ASSESSING TAX COMPLIANCE AND ILLICIT FINANCIAL FLOWS IN SOUTH AFRICA

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This joint report between the OECD and the National Treasury of South Africa analyses illicit financial flows (IFFs) in South Africa and considers efforts to combat them. Using new anonymised data exchanged under the Common Reporting Standard (CRS) and information collected under South Africa's voluntary disclosure programmes, the study quantifies the scale of non-tax-compliant assets held abroad by South Africans, and sheds new light on taxpayer responses to global and domestic tax transparency initiatives. IFFs are defined as cross-border flows that are illegal in their origin, transfer or use.

IFFs are harmful to developing countries

IFFs present a major challenge for developing and emerging countries, as they undermine domestic resource mobilisation efforts. IFFs erode the public revenues that countries need to invest in their social and economic development. Apart from their damaging effects on public revenues, IFFs can erode the investment base of countries, thereby undercutting their ability to invest in their economies and societies, and undermine the public's confidence in the integrity of the tax system.

IFFs in South Africa are substantial

In South Africa, IFFs continue to represent a significant challenge and have a long history. **The study estimates that between USD 3.5 and 5 billion in IFFs leave the country each year, representing approximately 1-1.5% of South African GDP.** This estimate is derived from estimates of between USD 40 and 54 billion in undeclared South African assets held in International Financial Centres (IFCs) in 2018. While the expansion of information exchange between governments has prompted some taxpayers to declare their wealth for the first time, the amounts declared are small relative to the size of estimated IFFs.

IFFs matter for South Africa and across the developing world

IFFs are particularly harmful in South Africa because of the significant fiscal challenges that the country faces. Low growth, rising debt levels, and socio-economic challenges such as high poverty and unemployment rates have been exacerbated by the COVID-19 pandemic. Achieving the Sustainable Development Goals (SDGs) by 2030 will demand the mobilisation of domestic resources to finance public expenditures. Against this backdrop, more effective efforts to curtail IFFs and combat tax evasion will be needed as part of South Africa's overall fiscal strategy. These patterns are likely to be similar across the developing world.

IFFs are poorly understood and require better measurement

Despite the negative impact of IFFs, they are still poorly understood and measured. IFFs, which are inherently secret and therefore difficult to measure, are often too vaguely defined. Prior studies have focussed on errors and omissions in global macroeconomic statistics, which risks conflating measurement errors with IFFs, leading to biased and enlarged estimates. Instead, this study adopts a novel approach that is based on CRS data, which is a new, more granular and country-specific data source to estimate IFFs.

IFFs can be tackled more effectively

Progress in reining in IFFs has been made, but more needs to be done to better understand and address IFFs. Improved analytical capacities in tax authorities to make better use of CRS and tax data are a key priority. Strengthened analytical and enforcement efforts, enhanced data sharing and collaboration across relevant authorities is needed. An increase in the use of existing treaties for information exchange with IFCs should also be pursued. The OECD can assist developing countries in their efforts to tackle IFFs in the future through similar analytical studies as well as capacity building initiatives such as Tax Inspectors Without Borders (TIWB), and through widespread implementation of OECD's *Fighting Tax Crime – The Ten Global Principles framework*.

For more information:

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