

Banks to play a crucial role in combating tax fraud

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SOUTH Africa's banking sector could soon play a far more active role in the fight against tax fraud, following proposals contained in the 2026 Draft Tax Administration Laws Amendment Bill (TLAB) that would require financial institutions to identify, report and temporarily freeze suspicious tax refund payments pending investigation by the South African Revenue Service (Sars).

The proposal represents one of the more significant tax administration reforms contained in the draft legislation and signals an expansion of Sars' increasingly data-driven approach to protecting the fiscus from fraudulent refund claims.

If enacted, the amendment would introduce banks as an additional compliance checkpoint before tax refunds reach taxpayers, strengthening Sars' ability to detect and prevent fraudulent payments before public funds are lost.

Banks as the first line of defence

The proposed amendment to section 190 of the Tax Administration Act, No. 28 of 2011, would expressly empower banks to screen tax refund payments either before or immediately after they are deposited into taxpayers' accounts.

Where a bank reasonably suspects that a refund may be linked to a tax offence, it would be legally obliged to notify Sars and temporarily hold the payment for up to two business days while the revenue authority investigates its legitimacy.

According to National Treasury, the proposal forms part of broader legislative amendments intended to strengthen tax administration, improve compliance and implement announcements made during the 2026 Budget Review.

The move follows years of collaboration between Sars and South African financial institutions, particularly in combating fraudulent VAT refund claims, where enhanced verification processes have significantly reduced improper payments.

Expanding Sars' existing fraud powers

While Sars already enjoys extensive powers to investigate suspected tax fraud, the proposed amendment effectively extends part of that preventative framework to the banking sector.

Jashwin Baijoo, partner and head of strategic engagement and compliance at Tax Consulting South Africa, says the proposal illustrates how Sars continues to evolve its enforcement strategy by leveraging the country's sophisticated financial infrastructure.

"Sars has invested heavily in becoming a data-led revenue authority. The proposed amendment reflects a natural progression of that strategy by introducing banks as an additional safeguard before potentially fraudulent refunds leave the fiscus. Rather than relying solely on recovery after the fact, Sars is



DRAFT legislation would require South African banks to identify, report and temporarily freeze suspicious tax refunds, strengthening Sars' fraud prevention and compliance efforts. | FILE

attempting to prevent losses before they occur," Baijoo says.

Under existing provisions of the Tax Administration Act, Sars may recover refunds that it believes were paid incorrectly, particularly where there are reasonable grounds to suspect fraud, material misrepresentation or error.

This may involve verification procedures, audits, revised assessments and various recovery mechanisms available under the legislation, including third-party appointments where appropriate.

"The proposal does not replace Sars' existing investigative powers," Baijoo explains.

"Instead, it introduces an earlier intervention point. If implemented effectively, it could reduce fraudulent payments while allowing legitimate refunds to continue flowing through the system with greater confidence."

Questions around banks' decision-making

While the objective of protecting public revenue is widely understood, the proposed amendment raises important questions around how banks will determine whether a refund is sufficiently suspicious to warrant intervention.

The draft legislation currently provides little detail regarding the criteria or risk indicators banks would apply before freezing a taxpayer's refund.

"There will need to be clear opera-

tional guidelines," says Baijoo. "Banks are compliance institutions, not tax investigators. Any framework must be objective, consistent and supported by appropriate governance to ensure taxpayers are not unfairly prejudiced through unnecessary delays."

He adds that transparency will be essential if the proposal is to achieve the right balance between combating fraud and protecting compliant taxpayers.

"The overwhelming majority of taxpayers claim refunds legitimately. The success of this proposal will ultimately depend on ensuring that enhanced fraud detection does not create unnecessary administrative burdens for honest taxpayers."

Tax refund fraud becoming increasingly sophisticated

The proposed legislative changes arrive during the current Tax Filing Season, when Sars has repeatedly warned taxpayers about increasingly sophisticated refund scams targeting unsuspecting South Africans.

Fraudsters continue to distribute convincing SMS messages and emails claiming taxpayers are due refunds while directing victims to fake Sars websites designed to harvest banking credentials, passwords and personal information.

Cybercriminals are also increasingly using artificial intelligence to create

highly convincing phishing campaigns that closely resemble legitimate Sars communications.

Sars has consistently reminded taxpayers that it will never request passwords, one-time PINs (OTPs), banking PINs or eFiling login credentials through email, SMS, social media or telephone.

Lesson from the tax ombud

The proposed amendments also follow recommendations contained in the Office of the Tax Ombud's Draft Report into alleged Sars eFiling profile hijacking.

The report highlighted how organised criminal syndicates manipulate taxpayers' eFiling profiles by changing banking details before submitting fraudulent tax returns designed to generate illicit refunds.

In many cases, stolen refunds are directed to newly created accounts, often at digital banks, before victims become aware that their tax profiles have been compromised.

The Ombud found that criminals frequently keep fraudulent refund claims below thresholds that may attract immediate attention, although some cases involve amounts approaching R100 000.

Importantly, the report concluded that combating refund fraud requires coordinated action between Sars, banks,

tax practitioners, law enforcement agencies and other stakeholders.

A global trend towards financial intelligence

The proposal also reflects a broader international trend in tax administration, where revenue authorities increasingly rely on financial institutions to assist in identifying illicit financial flows.

South Africa already participates in the OECD Common Reporting Standard (CRS), under which financial institutions collect and exchange financial account information to assist tax authorities in combating tax evasion. Domestically, banks also provide various categories of taxpayer information to Sars under existing legislative obligations.

These information-sharing frameworks have significantly strengthened Sars' ability to detect inconsistencies between declared income, banking activity and taxpayer behaviour, enabling the revenue authority to identify compliance risks more quickly than traditional audit processes.

The latest proposal suggests Sars intends to move beyond post-payment detection towards proactive intervention before fraudulent refunds are successfully paid.

Public consultation underway

National Treasury has confirmed that the 2026 Draft Tax Administration Laws Amendment Bill and the 2026 Draft Taxation Laws Amendment Bill contain the legislative amendments required to implement the tax measures announced during the 2026 Budget Review, alongside several technical corrections to existing legislation.

Public comments on both draft bills are due to be submitted to National Treasury and Sars by August 28, 2026.

The bigger picture

For taxpayers, the proposed amendment is unlikely to affect legitimate refund claims, provided robust safeguards accompany the final legislation. However, it signals Sars' continued shift towards preventative compliance, greater inter-agency collaboration and the use of financial intelligence to combat increasingly sophisticated tax crime.

"As financial crime becomes more organised and technologically advanced, Sars is equally becoming more sophisticated in its enforcement capabilities," says Baijoo.

"The message is increasingly clear: tax compliance is no longer limited to submitting an accurate return. Sars now operates within a broader compliance ecosystem that includes financial institutions, data analytics and international information-sharing.

"While that strengthens the fight against fraud, it also means taxpayers must ensure their affairs are fully compliant, because even seemingly minor instances of negligence can attract significant scrutiny," says Baijoo.