



Detecting VAT Fraud

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Solidarity Equality Sustainability



Detecting VAT Fraud: Gold scheme



Detecting VAT fraud: Gold scheme

Chain:

- The individual buys Kruger rands (gold coins) from The South African Mint
- The sale of Kruger rands is zero-rated (no VAT)
- The individual sells the Kruger rands to the Pawn shop
- The Pawn shop claims notional input tax on the purchase of the Kruger rands. However, they record it as being “second-hand jewellery” (Def: **Prev owned goods excl animals & gold coins**)
- The pawn shop sells the gold to the Aggregator and charge output tax. However, they don't pay the VAT to The South African Revenue Services (SARS).

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Chain (continue):

- The Aggregator claims input tax on the “second-hand jewellery” purchased.
- The Aggregator sells the “second-hand jewellery” to the Smelter (refineries or mines) and charge output tax. However, they don't pay the VAT to SARS.
- The Exporter (refineries) claim input tax on the purchase.
- They refine the gold and export it. The export is zero-rated. However, we are not even sure if actual gold is imported. It may just be a paper export

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VAT lost:

- The Pawn shop claims invalid notional input tax on “second-hand jewellery” which was initially the **main reason for the scheme**.
- The gold in this scheme includes illicit gold locally mined (“Zama Zama”) and illicit gold imported from Zimbabwe (or other neighbouring countries) known as “blood gold”. Vendors started to smelt gold illegally without a licence.
- Missing vendors in the chain. Only a paper trail.
- VAT registrations only opened for companies to feed the chain. They never submit returns or declare the output tax charged.

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Detection of the fraud:

- SARS noticed a spike in the sale of Kruger Rands
- SARS noticed that the proceeds from the sale of second-hand jewellery almost exceeded the production from gold mines. This is not realistic.
- Increased notional input tax claims on second-hand jewellery
- Changes in the purity of gold bars. 99% purity is impossible.

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Challenges in curbing the losses:

- SARS wanted to raise assessments on the exporters (refineries). “Cut off the head of the snake” so to speak and stop the scheme dead in their tracks. The assessment would have been in terms of section 73 of the VAT Act which states a scheme to evade tax.
- However, the Australian Tax Authority raised assessments on one of their refineries and lost credibility in court. ABC Refinery stated that the tax authority wanted to hit them as the soft target, but they can’t prove that they are involved in a tax scheme. The court agreed with the taxpayer.
- SARS is conducting an ongoing evaluation of section 73 and possible amendments.

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Measures put in place: new regulation

- SARS decided to adopt the UK model of prevention and introduced the domestic reverse charge (DRC) on “valuable metals” which came into effect on 1 July 2022.
- The DRC means that the liability to account for and pay the VAT charged by the supplier on a transaction involving valuable metal will shift from the supplier to the recipient. In doing so, the DRC Regulations place certain responsibilities and obligations on both the VAT registered supplier and the recipient of valuable metal.

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DRC VAT Flow:

Exporter

- Declares Output tax of Smelter (DRC)
- Claims Input Tax only after declaring the Smelter's Output Tax - normally be in same month
- Declares zero-rated Output tax on export
- No net output tax or input tax to pay over or claim on valuable metals

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Smelter

- Declares output tax of Aggregator (DRC)
- Declares own supply to Exporter (excl. VAT)
- Claims input tax only after declaring the Aggregator's output Tax – will normally be in same month
- No net output tax or input tax to pay over or claim on valuable metals

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Aggregator

- Declares output tax of Pawnshop (DRC)
- Declares own supply to Smelter (excl. VAT)
- Claims input tax only after declaring the Pawn shop's Output Tax – will normally be in same month
- No net output tax or input tax to pay over or claim on valuable metals

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Pawnshop

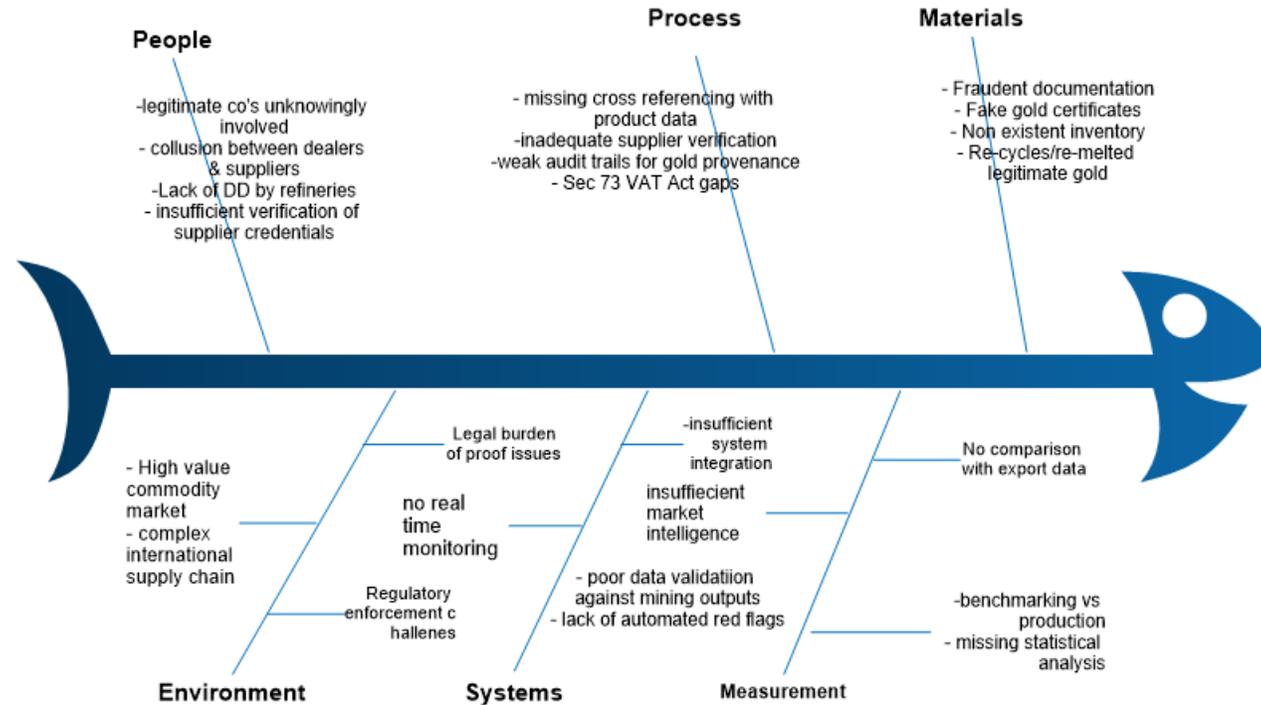
- Declares own supply to Aggregator (excl. VAT)
- Claims notional input tax on the acquisition from non-vendors (or South African residents)
- If the valuable metals transactions are the pawn shop's only transactions, it claims a net refund from SARS on its VAT return

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Approach:

- Investigative Approach: Ishikama Technique/ Fish bone diagram/cause & effect diagram + Quantitative measures = follow the money: (Kaoro Ishikama, 1961)
- Co-ordination: Customs, VAT, Legal
- Est Players: 1000 @ R200 000 each
- Total loss est: R 2 000 000 000

Ishikama Technique



Investigative Focus Areas & Strategic Considerations

Primary Evidence-Based Priorities:

- **MEASUREMENT:** The mathematical impossibility (second-hand jewellery proceeds vs gold mine production) provides strongest evidence base for prosecution
- **MATERIALS:** 99% gold purity claims offer technical evidence of fraud - focus on certificate verification and testing
- **SYSTEMS:** Enhance automated detection to flag statistical anomalies before they reach current scale

Strategic Enforcement Considerations (Learning from Australian case):

- **Target Selection:** Focus on provable fraudulent actors rather than potentially innocent refineries/exporters without concrete evidence
- **Evidence Building:** Establish clear paper trail linking fraudulent transactions to specific entities before assessment
- **Legal Strategy:** Build case around Section 73 violations with strong supporting evidence to avoid credibility loss in court
- **Policy Response:** Use ongoing Section 73 evaluation to address legislative gaps revealed by this scheme

Investigation Sequence:

- Verify physical existence and purity of claimed gold assets
- Map transaction flows from source to end-user
- Cross-reference with actual mining production and export data
- Identify and isolate bad actors from legitimate businesses
- Build water-tight legal case before initiating assessments



Thank you
Siyabulela
Siyabonga
Dankie
Rea leboga
Re a leboga
Ro Livhuwa
Ndza Khensa



South African Revenue Service