SA Budget 2019/20 – Nowhere to hide for tax dodgers stashing assets offshore

Putting money into offshore structures, thinking that you are safe from the tax man, is no longer the case, warns Jonty Leon, financial emigration legal manager at Tax Consulting SA.

In terms of tax disclosure, it's crucial to note that Finance Minister Tito Mboweni mentioned the globally agreed Common Reporting Standard in his Budget Speech on Wednesday showing a "clear nod" towards cracking down on tax dodgers, Leon says.

'Skirting the radar'

"Mboweni's mention of CRS in his Budget speech shows a clear nod in the direction of reigning in non-compliant taxpayers who fail to disclose their income fully," Leon told Fin24.

"Globally, people have been attempting to skirt the radar and 'hide' their assets and income from tax authorities."

According to Leon, the Organisation for Economic Co-operation and Development (OECD) has worked hard to locate non-compliant taxpayers, noting that offshore structures have been specifically designed to “circumvent financial account reporting under the OECD’s CRS”, as stated in the Budget speech.

Nowhere to hide

The most common question Leon hears from clients who have not disclosed all their income is: “How would they (authorities) ever find out?”

To this he responds that privacy is not protected when it comes to income.

“The revenue authority must be paid its pound of flesh and with CRS there is nowhere to hide. Banks and revenue authorities around the world are being forced to share information with each other,” he explains.

“Mboweni stated that the OECD’s mandatory disclosure rules must be implemented in South Africa, meaning that there is even less wiggle room for those that continue to fail to disclose their income.

“Further, Mboweni suggested that penalties for those that are non-compliant with the rules must be levied.”

A series of unfortunate events

Leon says once you have been reported in terms of the OECD rules for non-disclosure, this triggers a “series of unfortunate events”.

“Then revenue authorities will delve deeper into your past dealings and the income received previously. They will be searching for further indiscretions or non-disclosure events.

“The more they find, the more penalties will be levied and the higher the chance for criminal sanctions,” he says.”The point:

one must be honest and open with their income. Non-disclosure will catch up with you. It is not a case of ‘if’, but rather a case of ‘when’, and the ‘when’ seems to be coming sooner than we all think.”

Tax morality

The concept of tax morality has been discussed among taxpayers in South Africa for a number of years already, according to Ferdie Schneider, national head of tax at international accounting, tax, consulting and business advisory firm BDO.

Commenting on Finance Minister Tito Mboweni’s Budget speech, Schneider said the question gets raised whether there is scope to actually be “tax immoral”, despite the systems in place largely preventing this from happening.

“Taxpayers actually need money and need to see that their money is well spent (by government) on infrastructure,” explains Schneider.

“That places a large burden on politicians because they need to demonstrate sound governance. If they cannot demonstrate that, the tax morality goes down and if that goes down, and then we either see a brain drain or taxpayers revolting and not paying taxes.”

In his view, it is, therefore, important for government to create certainty and confidence so that high tax morality can be established.