done to illegally reduce VAT or Customs duties and it attracts harsh penalties. Those of you who follow current affairs may have noted that the taxman already started such investigations on imported used vehicles and it was reported that trade mis-invoicing was unearthed in a number of instances.

TAX CAMPAIGNS

In order to conjure voluntary tax compliance, BURS needs to increase its communication with taxpayers, especially on tax law changes, practice reviews and reminding taxpayers to pay their taxes such as VAT, PAYE and SATs. Some tax authorities issue public notices to remind taxpayers to pay taxes such as PAYE on a monthly basis. An educated public is more likely to voluntarily comply with taxes than one which is not.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.