

Media Releases 2010

Combating Tax Fraud - Arrest of three suspects

Pretoria, 4 November 2010 – Investigations by the South African Revenue Service (SARS) over the past six months to combat Personal Income Tax (PIT) fraud resulted in the arrest of three suspects in Pretoria this morning.

The arrest of the three female suspects brings to seven the total of alleged fraudsters who have been arrested by the South African Police Service (SAPS) on suspicion of committing tax fraud. It is alleged that they managed to persuade a number of taxpayers from a particular segment of the tax base to use their services to submit fraudulent tax refunds to SARS.

SARS wants to warn taxpayers not to become victims of tax fraud or to enlist the services of suspicious “tax intermediaries” or “tax consultants” when they are approached by individuals who promise them a tax refund. When approached, taxpayers should demand proof of identification from the tax intermediary or someone posing as a SARS official and demand proof that the intermediary is registered with SARS as a tax practitioner.

Today’s arrests were conducted as part of a joint operation between the SARS and the Directorate of Priority Crime Investigations of SAPS (DPCI), the Hawks. A fourth arrest is pending.

By midday today the Hawks had cordoned off the premises of a SAPS training college in Pretoria-West where the suspects allegedly have been approaching SAPS officials, promising them a tax refund and submitting fraudulent claims on behalf of a number of them.

Today’s arrests follow the arrest of Mr. Maxwell Lusindiso Mhlwatika (33) of Lusikisiki who was apprehended by the East London Commercial Crimes Unit last week on similar charges of fraud. Bail of R3 000–00 was granted to Mhlwatika on Friday last week.

Previous arrests

To date the following individuals have been arrested on similar fraud charges in different parts of the country—

1. Zipathele Alpheous Mhlongo

A former local government councillor in KwaZulu-Natal who was arrested on 12 July 2010. He is suspected of contravening section 104 of the Income Tax Act by submitting fraudulent claims and false information which generated tax refunds on behalf of taxpayers.

The suspect had previously appeared in court and the case was postponed until 13 December 2010.

2. Ayanda Mbombo

A former local government councillor in KwaZulu-Natal who was arrested on 12 July 2010. He is suspected of contravening section 104 of the Income Tax Act by submitting fraudulent claims and false information which generated tax refunds on behalf of taxpayers.

The suspect had previously appeared in court and the case was postponed until 13 December 2010.

3. Wiseman Nhlakanipho Mbatha

Arrested on 3 July 2010 and charged with fraud. He is alleged to have contravened section 4 of the Income Tax Act by assisting taxpayers to register and then submitting false information to claim refunds on behalf of the taxpayer using SARS eFiling.

Modus Operandi

Extensive investigations into PIT refund fraud have uncovered a network of unscrupulous “tax intermediaries” across the country who submit irregular claims for personal income tax deductions on behalf taxpayers to generate fraudulent tax refunds.

Investigations found evidence that these “transactions” are facilitated by outside persons (“runners”) who approach taxpayers on behalf of a “tax practitioner”. The taxpayer is promised a tax refund if the practitioner submits a revised tax returns on behalf of the taxpayer. In a number of cases, revised returns were submitted for multiple years to generate multiple fraudulent refunds.

The taxpayer then pays a percentage of the refunds to these intermediaries.

The network of intermediaries has targeted rural communities and low-income earners in particular, in provinces like KwaZulu-Natal, the Eastern Cape, Limpopo and Gauteng. It appears that less educated taxpayers who may not fully understand the tax system and their obligations and are being targeted to perpetrate fraud.

Cautioning taxpayers

SARS has already sent 36 000 letters of demand to taxpayers who may have received irregular refunds after claiming for false deductions like travel expenses (where the taxpayer doesn't have a travel allowance or even a motor vehicle) medical deductions (without the taxpayer being able to provide supporting documentation for such expenses) and even cases where taxpayers claimed to be disabled, to claim additional medical expenses.

Where these taxpayers are unable to substantiate their claims, they are obliged to pay back the refunds and face up to 200% penalties and possible criminal prosecution. SARS wants to encourage any taxpayer who may have fallen prey to such scams to come forward and assist SARS with information in order to arrest more suspects. Such information can be reported to the SARS Anti-Corruption and Fraud Hotline of 0800 00 28 70.

With the current Tax Season ending on Friday 26 November 2010, SARS wants to caution taxpayers who want to use the services of tax intermediaries to ensure their returns are completed honestly, accurately and on time.

Any taxpayer who is guilty of receiving undue refunds who approaches SARS and co-operates fully with the investigation has the chance of making arrangements for repayment of the refund and mitigating their penalties.

Ultimately the taxpayer remains legally accountable for all information on their tax return, even if it is completed by a third party on their behalf. SARS offers a free advisory service to taxpayers to help them submit their returns accurately and honestly at any SARS branch.

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