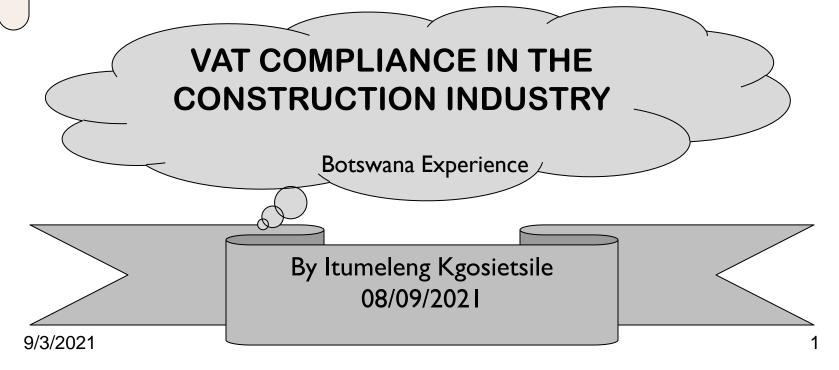


### ATAF VAT WORKSHOP

### CONSTRUCTION INDUSTRY AND MISSING TRADER FRAUD

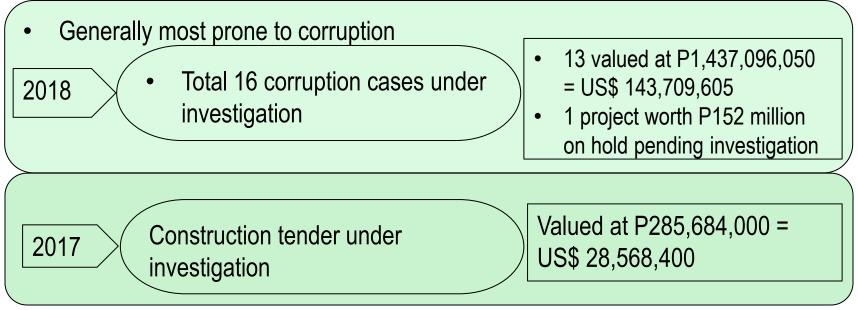


## Overview



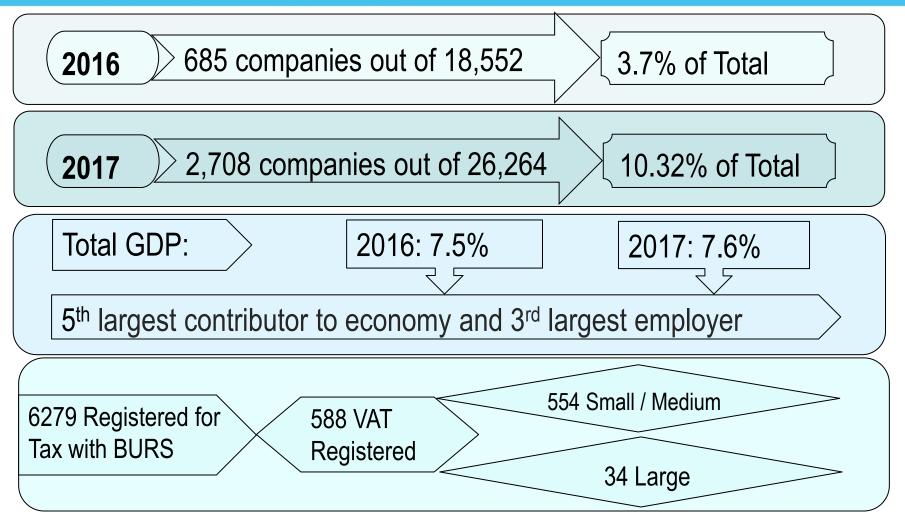
Construction – includes building, assembling of infrastructure, design, architecture, engineering, civil works, management of projects...

- The main engines of growth in Botswana's economy
- Growth in the construction industry has been closely linked to and influenced by, Government's investment in physical infrastructure.



## Cont...





# **General Requirements**

Registration

Return Submission

Payment

9/3/2021

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- Taxable activity in Botswana
- Taxable turnover of P1million (US\$100,000) compulsory
- Turnover of P500,000 (US\$50,000) voluntary
- No special registration requirements
- Monthly submissions category C taxpayers
  - Bi-monthly submissions category A and B taxpayers

- Monthly or bi-monthly depending on the category
- 25 days after end of the tax period Tax period can be monthly or bi-monthly

## **Risk Analysis**



- Large companies involved in big projects are foreign
- Related party dealings
- Transfer Pricing issues

- Import materials from holding cos;
- use fake invoices;
- Invoices in foreign language;

- Nil return filing;
- Non-declaration;
- Under-declaration;
- Missing trader
- Mgt fees, Tech fees, royalties paid without withholding tax deduction

**Risk Areas** 

- Income not declared or fees misclassified as admin expenses
- Claim guarantee fees but no tax declarations

9/3/2021

## Case 1 – XCo..



Background: Business of buying and selling Property Developer

 Developer buys land – signs development covenant stating that transfer will effect after property is developed, once developed, it is sold, sale agreement is signed between plot owner and buyer – developer not in the picture – missing trader and chooses which property to pay tax on or not declare.

Investigation: search, seizures of records, Input tax invoices

- Bank records not showing income from sale, income deposited into trust account of the attorneys. Attorneys instructed to transfer funds to separate accounts including outside Botswana. Records not properly maintained:
- Input tax records revealed some info plot number, price..

## Cont..

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### 3<sup>rd</sup> Parties – Banks, Deeds Registry, buyers

- Information from Third Parties: Sale agreements and registered bonds with particulars of buyers; mortgage agreements between buyers and banks; Title Deeds;
- Values and dates of transactions, Development covenant, Financiers, sellers;

### Findings

- Identified 69 plots: 21 declared, 25 undeclared, 13 claimed to be unknown and 10 belonging to sister companies;
- P30, 634,000 (US\$3,063,400) was declared;
- P29,376,000 (US\$2,937,600) under-declaration

# Case 2 – YCo..



### Background:

 YCo participated in local and foreign tenders, upon winning a tender, a local coy takes over the work and no recognition of income by YCo in Botswana.

### Findings:

- YCo created and registered 13 bogus companies;
- Bogus companies did not have place of business; have common fake postal/physical address; some share telephone number;
- Issue fake tax invoices to YCo and in turn YCo claims input tax on nonsupplied materials; YCo issues different fake invoices to these bogus companies using different fake letterheads;
- wrong claims of capital allowances;

# **Case 3 – ZCo..**



## Assessment:

#### VAT

- Additional assessment: P4,545,521.69
- **Penalty: P7,191,091.69**
- □ Total: P5,681,902.11 = US\$56,819,021

### Income Tax:

- □ Additional assessment: P29,239,242.44
- **Penalty:** P7,191,091.69
- □ Total assessment: 36,430,334.13 = UD\$364,303,341

## Conclusion



- Encourage sector voluntary compliance continuous education and awareness? constant monitoring? Penalties?
- Enhance sector knowledge within the compliance team;
- Encourage whistleblowing, implement whistleblowing policies, strengthen witness protection measures for whistleblowers;
- Strengthen stakeholder partnerships including system interface with relevant stakeholders;
- Develop a robust risk assessment system that can detect fraud;
- Think data matching tools or systems;





# **THANK YOU**



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