



CASE PRESENTATION

**Investigation
on dealers of import cars**



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INTRODUCTION

- ❑ Eswatini is one of the major importer of used cars of Asian origin
- ❑ Swazi people are attracted towards these used vehicles because of their good condition and low cost price compared to local cars or car sold in SADAC.
- ❑ This business sector has grown remarkably and is increasingly becoming important in the country's economy.
- ❑ As discovered, it is however contributing far less than expected. In fact, the country loses over 50% of tax revenue annually.
- ❑ Over the years the country has tried to increase import levies and regulate this sector to curb the economic problems that come with it, but in vain.
- ❑ Normal tax audits launched failed to serve the purpose due to number of challenges including issues relating to business records cash and banking management.
- ❑ As investigation/intelligence team we got attracted to this sector

SOURCES OF INFORMATION

Internal sources

- Domestic taxes (Tax returns,)
- ASYCUDA data (IM4s imports)

External sources

- Bank statements
- Tax intelligence (information gathered through uncover operation)

Note: Other option was to request and use international information but was not readily available

OBJECTIVES OF THE INVESTIGATION

The objectives for our investigation was;

- ❑ To find the drivers of non-compliance of the sector
- ❑ To find the disclose any illicit trading practice, schemes and strategies used by the car traders to defraud our country's tax revenue
- ❑ To identify revenue opportunities presented by this sector (*disclosed businesses of car parts that comes with the importation of the cars.*)
- ❑ To recover the tax revenue understated and where need be prosecute the tax offenders.

EXECUTION OF STRATEGY

- 1) Our scope was confined to two tax years 2017 and 2018.
- 2) Information sharing with the Custom's teams on this sector
- 3) identified and targeted key import car dealers based on their reported business incomes.
- 4) Request and analyzed their bank statements for deposits
- 5) Perform an undercover operation (to get the selling prices and possible discounts)
- 6) Consider ASYCUDA information for cost value and then total annual cost value of cars bought (despite the undervaluation of cost price)
- 7) Established the general mark-up
- 8) View the Annual Financial Statements (AFS) and VAT returns details .
- 9) Compare established revenue to the revenue reported by each dealer in both the AFS and VAT returns. With this we determined both income tax and VAT understated.

OBSERVATIONS

- ❑ Information sharing with Customs officer equipped us with knowledge and experience on the car dealers industry's ills and risks.
- ❑ Dealers took advantage of our system's inability to match data (integration)
- ❑ They hardly bank their cash takings (their bank statements were not giving us any true position).
- ❑ the traders' records were incomplete, inconsistent and on cash bases.
- ❑ Undercover operations enabled us to get the actual prices of the cars and possible discounts.
- ❑ Information on Tax returns and ASYCUDA system helped;
 - ✓ get the cost of sales (annual value of opening, closing stock, value of cars imported)
 - ✓ Then the general mark-up was established
 - ✓ Annual generated revenue was established .

CONCLUSIONS & RECOMMENDATIONS

Conclusions drawn of the above steps was that indeed the dealers;

- ✓ understated annual revenue generated compared to annual reported revenue in their tax returns
- ✓ underpaid custom duties and VAT at entry as the import car values were undervalued
- ✓ have undisclosed businesses

Recommendations

- ❑ Civil investigation route preferred; tax assessments worth Millions of Emalangi were raised
- ❑ System; Incorporate an effective tracking tool (a data integrating system)

Other consideration

- ✓ Removal of the corporate veil and prosecution of directors as some dealers have tendencies to close shop once indebted
- ✓ Revise our legislation on the closure and reopening of new business once indebted
- ✓ Stock taking be done where engine & chassis numbers taken to counter the risk of smuggled cars



THANK YOU / SIYABONGA