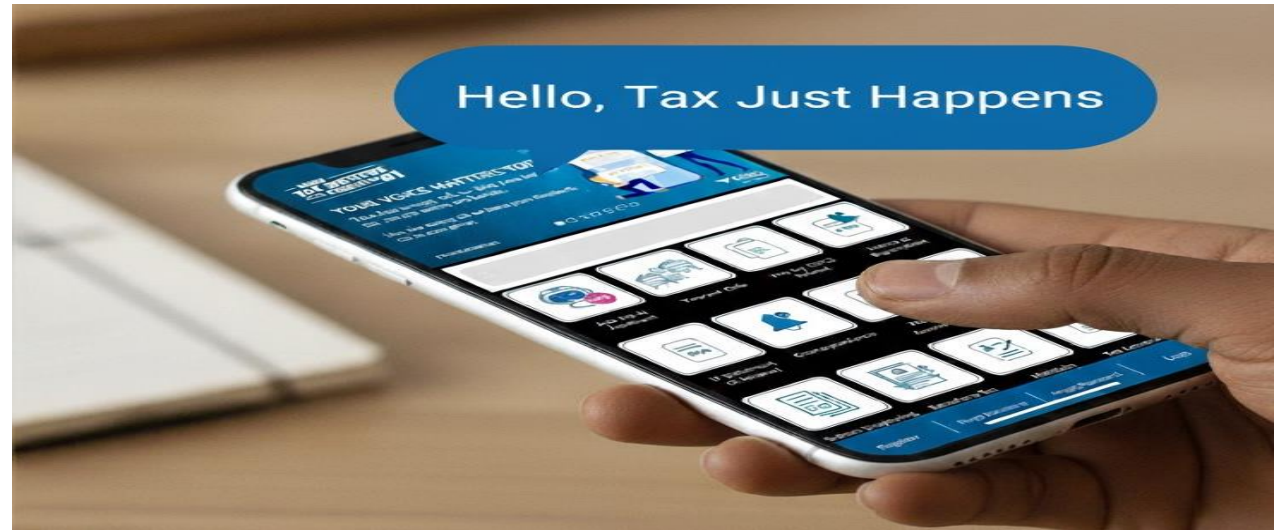




PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

HEALTH PORTFOLIO COMMITTEE



MANAGE THE TOBACCO VALUE CHAIN



South African Revenue Service

Edward Chr Kieswetter
SARS Commissioner
23 October 2025

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INTRODUCTION

A brief overview SARS



“THE STORY OF SARS IS A STORY ABOUT PEOPLE: EVERYTHING WE DO IS ABOUT HAVING TRANSFORMATIONAL IMPACT ON THE WELL-BEING OF THE LIVES OF PEOPLE - ESPECIALLY THE MOST VULNERABLE AMONG US”
Commissioner Edward Kieswetter

SARS STRATEGIC PLAYBOOK

Guides our work and execution of our mandate

SARS STRATEGIC PLAYBOOK

SARS VISION 2030

A SMART, MODERN SARS WITH UNQUESTIONABLE INTEGRITY, TRUSTED & ADMIRER



SARS STRATEGIC INTENT

A TAX & CUSTOMS SYSTEM BASED ON VOLUNTARY COMPLIANCE



CLARITY OF PURPOSE

Whilst our Legal Mandate is to:

- Collect all revenues due
- Ensure optimal compliance with tax and customs legislation
- Provide a customs service to optimize revenue, border protection & facilitate legitimate trade

...SARS exists to serve the **HIGHER PURPOSE** of

ENABLING GOVERNMENT TO BUILD A CAPABLE STATE THAT FOSTERS SUSTAINABLE ECONOMIC GROWTH & SOCIAL DEVELOPMENT THAT SERVES THE WELLBEING OF ALL SOUTH AFRICANS

IMPLEMENTING OUR STRATEGIC INTENT 9 STRATEGIC OBJECTIVES

CORE: VOLUNTARY COMPLIANCE

1. Provide **Clarity & Certainty** for Taxpayers & Traders of their obligations
2. Make it **Easy** for Taxpayers & Traders to Comply with their obligations
3. **Detect** Taxpayers & Traders who do **not Comply**, and make non-compliance **Hard & Costly**

ENABLING

4. Develop a **High Performing, Diverse, Agile, Engaged** and **Evolved** workforce
5. Increase and expand the use of **Data** within a comprehensive knowledge management framework to ensure integrity, derive insight and improve outcomes
6. Modernize our systems to provide **Digital and Streamlined** online services
7. Demonstrate effective **Resource Stewardship** to ensure efficiency and effectiveness in the delivery of quality outcomes and performance excellence

RELATIONSHIP

8. Work with and through **Stakeholders** to improve the tax ecosystem
9. Build **Public Trust and Confidence** in the tax administration system

DELIVERING ON OUR HIGHER PURPOSE



REVENUE COLLECTION



COMPLIANCE



TRADE FACILITATION



ENSURING THE WELLBEING OF OUR PEOPLE

PURPOSE OF TODAY'S ENGAGEMENT

The Committee requested SARS to:

1. Brief members on the **strategies and enforcement measures** implemented
2. Gain insight into the **scale of the problem**
3. Share **collaboration efforts**
4. Make recommendation on **policy or legislative gaps** that may require attention

POLICY LANDSCAPE

*Drawing guidance from Global and Domestic Policy to
inform Administrative Policy*

POLICY CONSENSUS:

RESPONSIBLE, REGULATED TOBACCO CONSUMPTION

International bodies such as the **World Health Organization (WHO)**, **World Trade Organization (WTO)**, and the **African Union (AU)** share a unified stance: **support for responsible, regulated tobacco consumption.**

This policy framework serves a **dual purpose**:

- **Discouraging harmful consumption** through public health interventions.
- **Generating fiscal revenue** where higher prices intended to reduce consumption while increasing revenue.

DOMESTIC POLICY GLOBALLY ALIGNED

South Africa's policy approach mirrors global and regional commitments:

- **Health Policy:**
 - Encompasses both traditional tobacco products and emerging alternatives such as
 - **e-cigarettes**, aligning with
 - Proposed ***Tobacco Products and Electronic Delivery Systems Control Bill***.
- **Fiscal Policy:**
 - Guided by health imperatives Government imposes a “**sin tax**” on tobacco products
 - **to deter/influence behaviour,**
 - **while securing public revenue.**

DOMESTIC POLICY GLOBALLY ALIGNED

This fiscal stance informs **SARS's administrative policy**:

- **Based on Voluntary Compliance**
 - **Providing clarity** and guidance
 - **Facilitating the fulfilment** of obligations
 - **Ensuring collection** of excise duties and sin taxes.

Whilst

- **Sanctioning non-compliance** and illicit trade activities.

SARS FEEDBACK ON DRAFT BILL

SARS SUPPORTS THE BILL WITH COMMENTS

- Bill is **progressive** and in line with the modern world trend
- Implementation of Bill
 - will have a **direct effect on Tax Revenue collections**
 - provided adequate **enforcement**
- **Primary interests for SARS:**
 - Plain packaging
 - Regulatory powers (interface between DoH & SARS – Section 8(3))
 - Alignment with e-cigarettes into the excisable products regime

PLAIN PACKAGING: Proceed with Caution

1. While **plain packaging** removes brand appeal, in a **high-illicit environment** it may:

- **Facilitate counterfeiting**
- **Complicate enforcement**
- **Increase illicit tobacco trade**

2. Mitigation proposals:

- Need for a **unique product specific marking regime** (not track & trace)
- Bill accommodates **SARS ruling regime for Administration of excisable products**
- Department of Health and SARS to ensure **alignment** in this regard

MINIMUM PRICING: Levels the playing field

1. Regulation of Minimum Unit Pricing (MUP) – A Game-Changer

- **Precedents exist** (petrol, LPG, electricity, telecoms, and pharmaceuticals).
- **Tobacco products and e-cigarettes** should be considered for exemption.

2. This would:

- **Prevent retailers from selling below a set price**, removing the incentive for illicit trade.
- **Disrupt the economics of the black market**, making it less profitable.
- **Deliver a systemic shock** to illicit operators and restore market integrity.

SECTION 8(3): Needs to cover all SARS Functions

1. Proposed Section 8(3) – potential legislative conflict

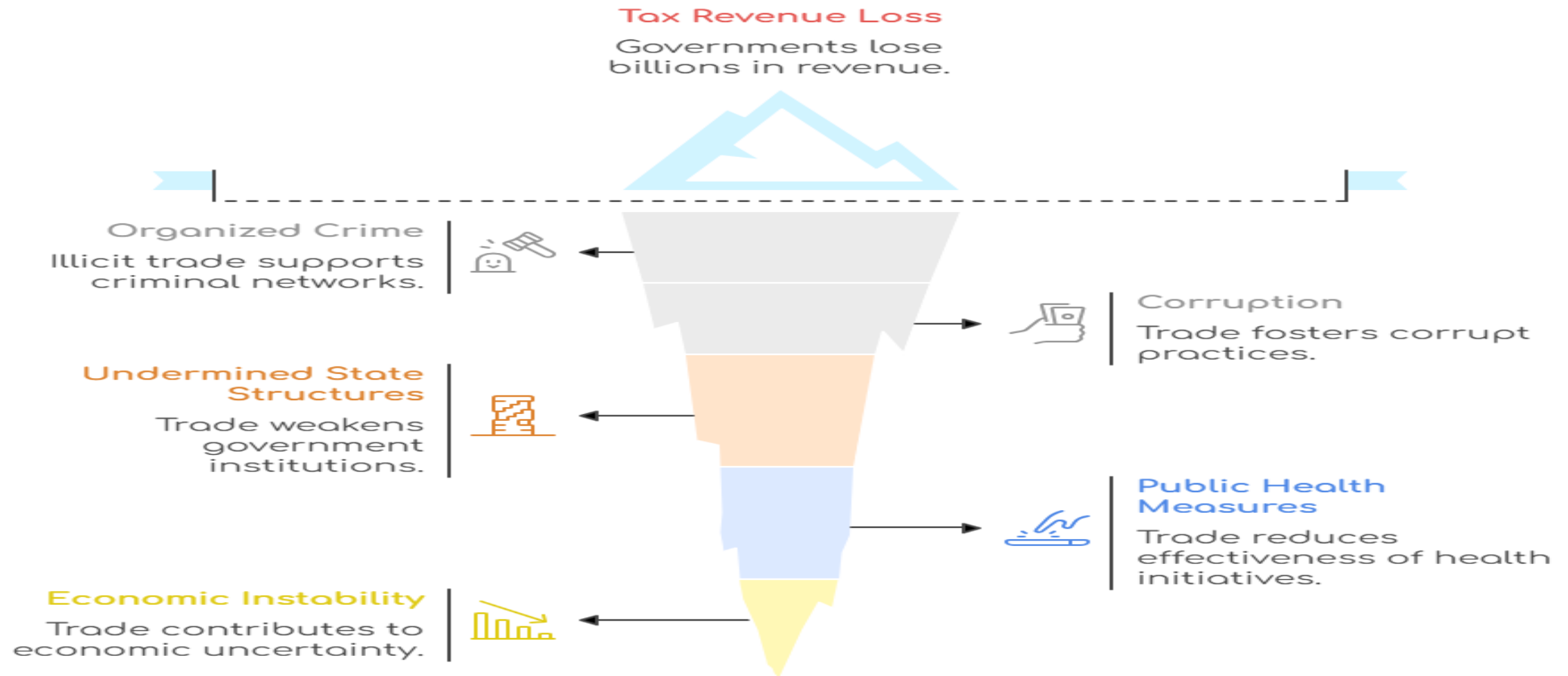
- This section is currently limited to importation.
- **It needs to include licensing, regulation, administration, and enforcement by SARS in terms of the Customs and Excise Act 91 of 1964.**

OPERATIONAL LANDSCAPE

Illicit Tobacco: A Complex Threat Shaped by Socio-Economic and Structural Vulnerabilities

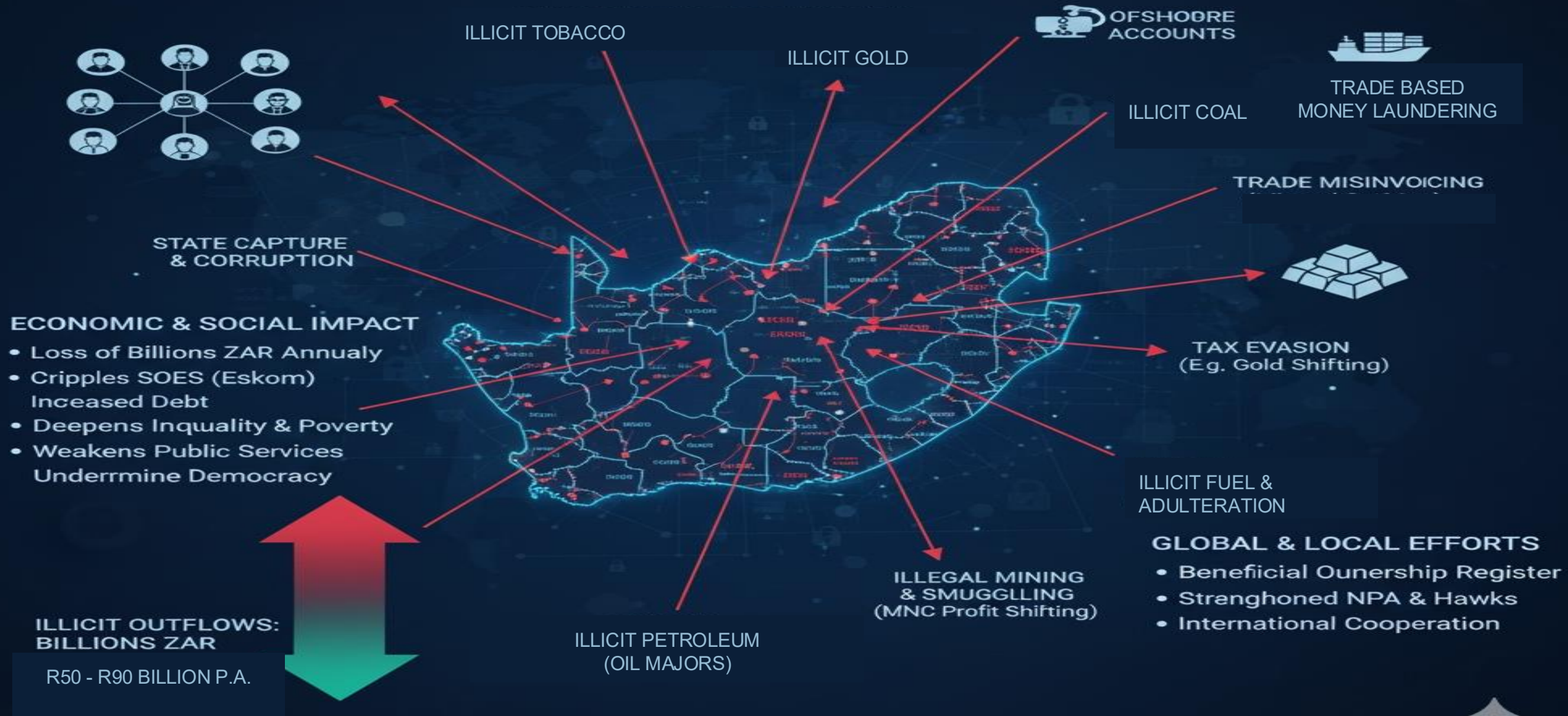
GLOBAL IMPACT OF ILLICIT TRADE IN TOBACCO

Illicit Tobacco Trade: Unveiling the Hidden Depths

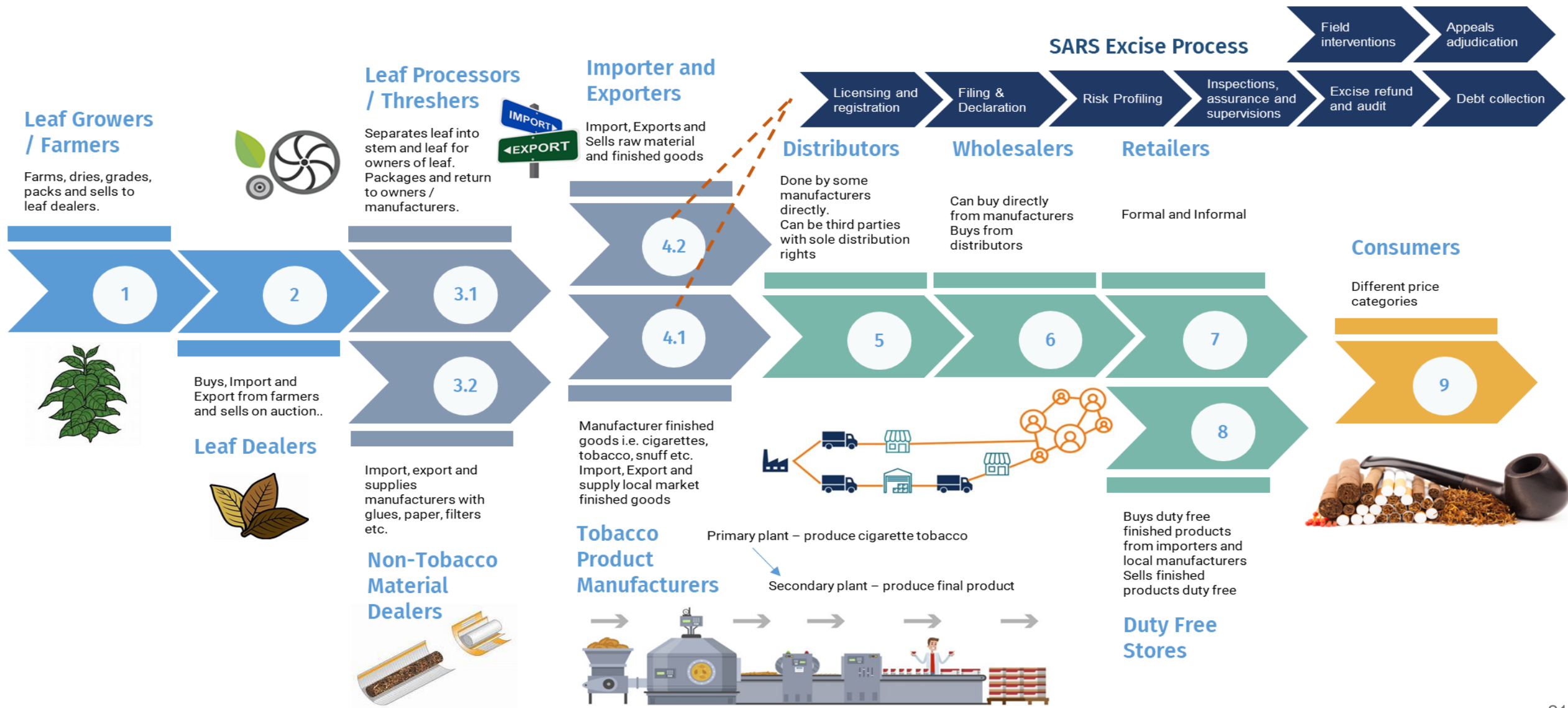


ILLICIT FINANCIAL FLOWS (IFFs) IMPACT ON SOUTH AFRICA

MORE THAN R54 – R90 BILLION LOST ANNUALLY



SA TOBACCO VALUE CHAIN

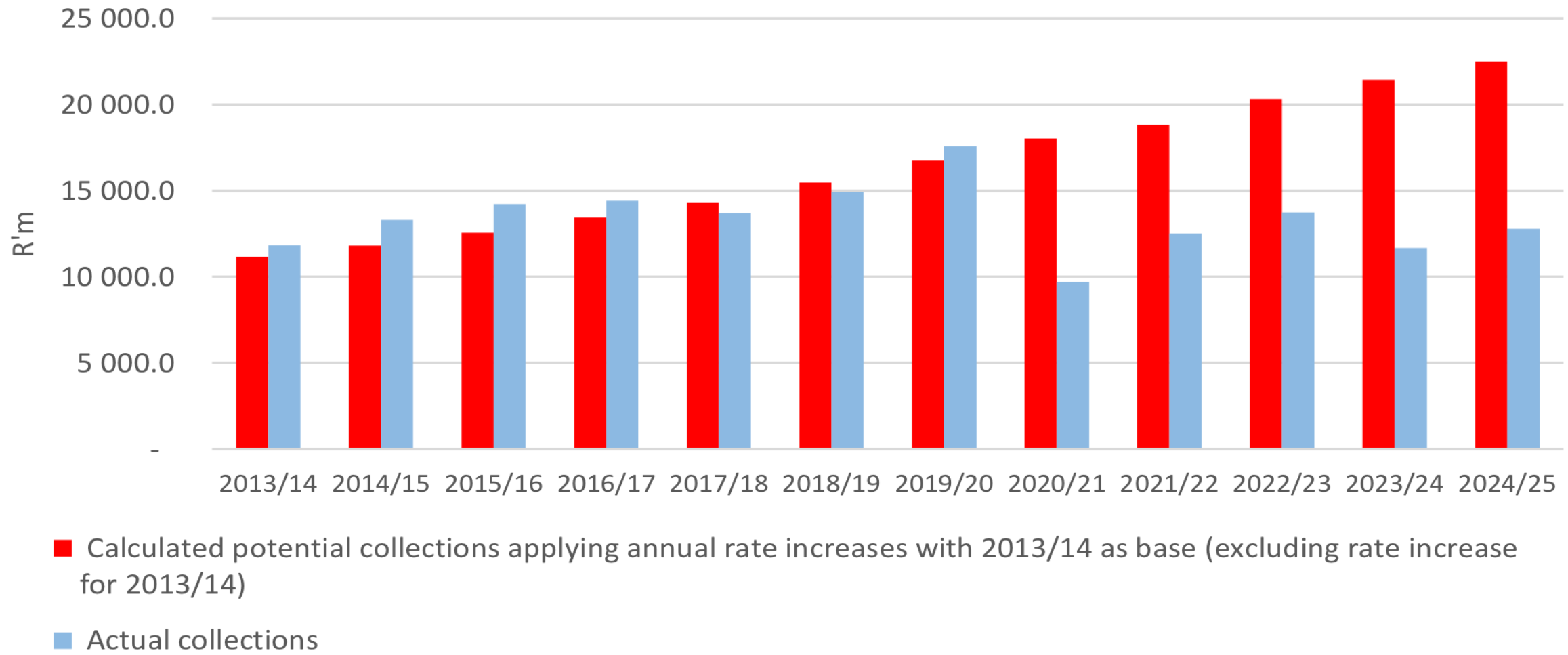


MANIFESTATION OF ILLICIT TRADE IN TOBACCO SECTOR

Fraud exists across the value chain from:

- Sourcing of raw materials
- Production and Distribution
- Sales
- Imports and Exports

POST COVID GAP – R40BN (2020 - 2025)



NB. Does not include displaced consumption that has been taken up by the illicit trade.

SA MARKET SHARE OF ILLICIT TOBACCO (OTHER DATA)

- UCT – Research Unit on Economic on Excisable Products (REEP) (2022/25)
 1. 59% of the market is illicit in 2022
 2. Illicit market grew from 19% in 2014 to 59% in 2025
 3. Between 2020 and 2022 SARS lost R51 billion in excise revenue (R17bn PA)
- IPSOS / BATSA (2025)
 1. 75% of the market is illicit
 2. Illicit market grew from 35% in 2014 to 75% in 2025
 3. Between 2020 and 2022 SARS lost R72 billion in excise revenue (R24bn PA)
- Tax Justice SA (2025)
 1. 76% of the market is illicit in 2025
 2. Between 2020 and 2022 SARS lost R84 billion in excise revenue (R28bn PA)

SARS RESPONSE TO ILLICIT TOBACCO

Reflecting over the period 2000 to 2025

SARS'S TOBACCO ENFORCEMENT EFFORTS: *FROM EARLY GAINS (2000–2014)*

2000-2014: A Period of Progress and Successes

- SARS implemented **robust systems** to monitor and control tobacco production and distribution.
- **Effective tax administration and enforcement** led to a reduction in illicit tobacco activity by 2013/14.
- **Excise tax collections increased**, contributing significantly to government revenue and reflecting *improved taxpayer compliance (15% pa)*.
- **Proliferation of new questionable entrants.**

SARS'S TOBACCO ENFORCEMENT EFFORTS: *TO EARLY SETBACKS (2014–2018)*

2014-2018 – Dismantling of Capacity and Erosion of Capability

- SARS faced **internal disruptions** and **weakened enforcement capacity**.
- The **absence of oversight** resulted in **30% to 35% of the market** being displaced by illicit operators*.
- Despite rising tobacco consumption
 - **excise revenue stagnated**
 - widespread **tax evasion**.

SARS'S TOBACCO ENFORCEMENT EFFORTS:

STRATEGIC REBUILDING AND MODERNISATION (2019 – 2025)

2019 – to date: Rebuilding of SARS

Established Enforcement Capability (2019)

- To treat **syndicated crime** differently
- Introduced **intelligence-led, data-driven, enforcement**
- Stakeholder engagement

Adopted segmented approach (2025)

- Improve understanding of the Illicit Segment
- Enhance Compliance Programme

SARS'S TOBACCO ENFORCEMENT EFFORTS:

STRATEGIC REBUILDING AND MODERNISATION (2019 – 2025)

Policy and Technological Advancements

- Introduced **new tobacco tax policies** – compulsory cigarette counters, CCTV monitoring, licensing
- Introduced **VDP for traders**

In addition

- Dedicated capacity
- Enhanced **risk profiling and case selection** – technology and data science

OPERATIONAL OUTPUTS

Audits:

- 2024/25 - 576 seizures worth R265.1 million
- September 2025 YTD - 233 seizures worth R135.5 million
- 28 ongoing audits with a combined potential value of R 6 billion

Rapid response operations:

- YTD 94 seizure cases involving 77 million cigarette sticks valued at over R133 million
- Additional cases in progress.

Manufacturing warehouse monitoring:

- Installation of CCTV cameras at manufacturing sites – halted pending litigation

License regulation:

- Manufacturing plant of licensee seized
- One manufacturing license suspended
- 2 further licenses suspensions in progress

Regional collaboration at SACU through joint operations (Interagency cooperation included)

OPERATIONAL OUTPUTS

Financial and criminal investigations:

- **Search & Seizures:** Over **40 premises**, including financial institutions and linked entities in the gold refinery sector.
- **Asset Preservation & Recovery:** Secured legal orders against some major entities, **R2.2bn repatriated foreign assets**, and restricted suspect movement.
- **8 Licenses cancelled or revoked** (1 Clearing agent and 7 importers). Importer and clearing agent liquidated and director sequestered
- **86 cases** handed over **for criminal prosecution**, over 100 witnesses interviewed, with ongoing law enforcement collaboration across SARS, DPCI/HAWKS, SARB, and the NPA.
- **Assessments and schedules raised exceeding R45 billion,**
- An overall **R6.1 billion in revenue recoveries.**
- The **collapse of 3 major illicit tobacco schemes.**
- **3 notable successful convictions** which resulted in custodial sentences of 3-, 6- and 10-years direct imprisonment.
- A criminal prosecution of a significant role player dating back to 2003, is currently before court in judgement. It is among the longest-running prosecutions in SA history. It demonstrates SARS' resilience to stay the course on enforcement matters.

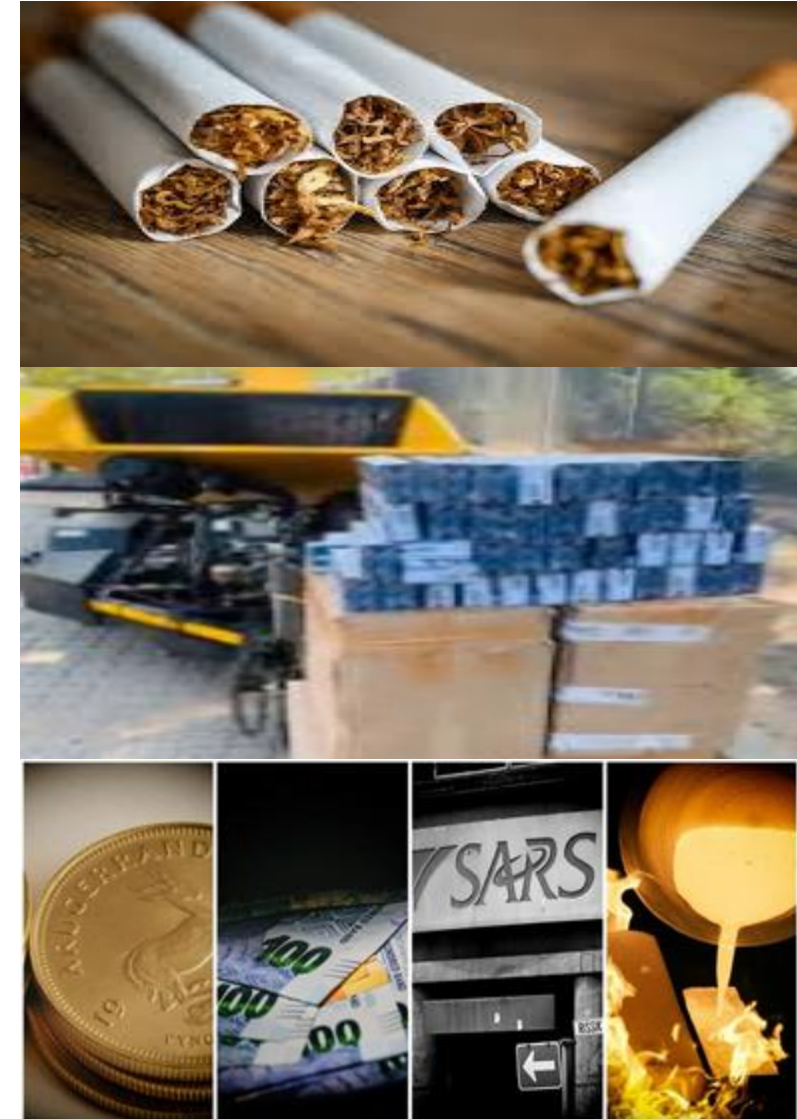
TACKLING THE ILLICIT GOLD SECTOR

- **Role players:**
 - Clearing Agent and its director known in the illicit tobacco trade
 - Foreign National who facilitated import documents
 - One individual director linked to the importing entities
 - At least eight front entities
 - Tobacco manufacturers
- **A scheme involving the importation of 30 tons of raw tobacco (valued at R1.337 billion) through Beit Bridge for the period between March 2016 and December 2018.**
 - Imports were processed by seven interrelated entities, fronted by an individual sole director and facilitated by Freight and Logistics company.
 - The clearing agent falsely declared that the raw tobacco was for legitimate cigarette manufacturing.
 - The importer paid import VAT but did not claim input VAT, likely to evade scrutiny.
 - Many declared addresses for the consignments were fictitious or unsuitable for tobacco storage.



TACKLING THE ILLICIT GOLD & TOBACCO SECTOR

- **SARS' actions have significantly disrupted illicit Gold & Tobacco networks:**
 - o Uncovered multi-billion rand leakages across the value chain.
 - o Syndicates dismantled: money laundering via refineries, banks, airlines, and cash-in-transit companies.
 - o Border interdictions strengthened through advanced customs intelligence.
 - o Key facilitators exited the industry; banks severed ties with implicated players.
 - o Major role-players ceased operations or fled South Africa.
 - o Prosecutions underway with SAPS, Hawks, and NPA (sensitive stage).
- **Legal and Regulatory Reforms** – SARS worked with National Treasury and the Davis Tax Committee to introduce the Domestic Reverse Charge Regulation (July 2022), closing key VAT loopholes.
- **Results – > R45 billion in assessment | >R6.1 billion recovered | 5-year project | Gold & Tobacco Syndicate dismantled | VAT loopholes closed | 3 Convictions**



INSIGHTS AND LESSONS

- COVID-19 prohibition significantly **altered the licit and illicit parts of the tobacco sector**
- Traditional crime cartels, syndicates and gangs became involved in the illicit cigarette trade
- Syndicates involved solely in the **illicit trade began to diversify and invest in other sectors**, such as mining and refinery, property development and investments in other countries such as United Kingdom, United Arab Emirates, Central and Southern African countries
- **Fraud schemes** became more complex and specifically designed to avoid FIC obligations and SARS scrutiny
- **Foreign cartels and syndicates** developed relationships with local cartels and syndicates and entered the market

INSIGHTS AND LESSONS

- Syndicates formed **new relationships** with **money laundering channels**, **illicit financial flows** and related "service providers"
- Some **tobacco syndicates became money laundering facilitators** themselves due to inordinate cash amounts on hand
- Confirmation that a **bank collaborated and enabled manipulation** of the computerised banking system to remove transactions to avoid detection by the South African Reserve Bank (SARB) and SARS and failed to comply with the relevant legislative framework.
- **Inter-agency** investigation between **SARB, SARS , FIC, DPCI and NPA**
 - Cooperation with international jurisdictions
 - Multiple request for information to foreign authorities including but not limited to Dubai, Mauritius, Jersey, USA;

POLICY CONSIDERATIONS ON TAXES AND TOBACCO PRODUCTS

Submission to Minister of Finance

THE TOBACCO ECOSYSTEM

- **Increases in taxes** on tobacco as implemented elsewhere globally have been **relatively effective with proper administration and change management**
- Excise policy interventions **impact an entire value chain** in many ways, and not only end consumers:
 - **Upstream:** Producers and raw material suppliers absorb input shocks, often resulting in reduced compliance and production displacement.
 - **Midstream:** Distributors and wholesalers adjust to price differentials, with growing incentives to blend formal and informal trade channels.
 - **Downstream:** Consumers respond by substituting toward cheaper illicit products, diminishing expected health and fiscal benefits.

FISCAL AND GOVERNANCE IMPLICATIONS

Without corresponding reinforcement of **enforcement capability**, steep excise hikes can lead to:

- **Revenue volatility** and decline in the medium term.
- Distortion of **legitimate industry**, undermining investment, and employment.
- Expansion of **corruption risks**, especially in licensing and border management.
- Erosion of **tax morale**, as compliant taxpayers perceive unfairness and weak enforcement.
- The compounding implication of these have spill-over effects that adversely impacts overall compliance culture and consequently harms our strategic intent of voluntary compliance

IN SUMMARY

While the **fiscal imperative** to supplement healthcare funding through taxation:

- Steep **excise duty increases** has **adverse outcomes** in the current environment risk undermining the very objectives they intend to serve.
- Inadequate capability to **administer across Whole-of-Government (WoG)** and **change management in Society** policy may
 - empower illicit networks
 - destabilise legitimate industry
 - erode the fiscal base
- Adequate **investment in enforcement capacity** is urgently needed.

SARS ACTION PLAN

***SARS ACTIONS TO FURTHER STRENGTHEN
ENFORCEMENT AND COMPLIANCE***

SARS ACTION PLAN (1/2)

1. Enhanced Regulatory Framework:

- Amend SARS's rules and regulations to require a **more comprehensive declaration regime**
- Focus on **high-risk items**

2. Tougher Penalty Regime

- **Zero-tolerance penalty framework**
- **Mandatory forfeiture; Maximum penalties; Three-strikes-out rule.**

3. Prioritised Legal Action

- Establish a **dedicated SARS legal team** to fast-track litigation against offenders.
- Expedite cases where **licenses have been suspended or withdrawn**

SARS ACTION PLAN (2/2)

4. Strengthened Licensing Governance

- Subject **new license applications** to more rigorous vetting.
- Conduct **zero-tolerance compliance audits** on existing license holders.

5. Centralised Project Management of Identified Cases

6. Secure funding to employee 300 Excise Officers and 100 Auditors

COMMITTEE SUPPORT REQUIRED

WE REQUIRE THE COMMITTEES SUPPORT

- 1. Note the SARS approach to the Tobacco and Cigarette sector**
- 2. Support the additional capacity and investment requirement for SARS**
- 3. Note and support for the need for the Whole-of-Government (WoG) approach**
- 4. Support for the amendments to the “Tobacco” Bill proposed by SARS**
- 5. Ratification of the WHO protocol to eliminate Illicit Trade in Tobacco Products**
- 6. Note that the Illicit Tobacco sector is a microcosm much larger and highly professionalised**

Illicit Economy

*THANK YOU
SIYABONGA
BAIE DANKIE
REA LEBOGA
ENKOSI KAKHULU*

