

Investigating the relationship between tax information availability and tax compliance of SMMEs in the Kroonstad area

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Proverbs 16:9 ‘In His heart a man plans his course, but the LORD determines his steps’ I am grateful for the strength and endurance that the Lord bestowed upon me during this difficult journey of knowledge.

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ABSTRACT

Governments around the world depend to a large extent on tax revenue as source of funding. It is therefore imperative that revenue collection agencies put measures in place that will promote voluntary tax compliance, thereby increasing revenue collection and reducing compliance costs. The level of tax compliance is affected by the manner in which revenue authority's deal with tax avoidance and evasion. Empirical evidence submitted by many researchers exists to confirm that tax compliance is affected by among others the following variables:

- The complexity of the tax system.
- Knowledge level of taxpayer.
- Effectiveness of taxpayer information service by the authority.

As small businesses are seen as key to global economic growth, their contribution to tax revenue cannot be ignored. Studies by various researchers reveal that globally, small businesses account for 98% of the total businesses and employ more than 60% of the work force. In South Africa, the contribution made by small businesses to the tax revenue for 2016 was approximately 7.5% of the total tax collected while they represent 98% of the total number of registered businesses.

The adoption of the self-assessment tax system by many countries including South Africa has shifted the responsibility of tax computation to the business owners. In terms of this responsibility, taxpayers are expected to know how to calculate their tax liability, complete and submit tax returns, pay tax due and to keep tax records for a minimum prescribed period. This requires taxpayers at least to have a certain level of tax knowledge to be compliant. However, many studies have indicated that revenue authorities are failing to provide taxpayers with the required skills and information to be able to discharge their responsibilities.

The results of this study revealed that a positive relationship exists between tax compliance and the availability of tax information, knowledge level of taxpayers and complexity of the tax system

Key Words: Tax compliance, Availability of information, Small Business

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LIST OF ABBREVIATIONS

Abbreviation	Meaning
CIT	Corporate income tax
GDP	Gross domestic products
DSBD	Department of Small Business Development
NWU	North West University
PRC	People's Republic of China
PAYE	Pay-as-you earn
SAS	Self-assessment system
SEDA	Small Enterprise Development Agency
SARS	South African Revenue Services
SMME	Small, Medium, Micro Enterprise
SPSS	Statistical Package for Social Sciences
TTA	Tax Administration Act
UK	United Kingdom
VAT	Value added tax

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CHAPTER1: PROBLEM STATEMENT, OBJECTIVES AND METHODS

TITLE: Investigating the relationship between tax information availability and tax compliance of SMMEs in the Kroonstad area.

1.1 INTRODUCTION

Throughout the world, tax compliance is an important issue for revenue collection agencies because of the fact that tax collected forms the bigger portion of government revenue (Anyaduba, Eragbhe & Kennedy, 2012:37; Fjeldstad & Moore, 2009:1; Smith, 2003:1). Put differently, Cui (2017:1) asserts that revenue collection is the “defining mark” of government capacity, particularly in developing countries. It is therefore imperative that every revenue collection agency put measures in place to promote voluntary tax compliance, thereby increasing revenue collection and reducing tax collection costs.

According to Keskin, Senturk, Sungur and Kiris, (2010: 183), small businesses across the globe are seen as key in ensuring economic growth, which in turn lead to poverty alleviation and job creation. According to SARS tax statistics (SARS, 2016:19), of the R193 billion corporate income taxes collected for 2016, 57.6% (R111.17 billion) was derived from large companies and the rest 42.4% (R81.83 billion) came from small businesses.

Eriksen and Fallan (1996:387) believe that by providing tax knowledge, tax compliance will improve through “perceived fairness” of the tax system. This notion is further supported by Vossler, McKee and Jones (2010:3); Feld and Frey (2002:6) who state that when tax authorities change towards using a service-orientated approach, tax compliance will improve.

One of the strategic objectives of the South African Revenue Services (SARS) is to broaden the tax base by increasing the number of registered taxpayers by means of tax education, outreach and enforcement (SARS, 2016:12). Cui (2017:2) states that in order for government to correctly levy taxes, it needs information on taxable income and general information of taxpayers. The author concedes, however, that there is always an imbalance between information (information asymmetry) the government possesses and that which it provides to taxpayers.

The results of a laboratory experiment on the effectiveness of taxpayer information assistance conducted by Alm, Cherry, Jones and McKee (2011:22) indicate that taxpayer compliance under uncertainty is improved when a tax collection agency provides information to taxpayers.

In the words of Ho, Loo and Lim (2006:47), tax compliance is an economic decision-making process. This process is a reaction to a number of stimuli, some of which are:

- Perceived fairness of the tax system.
- Ethical conduct.
- Inaction due to ignorance.

Much research has been conducted on the factors affecting tax compliance by small, medium and micro enterprises globally. However, no previous research could be found on the relationship between information availability and the tax compliance by the SMMEs in South Africa. It is therefore the purpose of this study to investigate the relationship between information availability and tax compliance of SMMEs in the Kroonstad area.

1.2 PROBLEM STATEMENT

In 2011, the South African Revenue Services adopted a self-assessment tax system by means of section 1 of Tax Administration Act (28 of 2011) in order to improve tax compliance and lower the compliance costs. The effective implementation of a self-assessment system relies heavily on taxpayer's knowledge of the tax law and regulations (Saipai & Kasipillai, 2013:80). However, it is the view of the researcher that SARS has not done enough to provide taxpayers with the necessary and relevant information to improve their level of knowledge. As a results, the levels of non-submission for Pay-as-You-Earn (PAYE) and Value Added tax (VAT) between 2012 and 2017 has sharply increased by 77% and 32% respectively (Moneyweb, 2017).

As stated above, no previous research could be found on the relationship between information availability and the tax compliance of SMMEs in South Africa. It is therefore the submission of the researcher that this study will contribute positively to the available pool of knowledge on factors affecting tax compliance by small, medium and micro enterprises. It is due to this gap in the available pool of knowledge on the subject that a study to investigate the

relationship between information availability and tax compliance by SMMEs in the Kroonstad area has become necessary.

1.3 LITERATURE REVIEW

1.3.1 Small, Medium and Micro Enterprises defined

Due to lack of consensus among academics, defining small medium and micro enterprises has proved to be an onerous task (NCR, 2011:22). Some define SMMEs based on turnover, while others use the number of employees as the basis for definition or the value of assets. These definitions, based on turnover, number of employees and value of assets differ from one sector to another. According to Osteryoung and Newman (1993:220) the study of small businesses dates back to 1850, with the Philadelphia Social History Project: Immigrants and industry. During that time, firms with fewer than fifty employees were regarded as small or medium sized, while those with more than fifty employees were seen as large firms.

In terms of section 12(E) (4) (I-iv) of the Income Tax Act (58 of 1962) a small business corporation is defined as any close corporation or company registered according to the Companies Act, of which the shareholders are natural persons, with a gross income not exceeding R5 million and where none of the shareholders has interest in any company.

For the purpose of this study, the definition of small business will be based on the National Small Business Act (105 of 1996) as amended. In the National Small Business Act (105 of 1996) small enterprise is defined as any form of business, including cooperatives which are owned by one or more individuals and are involved in any sector of the economy. The National Small Business Act definition of small business is based on the number of employees, total turnover and total value of assets excluding fixed property according to limitations of Schedule E of the Act.

Based on this act, small, medium and micro enterprises can for the purpose of this study be defined as any formally registered business operating in any sector of the economy with fewer than two hundred employees, turnover not exceeding R50 million and the total gross value of assets (excluding fixed property) less than R18 million.

1.3.2 Tax legislation in South Africa

Revenue collection in South Africa is governed among others by:

1. The Income Tax Act (58 of 1962) as amended.
2. The South African Revenue Services Act (34 of 1997) as amended.
3. The Constitution of the Republic of South Africa Act (108 of 1996).
4. The Tax Administration Act (28 of 2011).
5. The South African Revenue Service: Service Charter.
6. Value Added Tax Act (89 of 1991).

The main purpose of the South African Revenue Services is the efficient and effective collection of revenue for the Republic of South Africa (Act 34 of 1997). For completeness of the study, the purpose of each piece of legislation and administrative policy mentioned here will be summarised to highlight its link with the study.

1.3.3 Tax compliance and tax compliance theories

According to Franzoni (2000:54) and Oladipupo (2016:1) taxpayers are regarded as being compliant if:

- They honestly report the tax income to the revenue collection agency.
- Correctly calculate the tax liability.
- Submit the tax returns on time.
- Pay the tax due on time.

If one of the four rules is broken, then a taxpayer is deemed as non-compliant. Therefore, tax compliance is the extent to which the taxpayer complies or fails to comply with the tax rules of the country.

According to Okello (2014:4) chances of voluntary compliance by taxpayers' are higher if tax administration:

- Implements a customer-centric attitude towards taxpayers and provides tax education and assistance to meet their obligations.

- Uses effective audit programmes and severe penalties as a means of discouraging non-compliance.
- Acts in a transparent, honest and fair manner in administering tax laws.

Eriksen and Fallan. (1996:387) believe that by providing tax knowledge, tax compliance will improve by means of “perceived fairness” of the tax system. This notion is further supported by Vossler *et al.* (2010:3) and Feld and Frey (2002:6) that when tax authorities change towards a service-orientated approach, tax compliance improves. Depending on the complexity of tax laws, the level of tax reporting increases or decreases based on the information service provided by the revenue authority (Vossler *et al.*, 2010:8).

The topic of tax compliance always encompasses two behaviours, tax evasion and tax avoidance (Bătrâncea, Nichita, Bătrâncea & Moldovan, 2012:14; Oladipupo, 2016:2) which are differentiated by the legality of the taxpayers’ actions. James and Alley (2002:6) and Webley (1991:28) view tax avoidance as a legal means through which taxpayers use “creative accounting” to reduce their tax liability through legislative loopholes. These actions are within the letter but not the spirit of the law.

Tax evasion is regarded as a violation of the law, whereby the taxpayers’ actions of reducing the tax liability are illegal (Sandmo, 2003:4). Tax evasion is neither in the letter nor the spirit of the law. Tax evasion is an old phenomenon, dating back even before the third century (Bello & Danjuma, 2014:35). It is reported that as early as the third century, wealthy Romans would bury their stock of gold coins and jewellery in a bid to evade taxes.

In understanding tax compliance behaviour and the factors that encourage taxpayers to engage in non-compliance, various tax compliance models were developed. The pioneering work of Becker (1968:172) into the economic deterrence model forms the foundation for most of the work on the topic of tax compliance theory. The theory on tax compliance is divided into two broad categories, the economic theory of deterrence and the socio-psychological theory (Bătrâncea *et al.*, 2012:15; Bello & Danjuma, 2014:36; Chau & Leung, 2009:34; Oladipupo, 2016:3).

Empirical evidence drawn from a study conducted by Mazar and Ariely (2006:1117) indicates that taxpayers tend to comply with tax laws to the extent they perceive the tax laws as being appropriate and consistent with their expectations. Furthermore, it was found through the theory of positive reciprocity (when actions with positive impact on one person are reciprocated and yield approximately the same effect on another) that humans respond positively to friendly gestures without expecting any benefit from their actions (Fehr & Fischbacher, 2002:5).

1.3.4 Importance of tax compliance by SMMEs in South Africa

One of the strategic objectives of the South African Revenue Services is to broaden the tax base by increasing the number of registered taxpayers by means of tax education, outreach and enforcement (SARS, 2016:12). Over the last six years (2011-2016), the number of businesses registered with SARS continued to grow from 2 034 719 to 3 278 708 (figure 1.1) which represents a 61% increase (SARS 2016:13). This is in line with a SARS objective of increasing the number of taxpayers. However, comparing the number of assessed businesses (*businesses that submitted tax returns*) with the number of businesses registered (*businesses registered for corporate income tax*), there was a sharp decline from 35% to 16%.

According to Keskin *et al.* (2010:183) small businesses across the globe are seen as key in ensuring economic growth, which in turn will lead to poverty alleviation and job creation. This notion is supported by the annual report of the Department of Small Business Development (Department of Small Business Development, 2016:21) which emphasises that small businesses are key drivers for economic growth and job creation. In South Africa, small businesses constitute approximately 98% of businesses, employ 47% of the labour force and contribute 42% to the gross domestic products (GDP), (DSBD, 2016:20). According to the same DSBD report, the contribution of small businesses in South Africa is no different from those in other countries like United Kingdom (UK), Australia, Taiwan, Latin America and The People's Republic of China (PRC).

Looking at the total tax revenue collected over the last six years, company income tax (CIT) increased from R134 billion to R193 billion (SARS, 2016:128). This represents a growth of 43.6%, thus making CIT the third largest contributor to the country's tax

revenue. According to this annual report, of the R193 billion corporate income taxes collected for 2016, 57.6% (R111.17 billion) was derived from large companies while the remaining 42.4% (R81.83 billion) came from small businesses.

1.3.5 Impact of self-assessment tax system on tax compliance

In 2011 South Africa adopted the self-assessment tax system (SAS) in line with other countries globally (TAA 28 of 2011). The main objective of a self-assessment system is basically to increase tax collection, minimise the collection costs for revenue agencies and encourage voluntary taxpayer compliance (Saipai & Kasipillai, 2013:75). Contrary to the administrative tax system in which the revenue authority is responsible for computing and calculating the amount of tax due, SAS requires the taxpayers to (1) compute the correct amount of tax liability (2) pay the tax due on time and (3) keep proper records for a prescribed minimum period after filing. From this it is therefore clear that SAS has shifted the responsibility of tax compliance on to the taxpayer.

In order to ensure that SAS succeeds in achieving its objectives, taxpayers are required to have a certain level of knowledge about tax matters. Saipai and Kasipillai (2013: 80) identified the following areas of impact of the self-assessment system on corporate taxpayers:

- Obtaining appropriate knowledge.
- Engaging external tax professionals.
- Tax audits and investigations.
- Record-keeping practices.

According to Puspita, Subroto and Baridwan (2016:139), taxation knowledge is defined as the taxpayers' understanding of the tax system including:

- Tax principles.
- Benefits of taxes.
- How to make tax payments.
- Filing of tax returns.
- Consequences of failure to meet tax responsibilities.

Studies conducted by several researchers (Fischer, Wartick & Mark, 1992; Eriksen & Fallan, 1996; Trochim and Donnelly, 2005; Supriyati & Hidayati, 2008; Witono, 2008; Loo, McKerchar & Hansford, 2009; Puspita, Subroto & Baridwan, 2016) over many years and in different countries provided empirical evidence that taxpayers' levels of tax knowledge affect tax compliance.

1.3.6 Impact of information asymmetry on tax compliance

The taxpayer-revenue authority relationships are normally characterised by information asymmetries (Cui, 2017:2). According to the author, the government needs information on the taxable income and general information of taxpayers in order to levy taxes correctly. However there is always an imbalance of information government possesses in contrast to that available to taxpayers.

Information asymmetry exists in an economic trade when one party to the transaction possesses more intimate information than the other party while concluding a contract, resulting in imbalance of power in the transaction (Kristiaji, 2013:3).

Sun Tzu (cited in Citroen, 2009:7) once said "If you have a thorough knowledge of yourself and of the enemy you are bound to win in all battles. If you know yourself, but not the enemy, you have only an even chance of winning. If you know neither the enemy nor yourself, you will suffer defeat in all battles". This assertion by Sun Tzu may be used to emphasise the need for information of the corporate tax system that would enable SMMEs to make informed decisions. It is therefore imperative that the small business owner be equipped with adequate information to enable informed decision-making.

The results of a laboratory experiment on the effectiveness of taxpayer information assistance conducted by Alm *et al.* (2011:22) indicate that taxpayer compliance under uncertainty is improved when the tax collection agency provides information to taxpayers.

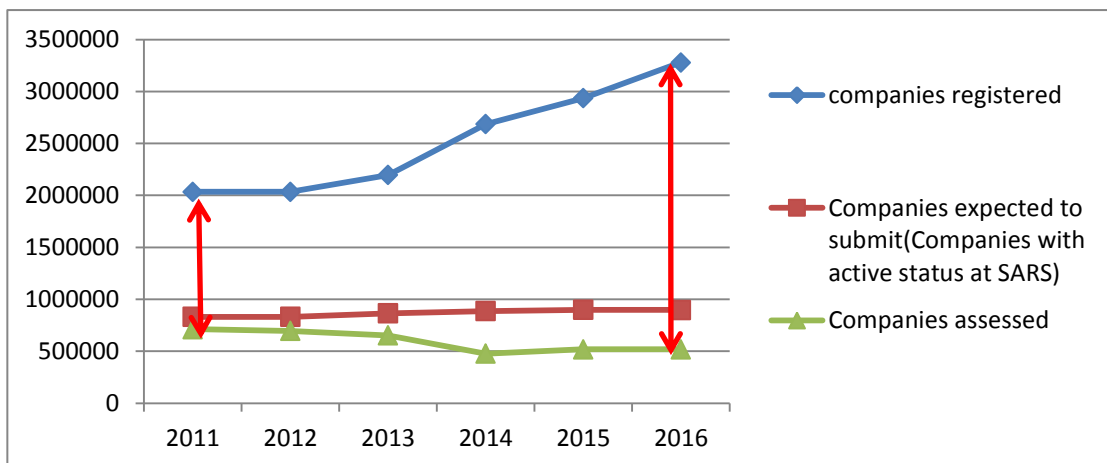
To breach the information asymmetry gap, Kristiaji (2003:9) makes some of the following policy recommendations:

- Regulations must be written in simple and understandable language for all participants in the tax system.
- The tax authority must develop an information system accessible to the public.
- The media must be trained on tax-related matter as they play an important role in information dissemination.

1.3.7 Current levels of tax compliance by SMMEs in South Africa

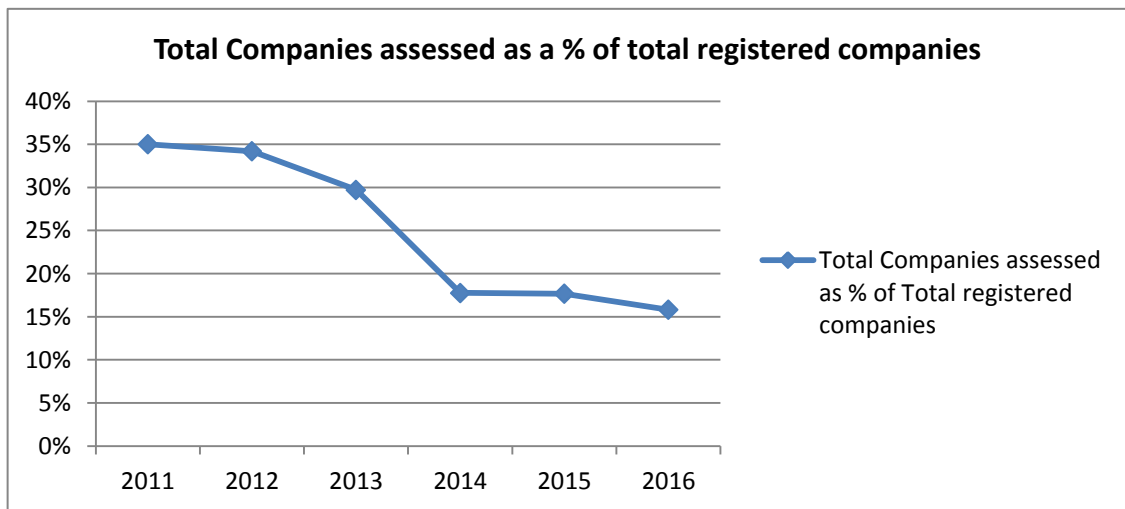
Over the past six years, the number of businesses registered with SARS continued to grow from 2 034 719 in 2011 to 3 278 708 in 2016 (figure 1.1). This represents a 61% increase (SARS, 2016:131). This is in line with the SARS objective of increasing the number of taxpayers.

Figure 1.1: Number of companies registered for tax



However, comparing the number of assessed businesses with the number of businesses registered, there was a sharp decline from 35% to 16% (figure 1.2).

Figure 1.2: Assessed companies as a percentage of companies registered.

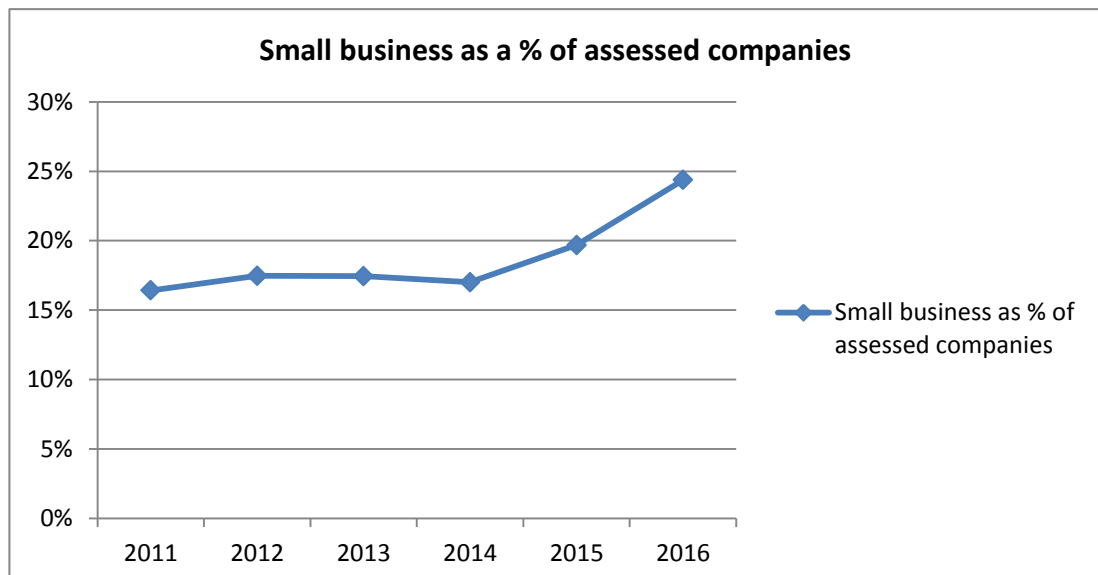


Source (SARS tax statistics, 2016:128)

In measuring the level of tax compliance by small businesses in South Africa for the past six years (2011-2016), the SARS Tax statistics will be used as basis.

Despite the sharp decline in companies assessed for tax between 2011 and 2016, the number of small businesses assessed showed a significant increase from 16% to 25% over the same period as may be seen from figure 1.3.

Figure 1.3: Number of small business assessed as a % of total number of companies assessed.

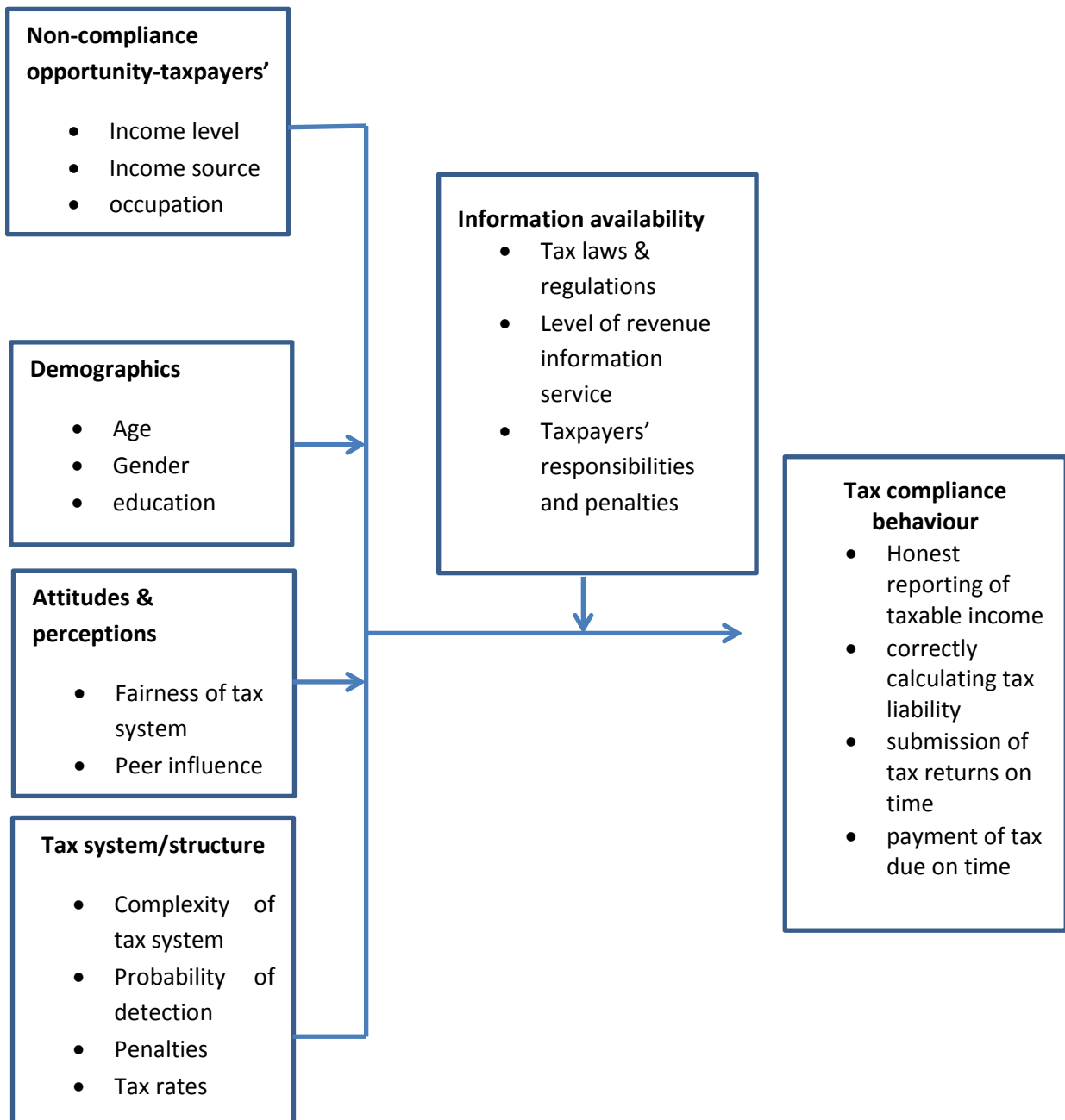


Source (SARS tax statistics, 2016:128)

1.3.8 Model of the study

Based on the literature study, the following research model was developed.

Figure 1.4: The developed research model showing the link between determinants of tax compliance and access to information.



1.4 RESEARCH QUESTION

This research was initiated to investigate the relationship between information availability and tax compliance by SMMEs in the Kroonstad area. The main research question for the study was:

RQ1: To what extent does tax information availability impact on tax compliance of SMMEs in the Kroonstad area?

RQ2: To what extent does the level of tax knowledge of SMMEs affect tax compliance in the Kroonstad area?

RQ3: How does the complexity of the South African tax system influence tax compliance of SMMEs in the Kroonstad area?

1.5 RESEARCH OBJECTIVES

1.5.1 General objective (s)

The main aim of the study was to investigate the relationship between information availability and tax compliance by SMME in the Kroonstad Area.

1.5.2 Specific research objectives

The specific objectives of the study were to:

- Investigate the level of tax information availability to small business owners in the Kroonstad area.
- Investigate the relationship between access to tax information and tax compliance behaviour of SMMEs.
- Determine the perception of small business owners on the tax information provided by the South African Receiver of Revenue.

1.5.3 Scope of the study

The scope of the study included only formal small businesses operating in the Kroonstad Area registered with the South African Revenue Services and of which the annual turnover and number of employees fall within the limits set by the National Small Business Act (105 of 1996).

1.6 RESEARCH HYPHOTHESES

H1: Tax information availability has a positive relationship with tax compliance of selected SMMEs in the Kroonstad area.

H2: Tax knowledge among SMMEs in the Kroonstad area has a positive relationship with tax compliance.

H3: The complexity of the South African tax system has a negative relationship with tax compliance of SMMEs in the Kroonstad area.

1.7 RESEARCH DESIGN

1.7.1 Research approach

According to Creswell (2007:12), the researcher through quantitative research aims to provide numeric description of human attitudes or perceptions with the objective of generalizing the results to the whole population from which the research sample was drawn. Similarly, the nature of the study will be a quantitative one because the researcher aims to make a statistical inference of the results to the whole population. The researcher will be using a survey research design in order to collect data from the respondents.

The study will follow a cross-sectional approach in the sense that participants will be studied at a single point in time (Bhattacharjee, 2012:47). Trochim and Donnelly (2007:6) are of the view that cross-sectional study symbolises the researcher taking a slice or cross-section of the research population at a single point in time. This approach is relevant because the study, in part, tested the attitude of participants at a specific point in time due to the information at their disposal and their knowledge of the tax system.

1.7.2 Research method

1.7.2.1 Literature study

A literature study was conducted to gain thorough insight on the following concepts:

- Tax compliance.

- Compliance theories.
- The self-assessment tax system.
- Information asymmetry.

Resources included academic journal articles, internet, literature, NWU library database and other relevant publications.

1.7.2.2 Research participants and procedure

The research population comprised formal small businesses within the Kroonstad area registered with the South African Revenue Services of which the annual turnover and number of employees fall within the limits set by the National Small Business Act (105 of 1996). The database of the Small Enterprise Development Agency (Seda) served as basis to determine the study sample because of the geographical area in which the research was conducted. Since the study was confined to Kroonstad area, the total number of possible participants on the Seda database was found to be N=274 as at the end of August 2017.

A purposive sampling technique was used to determine the size of an appropriate sample due to ease of use, time and cost saving. Purposive sampling allows the researcher to make a judgement on the suitability of the respondent to provide answers to the research question (Kumar, 2011:189). Based on the population of 274 SMMEs on the Seda database and the required confidence level of 95% and margin of error of 10%, a sample size of n=72 respondents was used.

The procedure for data collection was as follows:

- The researcher requested permission from the Branch Manager of Seda Fezile Dabi to utilise the Agency's database of registered businesses in the Kroonstad area.
- The participants were contacted telephonically and informed about the purpose of the study.
- Participants were requested to participate voluntarily in the study and individual appointments and interviews were scheduled at the time and venue most convenient to the participants.

- Participants were also informed about the confidentiality of the information obtained and that it was their right to withdraw at any stage of the interview.
- The results of the interview were analysed and findings and conclusions reached.

1.7.2.3 Measuring instrument

Using the information gathered through the literature study, a close-ended questionnaire was developed with a mix of four point Likert scale, multiple choice and dichotomous questions. The Likert scale was coded between one and four to indicate the degree to which respondents agree or disagree with the statements in the questionnaire, while the multiple choice questions were coded between 1 and 5 to enable the respondents to choose the answer appropriate to them and their awareness. The dichotomous questions with a Yes or No were coded 1 or 2 for respondents to affirm or deny.

The questionnaire was divided into the following four sections as follows:

- Section A: Demographic information
- Section B: Tax information
- Section C: Tax compliance
- Section D: Tax knowledge

1.7.3 Statistical analysis

The statistical analysis for this study was done with SPSS (statistical package for social sciences). This software is capable of performing descriptive and complex statistical analysis. The analysis was used to summarize and analyze the data obtained from the questionnaire on the topic of the study. These analyses were then used to formulate statements and findings pertaining to the relationship between information availability and tax compliance by SMMEs in the Kroonstad area.

Data analysis involved the computation of the means, standard deviations, correlation coefficients, Cronbach's Alpha, factor analysis and coefficients of variations. The purpose of statistical analysis was to answer the research question and test the hypotheses.

1.7.4 Ethical considerations

According to Polit and Hungler (1999:132), when human beings are used for conducting research, absolute care must be taken to protect the rights of the participants. During the study, the principles of ethical research as by Sekaran (2003:276) were observed. These principles are based on the beneficence and non-maleficence (Bhattacharjee, 2012:147). The research was therefore conducted strictly according to the following ethical principles:

- Participation in the research was voluntary and with express consent of the respondents.
- The respondents were not exposed to any harm during the research.
- Research participation was anonymous and handled with strict confidentiality.
- The research was conducted without using any deceptive practices.
- Participants were informed about their right to withdraw from the research at any stage.

The research proposal was submitted to the North West University Ethics Committee before the commencement of the study to ensure that the study would pass the ethical test.

1.8 CHAPTER DIVISIONS

This section outlines the structure of the mini-dissertation.

Chapter 1: Nature of the study

Chapter 2: Literature study

Chapter 3: Research methodology

Chapter 4: Research findings

Chapter 5: Summary of research, conclusions and recommendations

1.9 CHAPTER SUMMARY AND CONCLUSIONS

It is clear that tax compliance is a global phenomenon, affecting both developed and developing countries. This therefore requires revenue authorities constantly to evaluate their policies and adjust them in line with global trends. The importance of SMMEs in the economy and therefore, the tax system and their compliance with tax regulations, has been shown. The necessity of a study to establish the influence of information availability on the tax compliance of SMMEs is also warranted. In the next chapter, an extensive literature review on the subject of tax compliance will be conducted to cover the determinants of tax compliance.

CHAPTER 2: LITERATURE STUDY

2.1. INTRODUCTION

In Chapter 1, the research problem was introduced and the concept of tax compliance was briefly discussed. The background discussion included tax compliance theories, the importance of tax compliance by SMMEs in South Africa, the impact of the self-assessment tax system and information asymmetry prevalent in tax compliance and the current level of tax compliance by SMMEs in South Africa.

Chapter 2 expands on this discussion and includes an in-depth review of the literature available on the research topic. This will include previous research on tax compliance theories.

2.2. SMALL BUSINESS DEFINED

According to Osteryoung and Newman (1993: 220), the study of small businesses dates back to 1850, with the Philadelphia Social History Project: Immigrants and Industry. During that time, firms with fewer than fifty employees were regarded as small and medium-sized, while those with more than fifty employees were seen as large firms.

In terms of section 12(E) (4) (I-iv) of the Income Tax Act (58 of 1962) a small business corporation is defined as any close corporation or company registered according to the Companies Act, of which the shareholders are natural persons, with a gross income not exceeding R5 million and where none of the shareholders has interest in any company.

For the purpose of this study, the definition of small business will be based on the National Small Business Act (105 of 1996) as amended. The National Small Business Act (105 of 1996) defines small enterprise as any form of business, including cooperatives which are owned by one or more individuals and are involved in any sector of the economy. The National Small Business Act definition of small business is based on the number of employees, total turnover and total value of assets excluding fixed property according to the limitations of Schedule E of the Act as reflected in table 2.1 below.

Based on this Act and for the purpose of this study, small, medium and micro enterprise can therefore be defined as any formally registered business operating in any sector of the

economy with fewer than 200 employees, turnover not exceeding R50 million and the total gross value of assets (excluding fixed property) less than R18 million.

Table 2.1: Schedule E of the National Small Business Act (105 of 1996).

<i>Sector or sub-sector in accordance with the standard industrial classification</i>	<i>Size or class</i>	<i>Total full-time equivalent of paid employees Less than</i>	<i>Total annual turnover Less than</i>	<i>Total gross asset value (fixed property excluded) Less than</i>
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very small	10	R5m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23.m
	Small	50	R10m	R6m
	Very small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5m	R1.90m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade & Repair Services	Medium	100	R39m	R6m
	Small	50	R19m	R3m
	Very small	10	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade,	Medium	100	R64m	R10m
	Small	50	R32m	R5m
	Very small	10	R6m	R0.60m

	Micro	5	R0.2m	R0.10m
Catering, Accommodation and other trade	Medium	200	R13m	R3m
	Small	50	R6.m	R1.m
	Very small	20	R5m	R1.90m
	Micro	5	R0.20m	R0.10m
Transport, Storage and communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.60m
	Micro	5	R0.20 M	R0.10m
Finance and business services	Medium	200	R26m	R5.m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, social and personal services	Medium	200	R13m	R6.m
	Small	50	R6m	R3.m
	Very small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

Source (National Small Business Act 105 of 1996) as amended

2.3. TAX LEGISLATION IN SOUTH AFRICA

The main purpose of the South African Revenue Services is the efficient and effective collection of revenue for the Republic of South Africa (SARS, 1997). For the purpose of this study, the purpose of each piece of legislation/ administrative policy mentioned below will be summarised.

- Income Tax Act (58 of 1962) as amended.
- Value Added Tax Act (89 of 1991).
- South African Revenue Services Act (34 of 1997) as amended.
- Constitution of the Republic of South Africa, Act (108 of 1996).
- Tax Administration Act (28 of 2011).
- South African Revenue Service: Service Charter.

2.3.1. Income Tax Act (58 of 1962) as amended

According to the Income Tax Act (58 of 1962), the purpose of the Act is:

- To consolidate the laws relating to the taxation of incomes and donations.
- To provide for the recovery of taxes on persons.
- To provide for the deduction by employers of amounts from the remuneration of employees in respect of certain tax liabilities of employees.
- To provide for the making of provisional tax payments and for the payment into the National Revenue Fund of portions of the normal tax and interest and other charges in respect of such taxes, and to provide for related matters.

2.3.2. Value Added Tax Act (89 of 1991)

In 1991, the Value Added Tax Act (89 of 1991) was enacted with the main aim being:

- To provide for taxation in respect of the supply of goods and services and the importation of goods.
- To amend the Transfer Duty Act, 1949, to provide for an exemption.
- To amend the Stamp Duties Act, 1968, to provide for an exemption from stamp duty and to disclose the levying of certain stamp duties.
- To repeal the Sales Tax Act, 1978.
- To provide for matters connected therewith.

2.3.3. South African Revenue Services Act (34 of 1997) as amended

According to the South African Revenue Services Act (34 of 1997) as amended, the Act was enacted:

- To make provision for the efficient and effective administration of the revenue collecting system of the Republic.
- To reorganise the South African Revenue Service and to establish an Advisory Board.
- To provide for incidental matters.

2.3.4. Tax Administration Act (28 of 2011)

As a constantly transforming organization in response to the changing economic climate globally, SARS saw it fit also to enact the Tax Administration Act (28 of 2011) so as:

- To provide for the effective and efficient collection of tax.
- To provide for the alignment of the administration provisions of Tax Acts and the consolidation of the provisions into one piece of legislation to the extent practically possible.
- To determine the powers and duties of the South African Revenue Service and officials.
- To provide for the delegation of powers by the Commissioner.
- To provide for the authority to act in legal proceedings.
- To determine the powers and duties of the Minister of Finance.
- To provide for the establishment of the office of the Tax Ombud.
- To determine the powers and duties of the Tax Ombud.
- To provide for registration requirements.
- To provide for the submission of returns and the duty to keep records.
- To provide for reportable arrangements.
- To provide for the request for information.
- To provide for the carrying out of an audit or investigation by the South African Revenue Service.
- To provide for inquiries; to provide for powers of the South African Revenue Service to carry out searches and seizures.
- To provide for the confidentiality of information.
- To provide for the South African Revenue Service to issue advance rulings.
- To make provision in respect of tax assessments.
- To provide for dispute resolution.
- To make provision for the payment of tax.
- To provide for the recovery of tax.
- To provide for the South African Revenue Service to recover interest on outstanding tax debts.
- To provide for the refund of excess payments; to provide for the write-off and compromise of tax debts.
- To provide for the imposition and remittance of administrative non-compliance penalties.
- To provide for the imposition of understatement penalties.
- To provide for a voluntary disclosure programme.

- To provide for criminal offences and sanctions.
- To provide for the reporting of unprofessional conduct by tax practitioners.
- To provide for matters connected therewith.

2.3.5. Constitution of South Africa (Act 108 of 1996)

Section 195 of the Constitution of the Republic of South Africa Act (108 of 1996), indicates that in the performance of its constitutional mandate, the South African Revenue Services must among others:

- Maintain high ethical standards.
- Adhere to the efficient, effective and economical deployment of resources.
- Must at all times act in a fair, equitable, impartial and free from bias.
- Provide taxpayers with timely and accurate information.
- Must be accountable.

In addition to section 195, section 7 of the same Act requires SARS also to abide by the Bill of Rights of taxpayers by among others to:

- Right to privacy in terms of section 14 of the Constitution.
- Right to information of section 32 of the Constitution.
- Right to administrative justice in line with section 33 of the Constitution.
- Right to a fair trial and not to give any incriminating information according to section 35(3)(j) of the Constitution.

Furthermore, the Constitution of the Republic of South Africa, Act (109 of 1996) under section 231(1) stipulates that a National Revenue Fund must be established, into which all money received by the national government must be paid.

2.3.6. SARS Service charter

Over the past few decades, revenue collection agencies globally recognised the need to emphasise the rights and obligations of taxpayers that authorities must observe in their day-to-day administration (OECD, 2006:49). In line with the best practices from other revenue collections bodies globally, the South African Revenue Services finally

launched the taxpayer's service charter in October 2005 (SARS, 2005:6). According to this service charter, SARS undertake to:

- Contribute directly to the economic and social development of the country by collection of all revenue due to the state
- Encourage tax, customs and excise compliance
- Foster a culture of fiscal citizenship in South Africa, underscored by a law abiding society
- Seized with the constant improvement and enhancement of service to taxpayers and traders to ensure that "we are more accessible"
- Commit to providing a service that is fair, accurate and which is based on mutual trust and respect.

The service charter mentioned above outlines the rights and responsibilities of the taxpayers as follows:

- Right to be helped
- Right to fair treatment
- Right to privacy and respect of constitutional rights
- Right to appeal

In return, the charter expects the taxpayer to behave in a certain way (SARS, 2005:7); the so-called taxpayer's responsibilities. These responsibilities include but are not limited to:

- Be honest.
- Submit full and accurate information on time.
- Pay your tax and/or duties on time and in full.
- Encourage others to pay their tax and/or duties.
- Not to encourage or be party to bribery or fraud in any form.
- Report any bribery or fraud.

The adoption of the customer service charter by SARS was in a way a recognition of the need for revenue authorities to embrace the 'Service' paradigm in which tax authorities are viewed as facilitators and providers of services (Vossler *et al.*, 2010:3).

2.4. THE IMPORTANCE OF TAX COMPLIANCE BY SMALL BUSINESSES FOR THE SOUTH AFRICAN ECONOMY

Throughout the world, tax compliance is an important issue for revenue collection agencies because tax collection forms the bigger portion of government revenue (Smith, 2003:1; Fjeldstad & Moore, 2009:1; Anyaduba et al, 2012:37). Put differently, Cui (2017:1) asserts that revenue collection is the “defining mark” of government capacity, particularly in developing countries. It is therefore imperative that every revenue collection agency put measures in place that will promote voluntary tax compliance, thereby increasing revenue collection (Cui, 2017:1). The Organization for Economic Co-operation and Development (OECD, 2004:6) is of the view that the main objective of revenue collection agencies globally is to collect taxes and duties with due regard to the parameters of the law while upholding taxpayers’ confidence in tax authorities and administrations.

According to Keskin *et al.* (2010:183), small businesses across the globe are seen as key in ensuring economic growth, which in turn will lead to poverty alleviation and job creation. This notion is supported by the Department of Small Business Development in their annual report (DSDB, 2016:21) which emphasises that small businesses are key drivers for economic growth and job creation. In South Africa, small businesses constitute approximately 98% of businesses, employ 47% of the labour force and contribute 42% to the gross domestic product (GDP), (DSDB, 2016:20). According to the same annual report, the contribution of small businesses in South Africa is no different from those in other countries such as the United Kingdom (UK), Australia, Taiwan, Latin America and The People’s Republic of China (PRC) as may be seen on table 2.2 below:

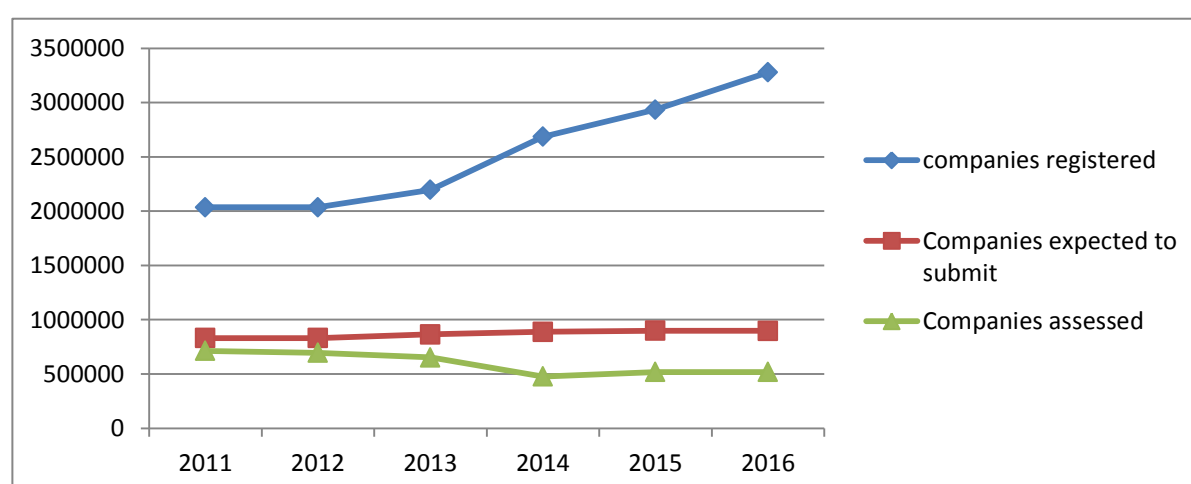
Table 2.2: Comparative analysis of the contribution of small business to economy

Country	Business Representation %	Employment %	Economic Value
United Kingdom	99	60	49.8% of the economy
Australia	96	63	33% of GDP
Taiwan	97.6	78.3	31.5% of total sales
Latin America	99	67	30% of total sales
People's Republic of China	99	84	74% of sales
South Africa	98	47	42% of GDP

Source (DSDB Annual report, 2016:20)

One of the strategic objectives of the South African Revenue Services is to broaden the tax base by increasing the number of registered taxpayers by means of tax education, outreach and enforcement (SARS, 2016:12). Over the past six years, from 2011 to 2016, the number of businesses registered with SARS continued to grow from 2 034 719 to 3 278 708 (figure 2.1) which represents a 61% increase (SARS, 2016:131). This is in line with SARS objective of increasing the number of taxpayers.

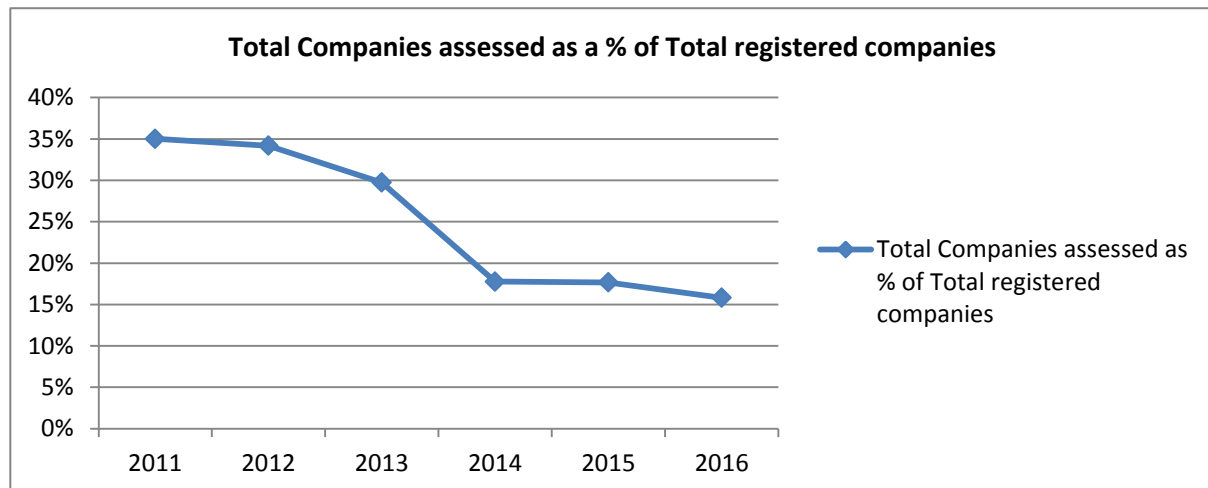
Figure 2.1: Number of companies registered for tax



Source (SARS tax statistics, 2016:128)

Figure 2.1 demonstrates that in 2011, 86% of companies submitted their tax returns compared with 58% in 2016. However, a comparison of the number of assessed businesses with the number of businesses registered reveals a sharp decline from 35% to 16% (figure 2.2 below).

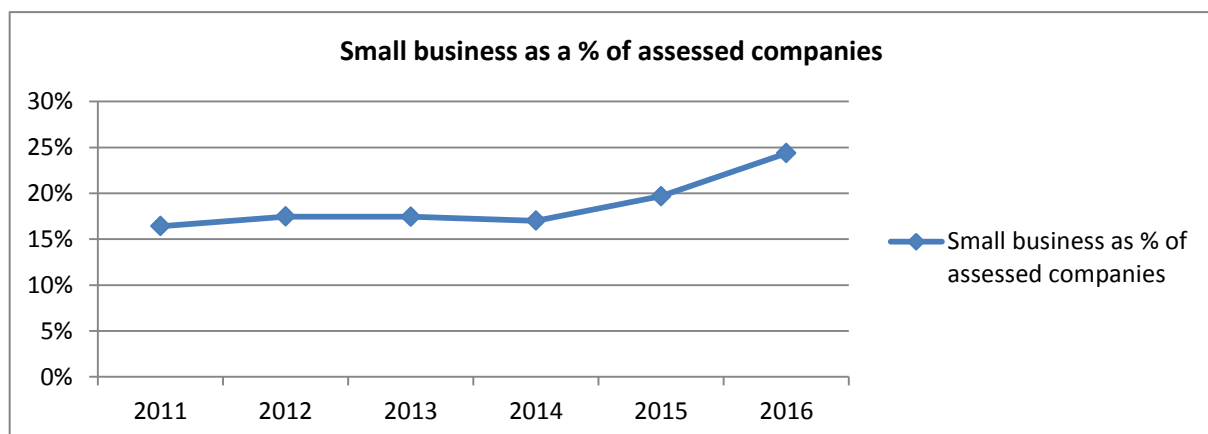
Figure 2.2: Assessed companies as a percentage of registered companies.



Source (SARS tax statistics, 2016:128)

Despite the sharp decline in companies assessed for tax between 2011 and 2016, the number of small businesses assessed showed a significant increase from 16% to 25% over the same period as can be seen from figure 2.3 below.

Figure 2.3: Number of small business assessed as a % of total number of companies assessed



Source (SARS tax statistics, 2016:128)

In analysing the contribution and importance of the business sector towards tax revenue in South Africa for the past six years (2011-2016), table 2.3 below presents a brief summary:

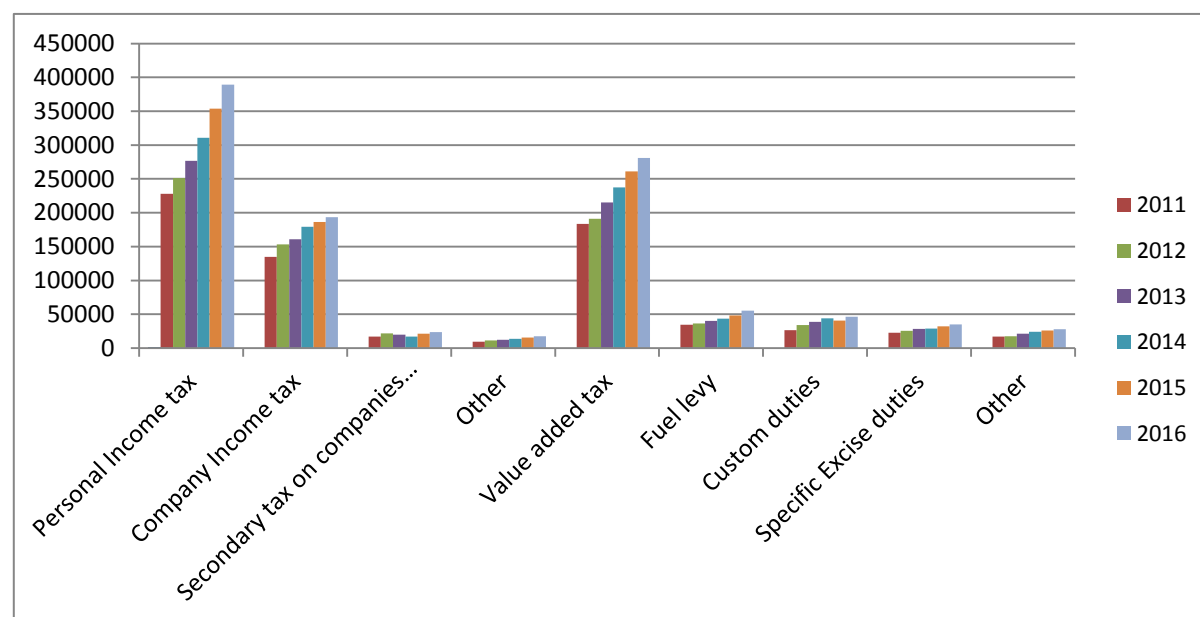
Table 2.3: Sources of Tax revenues in South Africa, 2011-2016 (R millions)

Type of tax	2011	2012	2013	2014	2015	2016
Personal Income tax	R 228 096	R 251 339	R 276 679	R 310 929	R 353 918	R 389 280
Company Income tax	R 134 635	R 153 272	R 160 896	R 179 520	R 186 622	R 193 385
Secondary tax on companies and dividends	R 17 178	R 21 965	R 19 739	R 17 309	R 21 247	R 23 934
Other	R 9 531	R 11 278	R 12 474	R 13 691	R 15 691	R 17 558
Value added tax	R 183 571	R 191 020	R 215 023	R 237 667	R 261 295	R 281 111
Fuel levy	R 34 418	R 36 602	R 40 410	R 43 685	R 48 467	R 55 607
Custom duties	R 26 637	R 34 198	R 38 998	R 44 179	R 40 679	R 46 250
Specific Excise duties	R 22 968	R 25 411	R 28 378	R 29 039	R 32 334	R 35 077
Other	R 17 149	R 17 564	R 21 229	R 23 996	R 26 044	R 27 779
Total	R 674 183	R 742 649	R 813 826	R 900 015	R 986 297	R 1 069 981
CIT As % of total	20%	21%	20%	20%	19%	18%

Source (SARS tax statistics, 2016)

Even though CIT declined relative to other sources of over the last six years, company income tax (CIT) continued to increase from R134 billion to R193 billion, which represents a growth of 43.6% and makes CIT third largest contributor to the tax revenue from figure 2.4 below.

Figure 2.4: Graphical representation of sources of tax, 2011-2016



Source (SARS tax statistics, 2016)

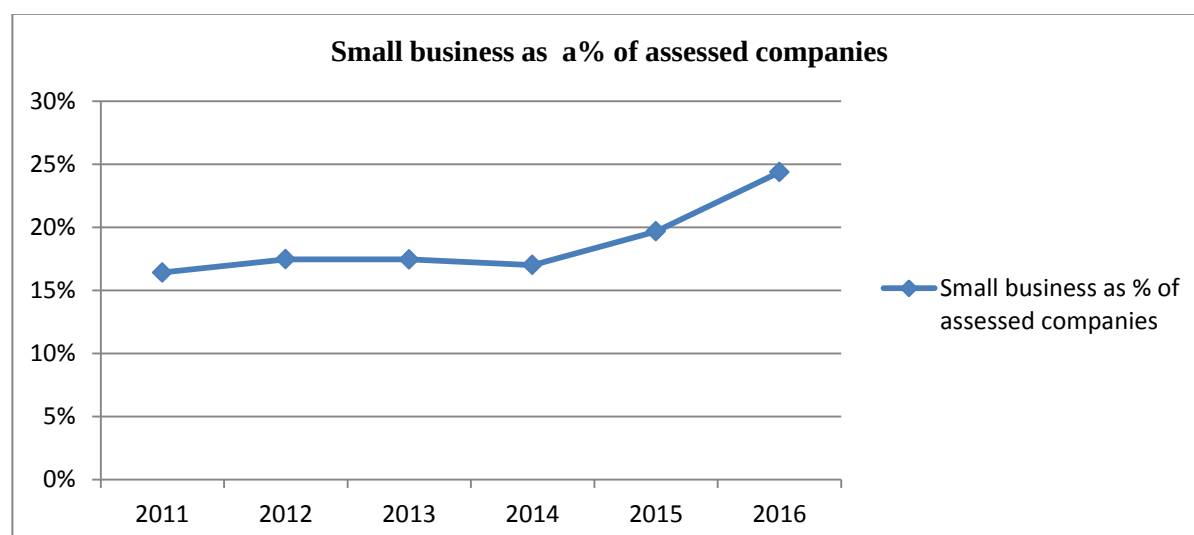
Although the company CIT increased by 43.6% over the past six years, its contribution to the total revenue collected decreased from 20% in 2011 to 18% in 2016. In terms of the total tax revenue of R1, 069 trillion collected, the 2% decrease in CIT represents R21.3 billion. According to SARS tax statistics (2016:5), of the R193 billion corporate income taxes, 57.6% (R111.17 billion) was derived from large companies and 42.4% (R81.83 billion) came from small businesses. Therefore the small business tax contribution towards the total government revenue in 2016 was 7.65%.

2.5. CURRENT LEVEL OF TAX COMPLIANCE BY SMMEs IN SOUTH AFRICA

The levels of non-submission for Pay-as-You-Earn (PAYE) and Value Added tax (VAT) between 2012 and 2017 has increased sharply by 77% and 32% respectively (Moneyweb, 2017). The author states that this is the case because taxpayers are using PAYE and VAT payments for cash flow purposes.

In measuring the level of tax compliance by small businesses in South Africa over the past six years (2011-2016), the SARS Tax statistics will be used as the base (SARS, 2016:128). Although the small business tax compliance increased by 10% between 2011 and 2016, the figures suggest that 75% of the small businesses are still non-compliant.

Figure 2.5: Number of small business assessed as a % of total number of companies registered



Source (SARS tax statistics, 2016:128)

2.6. TAX COMPLIANCE

2.6.1. Tax compliance defined

Non-compliance with tax reduces government revenues and increases the tax gap, the difference between what is collected and what would have been collected and thereby causing service delivery distortions (Pomeranz, 2014:221). Franzoni (2000:54) and Oladipupo (2016:1) state that taxpayers are regarded as being compliant if:

- They honestly report the taxable income to the revenue collection agency.
- Correctly calculate the tax liability.
- Submit the tax returns on time.
- Pay the tax due on time.

If one of the four rules is broken, then a taxpayer is deemed as non-compliant (Oladipupo, 2016:1). According to Kiow, Fuad, Salleh & Kassim (2017:9), tax compliance is therefore the degree to which the taxpayers abide by the tax laws of the country. Non-compliance is seen as the failure by the taxpayer to compute and make a tax liability payment in time.

The topic of tax compliance always encompasses two behaviours, tax evasion and tax avoidance (Bătrâncea *et al.*, 2012:14; Oladipupo, 2016:2) which are differentiated by the legality of the taxpayers' actions. James and Alley (2002:6) and Webley (1991:28) view tax avoidance as a legal means through which taxpayers use "creative accounting" to reduce their tax liability through legislative loopholes. These actions are within the letter, but not the spirit, of the law.

Tax evasion is regarded as the violation of the law, whereby the taxpayers' actions of reducing the tax liability are illegal (Sandmo, 2003:4). Tax evasion is neither in the letter nor the spirit of the law. Tax evasion is an old phenomenon, dating back even before the third century (Bello & Danjuma, 2014:35). It is reported that as early as the third century, wealthy Romans would bury their stock of gold coins and jewellery in order to evade taxes.

According to Ghiglino (cited in Gcabo & Robinson, 2007:7) taxpayers are not rational decision-makers but rather adapt to changes in their immediate environment. Using the prospect theory to explain tax evasion, he believes that taxpayers will be inclined to submit their tax returns in case there are prospects to get a refund and to engage in activities to lower their tax liability in case they expect to pay more.

In South Africa, section 103 of the Income Tax Act (58 of 1962) as amended distinguishes between tax evasion, avoidance and planning. Tax evasion is seen as a non-disclosure of information to the Receiver of Revenue in an attempt to evade tax. Tax avoidance (impermissible) is viewed by the law as the meticulously planned arrangements to exploit loopholes in the tax law to reduce tax liability. Tax planning (permissible), involves the taxpayer looking for "the most advantageous option" in tax law while accepting all the economic and legal consequences of their actions.

In order to deal effectively with the negative impacts of tax evasion and avoidance in South Africa, sections 80A-80L of the Income Tax Act (58 of 1962) as amended introduced the "specific anti-avoidance measures" and "general anti-avoidance regulations".

2.7. TAX COMPLIANCE THEORIES

In understanding tax compliance behaviour and the factors that encourage taxpayers to engage in non-compliance, different tax compliance models were developed. The pioneering work of Becker (1968:172) into the economic deterrence model forms the basis for most of the research on the topic of tax compliance theory. The theory on tax compliance is divided into two broad categories, the economic theory of deterrence and the socio-psychological theory (Bătrâncea *et al.*, 2012:15; Bello & Danjuma, 2014:36; Chau & Leung, 2009:34; Oladipupo, 2016:3).

2.7.1. Deterrence theory

In 1972, Allingham and Sandmo developed a model of tax evasion based on the pioneering work of Becker (1968), Mossin (1968), Arrow (1970) and Tulkens and Jacquemin (1971). Milliron and Toy (1988:85) view the taxpayer as a “perfectly amoral, risk-neutral, utility maximising” individual who seeks to evade tax if the prospect of gains outweighs the cost.

In order to understand the gains and losses relevant to the taxpayer according to the deterrence theory, one needs to know what constitutes compliance costs, apart from tax payment itself. Tax compliance costs are divided into internal and external costs (Turner, Smith & Gurd, 1998:62; Coolidge & Kisunko 2009:26). Internal tax compliance costs according to the authors are those costs incurred by the business in collecting, paying and accounting for tax. This may include wages and salaries of employees as well as obtaining expert knowledge. External tax compliance costs mainly focus on the use of external stakeholders such as accountants for the sake of compliance. As the name suggests, the deterrence theory of tax compliance is founded on the premise that penalties must be utilised to deter taxpayers from engaging in tax evasion.

Tax compliance gains or benefits for taxpayers are classified under three categories, cash-flow, managerial and tax deductibility benefits (Rametse, 2010:4). Taxpayers enjoy cash-flow benefits due to their ability to delay within the parameters of the tax law payment of taxes and use such cash to generate further profits. From the managerial benefit perspective, the improved record-keeping and thorough knowledge

of the financial affairs of the business accrue to the taxpayer through increased knowledge. Taxpayers are able to deduct expenses related to tax compliance against their profit, thus reducing tax liabilities. Such tax deductions may include the cost of tax practitioners involved in the tax compliance of the business.

According to Allingham and Sandmo (1972:324), under the deterrence model of tax evasion the taxpayer has a choice between two strategies (1) fully to declare their income to the authority or (2) to declare less than the actual income. If the taxpayer have chosen to declare less than their actual income and they are subjected to audit, they will face additional penalties on undisclosed income. However, if they are not audited, they are better off.

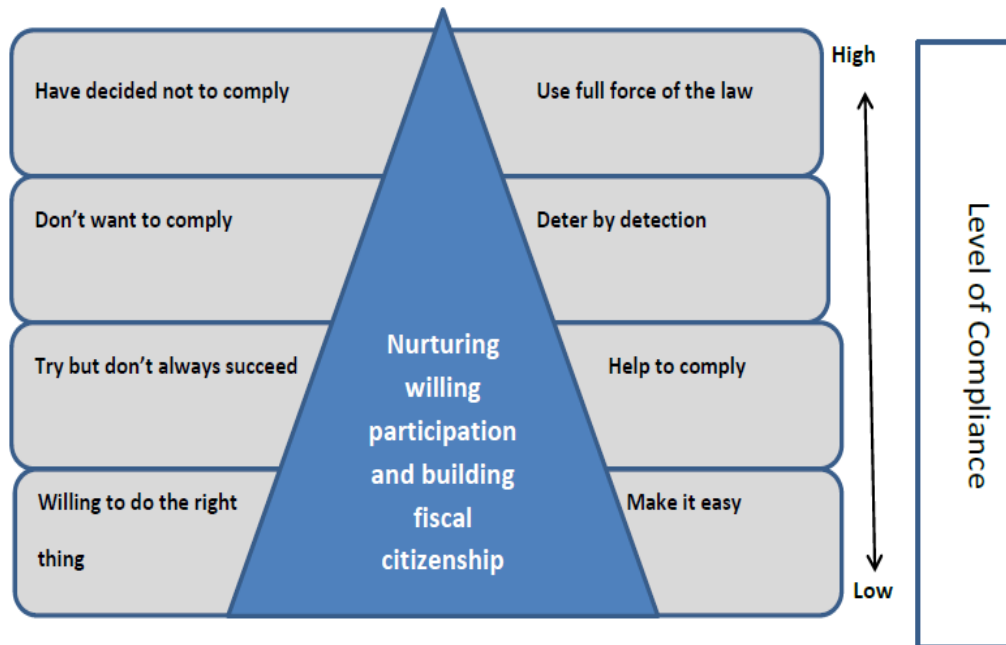
The deterrence model of tax compliance is based on the following variables which affect tax compliance (Devos, 2005:226):

- Structure of the tax system.
- Effectiveness of revenues information service.
- Failure to report accurate information.
- Sanction and responsibilities of taxpayers.
- Audit probability.
- Tax rate.

However, deterrence can be achieved in different ways, either punitive or persuasive (Pomeranz, 2014:26). Punitive deterrence can be achieved through tougher penalties, the probability of detection or tax rate increase in non-compliance cases. On the persuasive side, tax authorities can engage in taxpayer education and incentive for tax compliance. Researchers are of the view that the deterrence model of tax compliance is misleading as it neglects taxpayers' behaviour and views their decision-making in isolation (Andreoni, Erard & Feinstein, 1998:825, Bătrâncea *et al*, 2012:20).

In its compliance programme, SARS acknowledges that a balance between punitive and persuasive strategies needs to be maintained to discourage non-compliance and to incentivise compliant taxpayers (SARS, 2012:4). The SARS compliance strategy may be summarised by using figure 2.6 below.

Figure 2.6: SARS compliance strategy



Source (SARS compliance programme, 2012:4).

2.7.2. Socio-psychology theory

The socio-psychological theory of tax compliance is based on the premise that taxpayers' decision to comply or not to comply is influenced not only by external forces of deterrence but also by internal factors inherent to the taxpayer. This behavioural theory according to Bătrâncea *et al.* (2012:16) acknowledges the taxpayer as a true human being, whose decision to pay taxes is based on:

- Attitudes.
- Norms.
- Beliefs.
- Perceptions.
- Feelings.
- Social characteristics.
- Cultural background (age, gender, race, religion).

Empirical evidence drawn from a study conducted by Mazar and Ariely (2006:1117) indicates that taxpayers tend to comply with tax to the extent where they perceive the

tax laws as being appropriate and consistent with their expectations. Furthermore, it was found through the theory of positive reciprocity (when actions with positive impact on one person are reciprocated and yield approximately the same effect on another) that humans respond positively to friendly gestures without expecting any benefit from their actions (Fehr & Fischbacher, 2002:5).

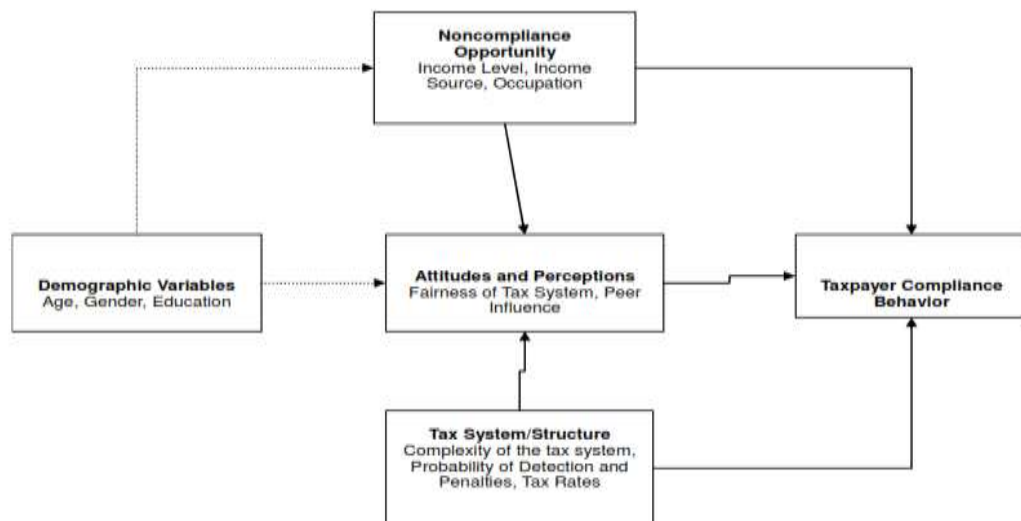
2.7.3. Fischer Compliance Theory

Fischer *et al.* (1992:1) realise that a decision to comply or not to comply, may at any point in time be influenced simultaneously by any of the fourteen factors grouped as follows:

- Demographics (age, gender, education).
- Non-compliance opportunity (income level, income source, occupation).
- Attitudes and perceptions (fairness of the tax system, peer influences).
- Tax system/structure (complexity of the tax system, probability of detection, penalties, and tax rates).

The Fischer model as shown in figure 2.7 below is a hybrid between the socio-psychological and the economic model of tax compliance.

Figure 2.7: Fischer *et al* tax compliance model



Source (Fischer *et al.*, 1992).

Demographics

Empirical research has found that younger taxpayers are more likely to take risks and are less sensitive to tax penalties (Andreoni *et al.*, 1998:840), females have been shown to be more conforming to tax laws than males and higher education is linked to an increased likelihood of compliance (Chan, Troutman & O'Bryan, 2000:83).

Non-compliance opportunity

Conflicting findings on tax compliance based on the level of income has been observed. According to Andreoni *et al.* (1998:838), tax evasion is likely to increase with increased income, while lower-end taxpayers are more likely to evade tax through understating income and/or overstating expenses. Self-employed taxpayers are more likely to engage in tax evasion than those subject to withholding taxes (Alabede, Ariffin & Kamil; 2011:112)

Attitude and perception

Grasmick and Scott (1982:214) indicate that taxpayers who believe the tax system to be unfair have a higher probability of tax evasion. Research has found that taxpayers may commit non-compliance as long as it is consistent with the in-group expectations (Chan *et al.*, 2000:94), which is the common practice among members of the same group. Eriksen and Fallan (1996:387) believe that if tax knowledge is provided, tax compliance will improve through perceived fairness of the tax system.

Tax system/structure

The complexity of the tax system is believed to be directly related to compliance. Clotfelter (1983:372) reveals that complexity of the tax system is associated with underreporting of taxes. Tax complexity is caused by the intricate tax laws (Belay & Viswanadham, 2013:626). Increasing the probability of detection through audits has been found to encourage voluntary tax compliance (Alm, 1991:557). It is also believed that tax compliance can be increased through increasing penalties in non-compliance cases (Allingham & Sandmo, 1972: 324). The results of the experimental research by Friedland, Maital and Rutenberg (1978:108) reveal that high tax rates are likely to result in less tax compliance.

2.8. TAX COMPLIANCE AS A DECISION-MAKING PROCESS

Ho, Loo and Lim (2006:47) are of the view that tax compliance is an economic decision-making process. This process is a reaction to a number of factors, some of which are:

- Perceived fairness of the tax system.
- Ethical conduct.
- Inaction due to ignorance.

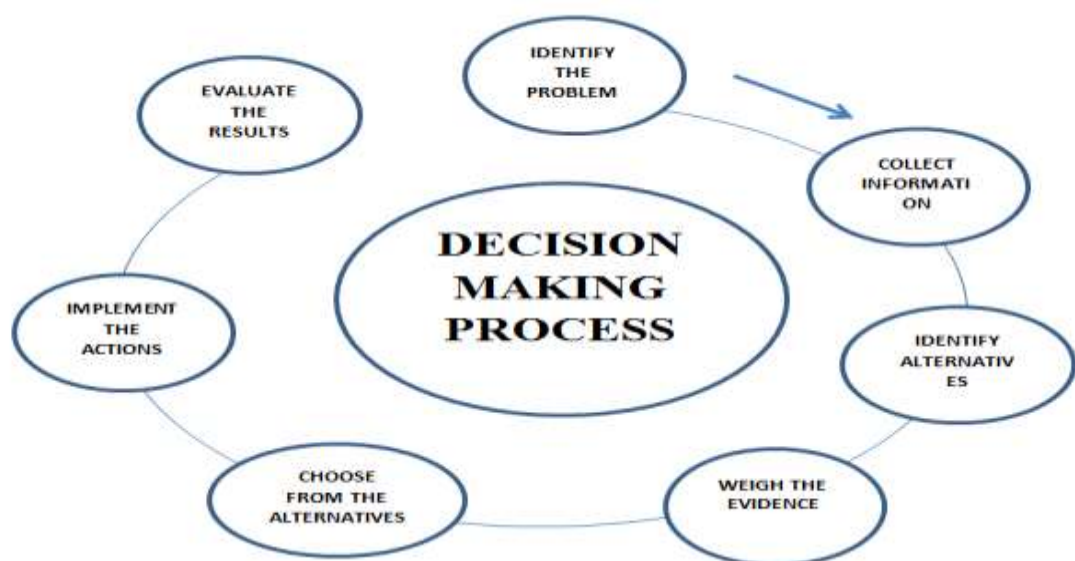
2.8.1. Decision-making process

Decision-making may be defined as a process in which choices are made between a number of options to achieve a certain goal (Lunenburg, 2010:2, Verma, 2014:171). This definition contains three important elements:

- Choice from a number of options.
- The process that is followed.
- The goal envisaged by the decision maker.

The rational decision-making process consists of seven steps and may be summarised in figure 2.8 below (Lunenburg, 2010:2):

Figure 2.8: 7 Steps of decision-making process



Source (Lunenburg, 2010:3)

From the decision-making process above, it may be seen that without relevant information, the decision maker or taxpayer is limited in generating alternatives from which the best will be selected.

2.8.2. Decision-making models

Since tax compliance is a decision-making process, the different decision-making models (Verma, 2005:172) will be briefly discussed as outlined below to show their relevance.

- Rational decision model.
- Normative decision model.
- Administrative decision model.
- Political model.
- Ethical decision model.

2.8.2.1. *Rational decision model*

Rational decision-making is based on logic and seeks to maximize the value of the decision (Verma, 2014:172). Lunenburg (2010:2) believes that rational decision-makers know the alternatives, are certain about the outcome, are conversant with the decision criteria to be followed and are able to make the best choice and put it into action.

2.8.2.2. *Normative decision model*

According to Verma (2014:172), during normative decision-making, decision-makers have to deal with limitations, time, complexity, limited resources or uncertainty. This model is characterised by:

- Limited handling of information.
- Judgement by the decision maker.
- Compromise to arrive at an acceptable choice.

2.8.2.3. *Administrative decision model*

This decision-making style is used when the decision-maker is faced with divergent desires, influences or demands and opts for a solution that will be accepted by all (Verma, 2014:172). Under this decision-making model, the decision-making strategy is characterized by satisficing and does not aim for optimization.

2.8.2.4. *Political model*

This model is based on bargaining and discussion as it focuses on multiple issues (Verma, 2014:173). Political decision-making is more relevant under complex environment, where compromise between opposing views becomes the order of the day.

2.8.2.5. *Ethical model*

According to Verma (2014:173), ethical decision-making acknowledges the need to involve the affected in the decision-making, a form of participatory approach. It seeks to solicit the buy-in of the affected rather than to impose.

2.9. IMPACT OF TAX KNOWLEDGE ON TAX COMPLIANCE

Eriksen and Fallan (1996:387) believe that if tax knowledge is provided, tax compliance will improve through perceived fairness of the tax system. This is further supported by Vossler *et al.*, (2010:3) and Feld and Frey (2002:6) who state that when tax authorities change towards a service-orientated approach, tax compliance improves.

According to Okello (2014:4), Vossler *et al.* (2010:1) and Feld and Frey (2002:2) the chances of voluntary compliance by the taxpayers' are higher if tax administration:

- Implements a customer-centric attitude towards taxpayers and provide tax education and assistance to meet their obligations.
- Uses effective audit programmes and severe penalties as a means towards discouraging non-compliance.
- Acts in a transparent, honest and fair manner in administering tax laws.

According to Puspita *et al.* (2016:139) taxation knowledge is defined as the understanding of the tax system including:

- A certain level of understanding of tax principles.
- The benefits of taxes.
- How to make tax payments.
- The filing of tax returns.
- The consequences of failing to meet tax responsibilities.

The studies conducted by several researchers (Trochim and Donnelly, 2005; Eriksen & Fallan, 1996; Fischer *et al.*, 1992; Loo *et al.*, 2009; Puspita *et al.*, 2016; Supriyati & Hidayati, 2008, Witono, 2008) over many years and in different countries provide empirical evidence that taxpayers' level of tax knowledge affects tax compliance.

2.10. IMPACT OF SELF-ASSESSMENT TAX SYSTEM ON TAX COMPLIANCE

In 2011 South Africa adopted the self-assessment tax system (SAS) by means of the Tax Administration Act (28 of 2011) in line with other countries globally. Basically, the main objective of a self-assessment system is to increase tax collection, minimise the collection costs for revenue agencies and encourage voluntary taxpayer compliance (Saipei & Kasipillai, 2013:75). Contrary to the administrative tax system in which the revenue authority is responsible for computing and calculating the amount of tax due, SAS requires the taxpayers to:

- Compute the correct amount of tax liability.
- Submit tax returns on time.
- Pay the tax due on time.
- Keep proper records for a prescribed minimum period after filling.

From this, it is therefore clear that SAS shifted the responsibility of tax compliance on to the taxpayers. In order to ensure that SAS succeeds in achieving its objectives, taxpayers are required to have a certain level of knowledge about tax matters. Saipei and Kasipillai (2013: 80) identified the following areas of impact of the self-assessment system on corporate taxpayers:

- Obtaining appropriate knowledge.
- Engaging external tax professionals.
- Tax audits and investigations.
- Record-keeping practices.

According to Okello (2014:4), voluntary tax compliance can be improved through a self-assessment system, because it:

- Adopts a service-orientated attitude towards taxpayers, educating and assisting them to meet their obligations.
- Creates strong deterrents to non-compliance through effective audit programmes and consistent use of penalties.
- Is transparent and seen by the public to be honest, fair and even-handed in its administration of the tax law.

2.11. IMPACT OF ASYMMETRIC INFORMATION ON TAX COMPLIANCE

Taxpayer-revenue authority relationships are usually characterised by information asymmetries (Cui, 2017:2). The author submits that government needs information on taxable income and general information on taxpayers in order to levy taxes correctly. However, there is always an imbalance of the information (information asymmetry) government possesses in contrast to that available to taxpayers.

Information asymmetry exists in economic trade when one party to the transaction possesses more intimate information than the other party while concluding a contract, resulting in an imbalance of power in the transaction (Kristiaji, 2013:3).

The theory of asymmetric information fits well with a study that investigates the impact of tax information availability on compliance by small, medium and micro enterprises. According to Mulugeta (2016:85) tax authorities have the duty to provide the information and support needed for the taxpayers to comply with tax laws. George Akerlof in his paper: ‘The market for “Lemons”: quality, uncertainty and the market Mechanism’ (Cited in Auronen, 2003:7), introduced the concept of asymmetric information.

In his paper, Akerlof used the automobile market to illustrate asymmetric information. He argued that the customer uses market statistics to measure the value of a class of goods or

services. In this instance, the customer only knows the average of the market while the seller has more accurate knowledge about a specific item. Akerlof therefore concluded that this asymmetric information gives the seller an advantage to sell goods of less than the average market quality. The author's theory of asymmetric information has since been studied and expanded extensively by various other authors, notably Spencer (1973), Stiglitz (1975), Stiglitz and Rothschild (1976), Stiglitz and Weiss (1981) and Jovanovic (1982).

Applied in the context of revenue collection, the revenue collection authority and taxpayers are seen as economic agents interacting in a tax system (Kristiaji, 2013:4). According to the author tax regulations are the "manifest of contracts" with the main objective of reducing information asymmetry. The author views regulations as a form of a contract between taxpayer and revenue authority that causes information asymmetry due to ever-changing regulations or regulations that are not known to the taxpayer.

There are three important factors with regard to regulations that influence the degree of asymmetric information (Kristiaji, 2003:5):

- Regulations can promote multiple interpretations between tax authorities and taxpayers.
- Taxpayers' representations when regulations are drafted.
- Asymmetric information is increased by the complexity of the tax system

Auronen (2003:9) is of the view that two important issues arise from asymmetric information, moral hazard and adverse selection. Moral hazard (ex-post) is a situation where one party engages in a risky transaction with the knowledge that it is protected and that the other party to the transaction will bear the risk. A very good example is the owner of an asset who takes out insurance and fails to take reasonable care of the asset, knowing that if anything happens he is insured and will lose nothing. Adverse selection occurs when one party to the transaction has information that the other party does not have, leading to bad decisions due to information asymmetry.

The study by Bozan (2017:3347) dealing with the impact of information availability and treatment compliance is worth mentioning due to its relevance to the impact of asymmetric information on tax compliance. In this study, Bozan used the principal-agent theory to examine the sources of patients' perceived uncertainty and its direct and mediating impact on

patient motivation to comply with providers' orders. The study views the patient as the principal who delegates the care delivery duties to agents (providers) in exchange for payment. He believes that the transaction is concluded under conditions of uncertainty because the principal (patient) has little room to monitor the decision-making process and the agent has more information about the diagnosis and the treatment plan.

The results of a laboratory experiment on the effectiveness of taxpayer information assistance conducted by Alm *et al.* (2011:22) indicate that taxpayer compliance under uncertainty is improved when the tax collection agency provides information to taxpayers. The agency approach to uncertainty is of the view that self-interested parties have conflicting goals with hidden information and actions. According to Mulugeta (2016:85), tax authorities have the duty to provide the information and support needed to the taxpayers to comply with tax laws. Depending on the complexity of the tax laws, the level of tax reporting increases or decreases based on the information service provided by the revenue authority (Vossler et al, 2010:8).

To breach the information asymmetry gap, Kristiaji (2003:9) makes some of the following policy recommendations:

- Regulations must be written in simple and understandable language for all participants in the tax system.
- Tax authorities should develop an information system accessible to the public.
- The media must be trained on tax related matters as they play an important role in information dissemination.

2.12. CHAPTER SUMMARY

In chapter 2 the key variables of the study were discussed in the context of small, medium and micro enterprise level. The chapter highlighted the relevance of each variable to the research topic, with special emphasis on the specific objectives of the study. Chapter 2 may be summarized as follows:

- The literature study revealed that information flow between the tax authority and taxpayer is crucial in ensuring that each party to the transaction has enough information to make informed decision, thereby avoiding moral hazards and adverse selection.

- Researchers in the tax environment are of the view that tax authorities have a duty to provide information and support needed to taxpayers to comply with tax laws. In South Africa, this duty is emphasised by section 195 of the Constitution (Act 108 of 1996), which stipulates that SARS as an organ of state must provide taxpayers with timely and accurate information.
- Earlier research has found that a positive relationship exists between information availability and tax compliance.

CHAPTER 3: EMPIRICAL RESEARCH

3.1. INTRODUCTION

In chapter 2, the literature review on the topic of the research was sufficiently discussed. This literature review attempted to discuss the concepts of tax compliance and theories, the definition of SMMEs, the self-assessment tax system, information asymmetry and decision-making process and models.

In this chapter, the discussion will be based on the research process followed and the empirical research. This will cover the research objectives, research design, data collection, statistical analysis and ethical considerations.

3.2. RESEARCH OBJECTIVES

3.2.1. General research objective (s)

The purpose of the study was to investigate the relationship between information availability and tax compliance by SMMEs in the Kroonstad area.

3.2.2. Specific research objectives

The specific objectives of the study were:

- To investigate the level of tax information available to small business owners in the Kroonstad area.
- To investigate the relationship between access to tax information and tax compliance behaviour of SMMEs.
- To determine the perception of small business owners on the tax information provided by the South African Receiver of Revenue.

3.3. RESEARCH DESIGN

As the researcher aims to make a statistical inference of the results to the whole population, the study is quantitative in nature. According to Creswell (2007:12) the researcher in a quantitative research setting aims to provide a numeric description of human attitudes or perception with a view to generalizing the results to the whole population from which the sample was drawn. The researcher used a survey research design to collect data from the

respondents. The study followed a cross-sectional approach in the sense that participants were studied at a single point in time (Bhattacharjee, 2012:47). Trochim and Donnelly (2007:6) are of the view that a cross-sectional study symbolizes the researcher taking a slice or cross-section of the research population at a single point in time and conducting research on them. This approach is relevant in this study because the researcher is looking at the compliance of SMMEs at a certain point in time and relationship of this behaviour with information provided to them before that point.

3.4. DATA COLLECTIONS

3.4.1. Research procedure

The procedure for data collection was as follows:

- The researcher requested permission from the Branch Manager of Seda Fezile Dabi to utilize the Agency's database of registered businesses in the Kroonstad area.
- The participants were contacted telephonically and informed about the purpose of the study.
- Participants were requested to participate voluntarily in the study and individual appointments and interviews were scheduled at the time and venue most convenient to the participants.
- Participants were also informed about the confidentiality of the information obtained and that it was their right to withdraw at any stage of the interview.
- The results of the interview were analysed and findings and conclusions reached.

3.4.2. Measuring instrument

Using the information gathered through the literature study, the close-ended questionnaire was developed with a mix of four Point Likert-scales, multiple-choice and dichotomous questions. The Likert-scale was coded from one to four to indicate the degree to which respondents agreed or disagreed with certain statements put to them, while the multiple-choice questions were coded between one and five to enable the respondents to choose the appropriate answer. The dichotomous questions with a Yes or No were coded 1 or 2 for respondents to affirm or deny.

The questionnaire was divided into four sections (**Annexure A**)

- **Section A: Demographic**

This section of the research consists of thirteen questions, which are aimed at identifying the demographics of the respondents. The information contained in this section includes the forms of business ownership, turnover levels, use of tax professionals, and number of years the business is trading, level of education of the business owner, frequency of visiting SARS offices and the reasons for these visits.

- **Section B: Tax information**

Section B of the questionnaire consists of sixteen questions intended to establish the perception of the respondents on the value of information provided by SARS.

- **Section C: Tax compliance**

This section consists of sixteen questions which seek to measure the respondent's level of tax knowledge and compliance.

- **Section D: Tax knowledge**

This section consists of eight questions aimed at measuring the perception of respondents on the level of taxpayer service provided by SARS, the impact of information accessed and knowledge on tax compliance.

3.4.3. Research population

The research population comprised formal small businesses within the Kroonstad area registered with the South African Revenue Services of which the annual turnover and number of employees fall within the limits set by the National Small Business Act (105 of 1996). The database of the Small Enterprise Development Agency served as basis to determine the study sample because of the geographical area in which the research was conducted. Since the study was confined to Kroonstad area, the total

number of possible participants on Seda database was found to be N=274 as at the end of August 2017.

3.4.4. Research sample

A purposive sampling technique was used to determine the size of an appropriate sample due to ease of use, time and cost saving. Purposive sampling allows the researcher to make a judgement on the suitability of the respondent to provide answers to the research question (Kumar, 2011:189). Based on the population of 274 SMMEs on Seda database and the required confidence level of 95% and margin of error of 10%, a sample size of n=72 respondents was used.

3.4.5. Reliability

According to Bhattacharjee (2012:65) and Kumar (2011:168), reliability is defined as the extent to which the measuring instrument is consistent and dependable. This means that if the test is used for measurement repeatedly under the same conditions, it will yield similar results. To measure and ascertain the reliability of the measuring instrument, Cronbach's alpha coefficient was used on each item of the questionnaire. Cronbach's alpha is widely used to measure internal consistency among different items of the same measuring instrument (Bhattacharjee, 2012: 66).

According to Takavol and Dennick (2011:53), alpha is a figure between 0 and 1, with a figure above 0.6 seen as desirable.

3.4.6. Arithmetic mean

The arithmetic mean or mean as is the term mostly known by is simply the average of the data set (Bhattacharjee, 2002:130). This is a measure of central tendency to estimate the middle of distribution of values.

3.4.7. Standard deviations

Standard deviation is a measure of dispersion, measuring the way values are spread around the mean (Bhattacharjee, 2012:131). Bhattacharjee is of the view that standard deviation is more reliable than the range, as it is not as much affected by outliers. The author stated that in a normally distributed data set, the standard

deviation is characterised by 68:95:99 rule. This, according to the author, means that 68% of the values are within one standard deviation from the means, 95% within two standard deviations and 99% within three standard deviations.

3.4.8. Correlations

In order to determine the correlation between variables of the study, the Pearson correlation was used. According to Steyn (2002:13) the strength of the relationship between variables may be assessed based on the following thresholds:

$0.1 < |r| < 0.3$ (small / weak correlation)

$0.3 < |r| < 0.5$ (medium / moderate correlation)

$0.5 < |r|$ (large / strong correlation)

3.5. ETHICAL CONSIDERATIONS

According to Polit and Hungler (1999:132), when human beings are used for conducting research, absolute care must be taken to protect the rights of the participants. During the study, the principles of ethical research as outlined by Sekaran (2003:276) were observed. These principles are based on the beneficence and non-maleficence (Bhattacharjee, 2012:147). The research was therefore conducted strictly according to the following ethical principles:

- Participation in the research was voluntary and with the express consent of the respondents.
- The respondents were not exposed to any harm during the research.
- Research participation was anonymous and handled with strict confidentiality.
- The research was conducted without using any deceptive practices.
- Participants were informed about their right to withdraw from the research at any stage.

The research proposal was submitted to the North West University Ethics Committee before the commencement of the study to ensure that the study would pass the ethics.

CHAPTER 4: RESEARCH FINDINGS

4.1. INTRODUCTION

In this chapter the study findings relating to the study variables are presented.

4.2. DESCRIPTIVE STATISTICS

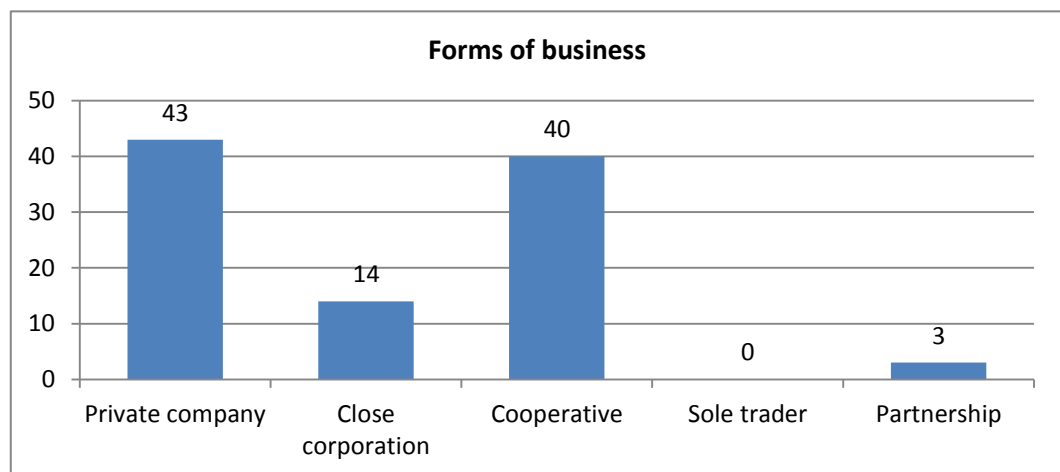
In the following section descriptive statistics will be used in the form of graphical display to illustrate the pattern of responses provided by the research participants.

4.2.1. Demographic data

4.2.1.1. Forms of business ownership

The bar chart in figure 4.1 below indicates the percentage distribution of forms of business ownership among the respondents. Partnerships constituted 3% and Close Corporations 14% of the surveyed participants. Private companies were the most common form of business at 43%, followed by Cooperatives at 40%. The private companies and Cooperatives represent 83% of the respondents.

Figure 4.1: Forms of business ownership (%)

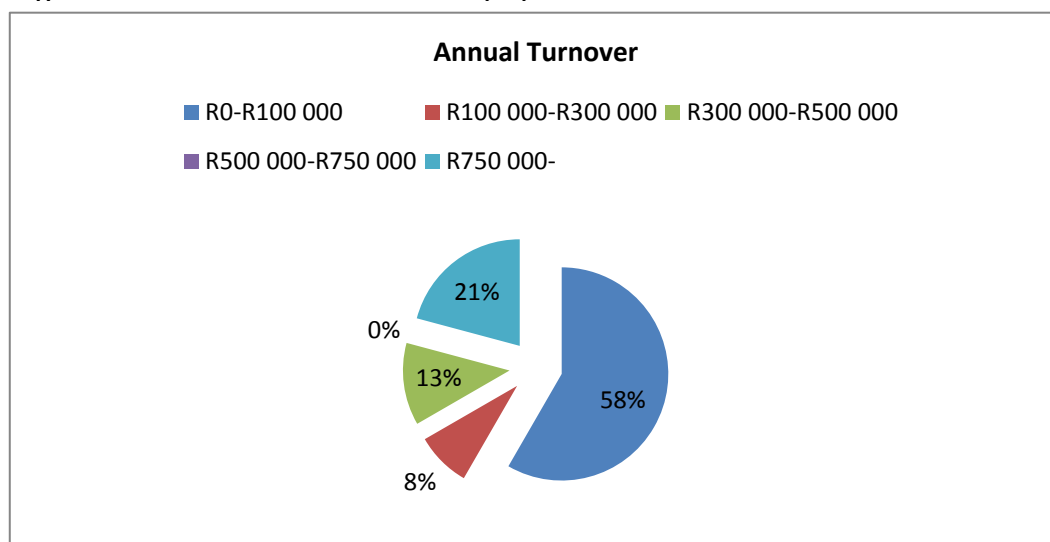


4.2.1.2. Business annual turnover

The chart shown in figure 4.2 below represents the percentage distribution of business turnover of the surveyed businesses. Businesses with a turnover of less than R100 000 per annum represented 58% of the sample, while those with turnover of above R750 000 constituted 21%. Approximately 13% of the

businesses earned a turnover between R300 000 and R500 000 and 8% had turnover between R100 000 and R300 000. The majority of the surveyed businesses had a turnover below R300 000, representing 66% of the sample.

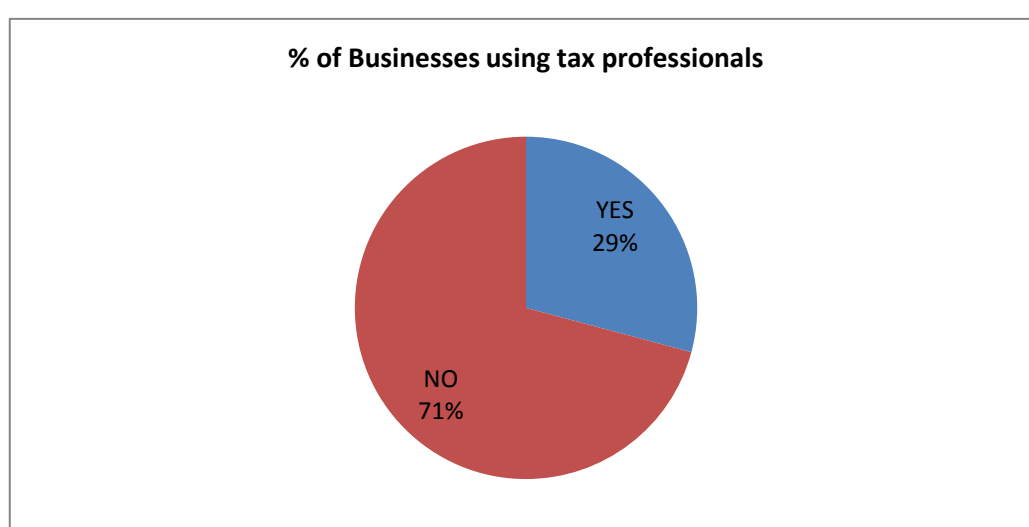
Figure 4.2: Business annual turnover (%)



4.2.1.3. Business using tax professionals

The pie chart in figure 4.3 below indicates the percentage distribution of businesses that use the services of tax professionals. Approximately 71% of the surveyed businesses indicated that they are not using the services of tax professionals, whereas 29% do use them.

Figure 4.3: Business using tax professionals



4.2.1.4. Number of years business trading

When looking at the number of years during which surveyed businesses have been trading, figure 4.4 below shows that 27% of the businesses have been trading for four and five years, while 25% have been trading for less than one year. Businesses that have been trading for more than five years and those trading between one and two years are equally represented at 15% each.

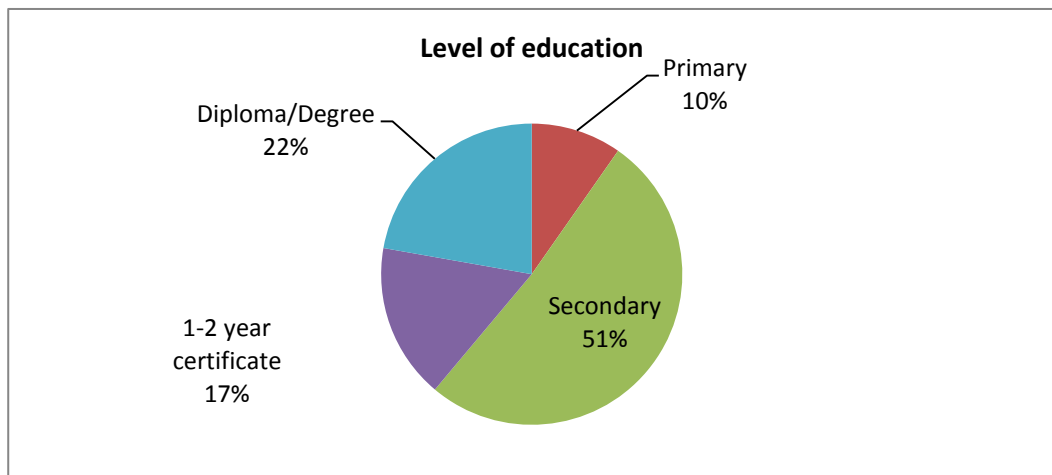
Figure 4.4: Number of years business trading (%)



4.2.1.5. Educational level of the owner

The pie chart in figure 4.5 below illustrates the percentage distribution of the respondents by their level of education. Respondents with a secondary school level of education represent 51% of the sample and approximately 22% achieved a level of diploma or above. Approximately 17% of the respondents attained a 1-2 year post matric certificates and 10% completed primary level. It is interesting to note that 39% of the respondents achieved a post-matric education level.

Figure 4.5: Educational level of respondents (%)



4.2.1.6. Level of computer knowledge

Figure 4.6: Level of computer knowledge (%)

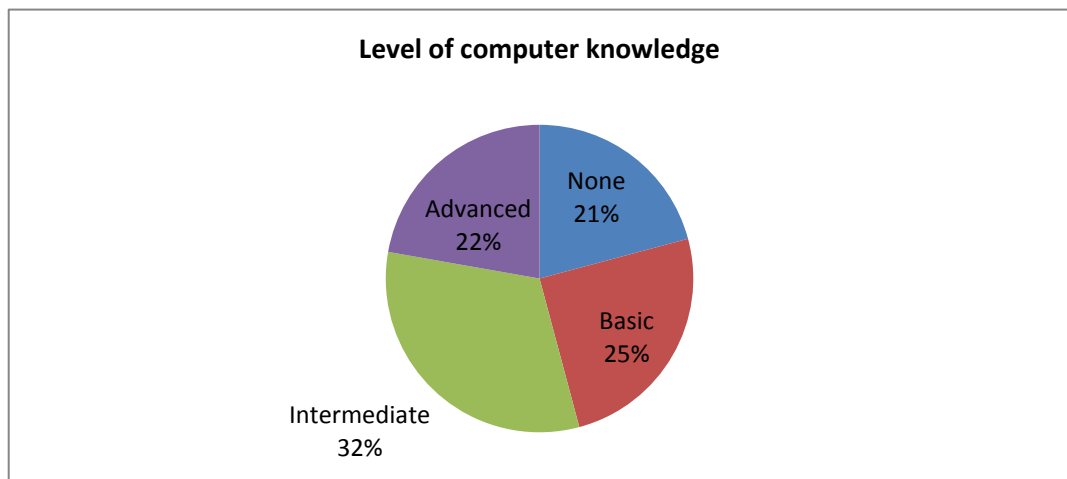
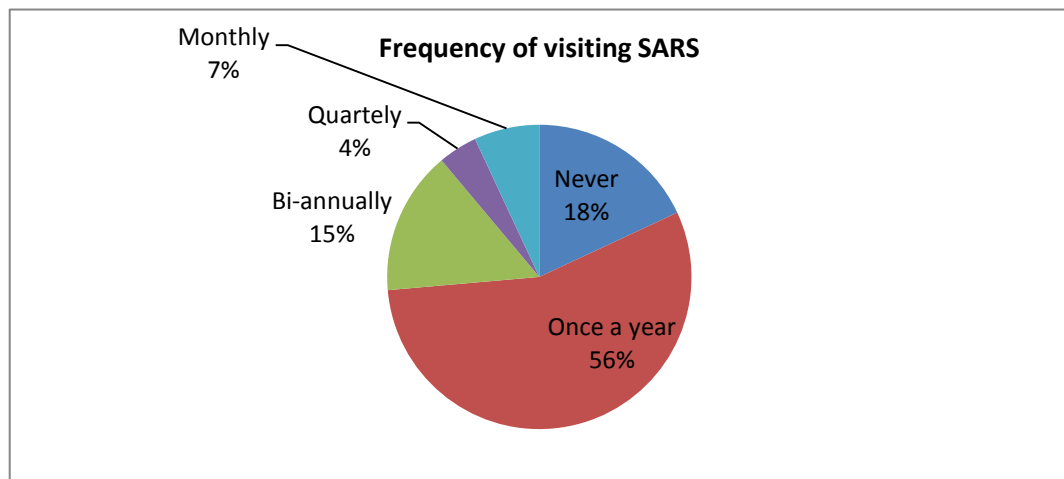


Figure 4.6 above indicates the percentage distribution of the respondents based on their level of computer knowledge. Approximately 32% of the respondents indicated intermediate computer knowledge compared with 25% with basic knowledge. Only 22% of the respondents indicated advanced computer knowledge level and 21% indicated that they have no knowledge of computer at all. Approximately 79% of the respondents have some sort of computer knowledge.

4.2.1.7. Frequency of visiting SARS office

The percentage frequency of businesses surveyed visiting SARS office is represented by figure 4.7 below. The majority of the respondents (56%) indicated that they only visit SARS office once a year; while 18% do not visit SARS office at all. Based on the total respondents, those that visit SARS bi-annually, quarterly and monthly represent 15%, 4% and 7% of the sample respectively.

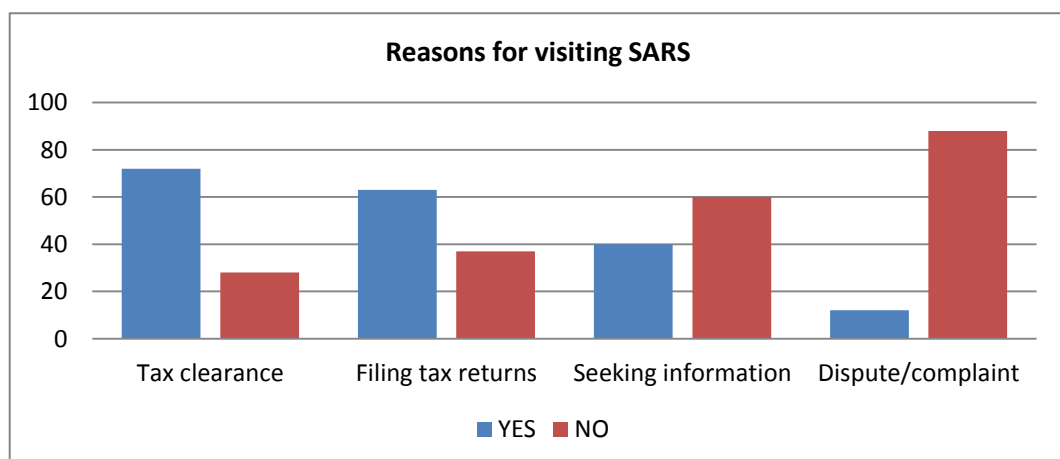
Figure 4.7: Frequency of visiting a SARS office (%)



4.2.1.8. Reasons for visiting SARS

The study aimed at establishing the main reasons for respondents visiting a SARS office (figure 4.8). Approximately 72% of the respondents indicated obtaining tax clearance certificate as the main reason for visiting a SARS office while 63% did so for the filing tax returns. Only 40% of the respondents indicated seeking information as the main reason and 12% for disputes or lodging of complaints.

Figure 4.8: Reasons for visiting a SARS office (%)



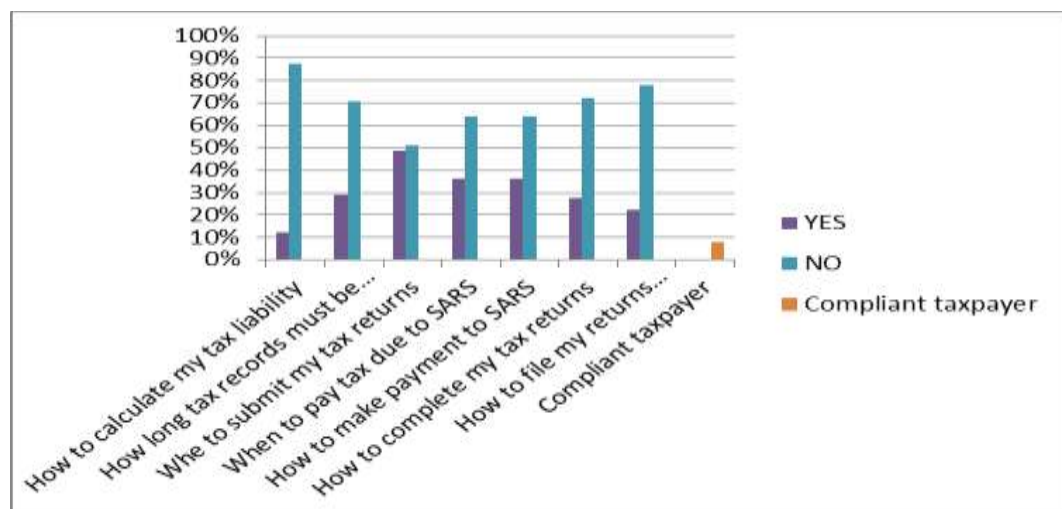
4.2.2. Compliance behaviour

In order for taxpayers to be regarded as tax-compliant, they must satisfy all four compliance requirements of knowing how to compute tax liability, when to file tax returns, how long records must be kept and when to make payment to the tax authority. If anyone of the four requirements is not met, then the taxpayer is deemed non-compliant.

4.2.2.1. Level of tax compliance

The statistics from the respondents as shown on figure 4.9 below indicates that only 13% know how to compute their tax liability and 49% know when to submit. Only 29% of the respondents know how long records must be kept while 36% indicated that they know when to make payment to the tax authority. According to the results in figure 4.9 below, only 8% of the respondents meet all the four criteria for compliance.

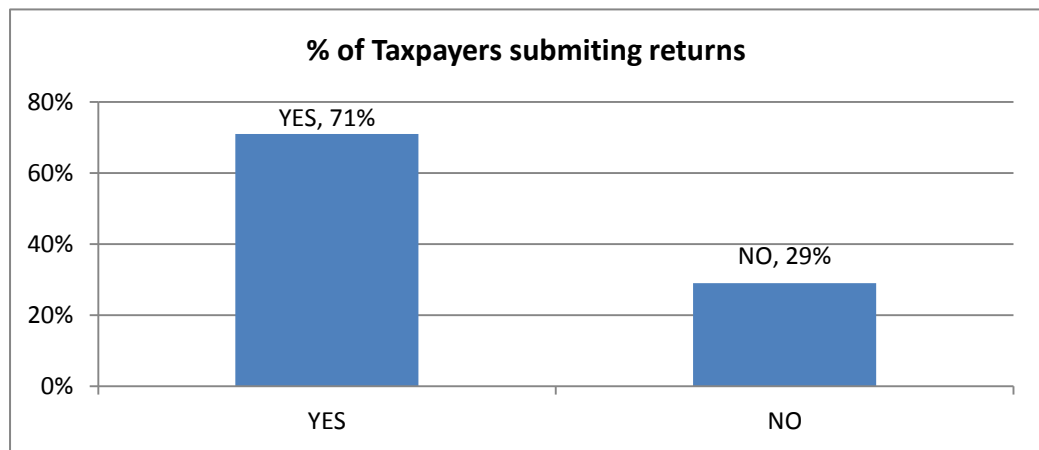
Figure 4.9: Percentage of taxpayers' compliant



4.2.2.2. Taxpayers submitting tax returns

The bar chart in figure 4.10 below illustrates the percentage of taxpayers who indicated that they submit their tax returns annually. Approximately 71% of the respondents submit their tax returns compared to 29% who does not submit.

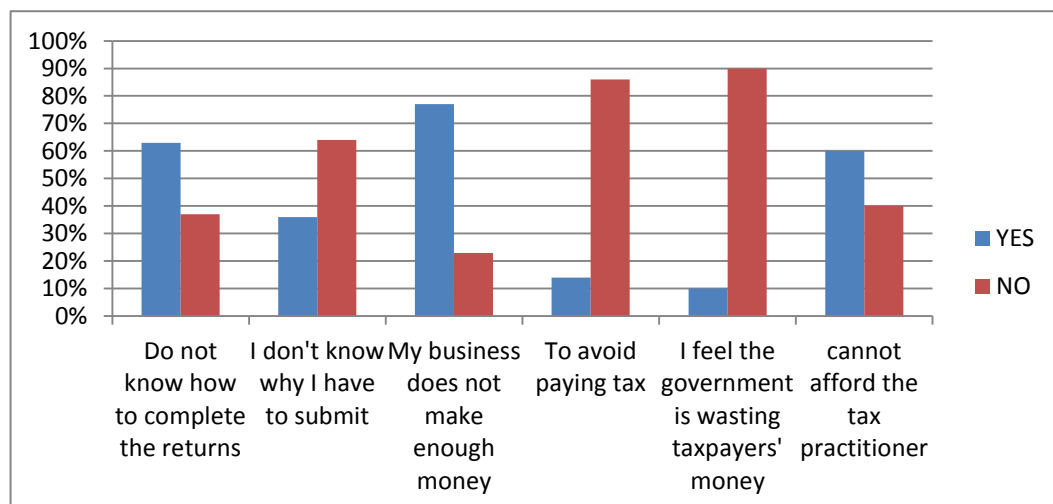
Figure 4.10: Percentage of taxpayers submitting tax returns



4.2.2.3. Reasons for failing to submit tax returns

The bar chart in figure 4.11 below exhibits the main reasons why some of the taxpayers' surveyed do not submit their tax returns. The majority of the respondents (77%) do not submit because their business is not making enough money followed by 63% who indicated that they do not know how to complete the returns. Approximately 60% of those who do not submit tax returns indicated that they cannot afford the services of a tax professional, 10% are not submitting because they feel the government is wasting money and 14% do so to avoid paying tax. Approximately 36% of the respondents indicated the reasons for failing to submit tax returns are because they do not know why they have to submit, which might be due to lack of or insufficient information provided by SARS.

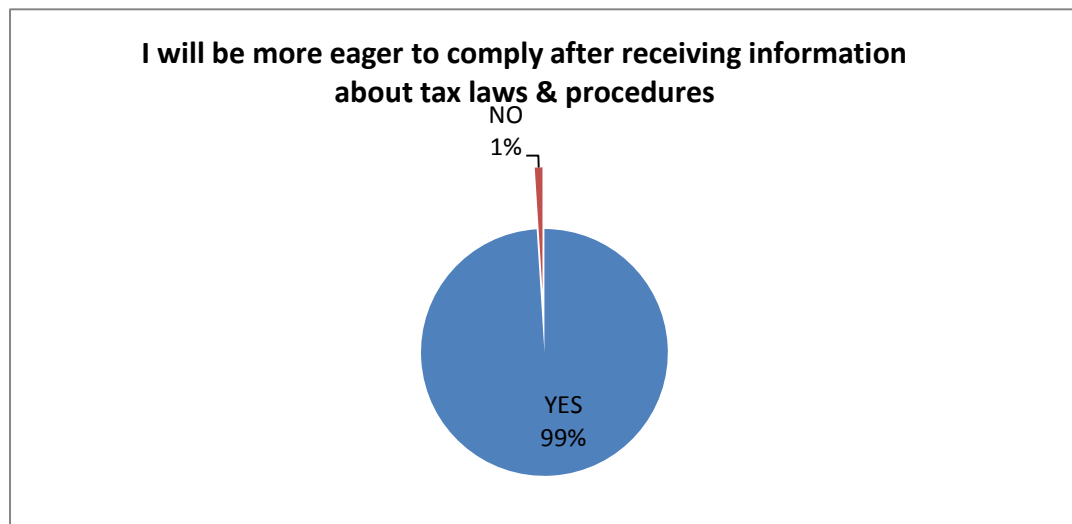
Figure 4.11: Reasons for not submitting tax returns



4.2.2.4. Compliance level after receiving tax information

The pie chart in figure 4.12 below shows that 99% of those surveyed feel that their compliance level will improve once they are given relevant tax information by the tax authority.

Figure 4.12: Taxpayers who will be more eager to comply with tax laws after receiving tax information.



4.3. RESEARCH RESULTS

The research results are summarised in Table 4.1 with the Cronbach's alpha, mean and standard deviations. These results cover the seven variables used in the study (effectiveness of SARS's outreach programme, availability of printed information, information provided by SARS, information searches by taxpayers', level of taxpayers' knowledge, taxpayers' level of tax compliance and tax information availability) and were measured using a four point Likert scale with 1= strongly disagree/ almost never and 4= strongly agree/almost always.

4.3.1. SARS outreach programmes

The effectiveness of SARS outreach programme was measured (table 4.1a) using four constructs, which include tax information session, tax seminar/workshop, radio advertisement and SARS information desk. All four constructs obtained high values for Cronbach's alpha; tax information session was 0.74, tax seminar/workshop was 0.63, radio advertisement was 0.80 and SARS information desk was 0.72. The overall Cronbach alpha value for SARS outreach programme obtained was 0.78. The overall

Cronbach alpha is therefore above the minimum acceptable value of 0.6. The results for effectiveness of SARS outreach programme therefore shows that the scale was reliable.

The means for the four constructs used to measure the effectiveness of SARS outreach programmes were 2.86 for tax information session, 2.40 for tax seminar/workshops, 3.38 for SARS information desk and 2.84 for radio advertisement. The mean for the variable, effectiveness of SARS outreach programme obtained was 2.87, which indicates that respondents are of the view that SARS outreach programme is effective. The standard deviation of 0.98 indicates that majority of the respondents are within one standard deviation from the mean.

Table 4.1a: A summary of Cronbach's alpha, mean and standard deviations

Variable	Costruct	Cronbach's alpha	Mean	Standard deviation
Tax revenue outreach	Information sessions	0.74	2.86	1.11
	Tax seminars/workshop	0.63	2.40	1.07
	SARS information desk	0.80	3.38	0.67
	Radio advertisement	0.72	2.84	1.08
	Overall	0.78	2.87	0.98

4.3.2. Availability of printed information

To measure the availability of tax information through printed media, the four constructs of; pamphlets/brochures, television advertisement, print media and availability of information in different languages were used. All four constructs as reflected on table 4.1b obtained high values for Cronbach alpha, pamphlets/brochures was 0.76, television advertisement was 0.66, print media was 0.67 and availability of information in different languages was 0.72. The Combined Cronbach alpha value for availability of tax information through print media was 0.76, which is above the minimum of 0.6 for an acceptable Cronbach alpha. This therefore indicates that the scale used to measure the availability of printed information was reliable.

The means for the four constructs under availability of printed information obtained were; 3.00 for pamphlets/brochures, 2.64 for television advertisement, 2.79 for print

media and 3.04 for availability of information in different languages. The mean for availability of printed information obtained was 2.87, which shows that respondents were in agreement with the fact that information is available through printed media. The standard deviation of 0.92 also emphasizes the fact that most of the responses are within one standard deviation from the mean.

Table 4.1b: A summary of Cronbach's alpha, mean and standard deviations

Variable	Costruct	Cronbach's alpha	Mean	Standard deviation
Printed information	Pamphlets/brochures	0.76	3.00	0.75
	Print Media	0.66	2.64	0.99
	Information available in different languages	0.67	2.79	0.95
	Television advertisment	0.72	3.04	0.98
	Overall	0.76	2.87	0.92

4.3.3. Information searched by taxpayers

To measure the tax related information searched by taxpayers, table 4.1c summarises the results of the three constructs; “I use SARS website to seek information on tax matters”, “I visit SARS office to seek information on tax matters” and “I read pamphlets from SARS” were used. The research results shows high Cronbach alpha value for the three constructs with the construct of visiting SARS website to seek information on tax matters at 0.79, visiting SARS office to seek information on tax matters obtained at 0.67 and reading of pamphlets at 0.66. The variable “information searched by taxpayers” obtained an overall Cronbach alpha of 0.79, which is higher than the required minimum of 0.6 for reliability. It can therefore be concluded that the scale used to measure information searched by taxpayers was reliable.

To establish the level of agreement or disagreement with the constructs, the means and standard deviations were determined; the mean for utilising the SARs website for information was 1.57 that of visiting a SARS office 2.10 and the mean for reading SARS pamphlets was 2.18. The variable “information searched by taxpayers” obtained an overall mean of 1.92 and standard deviation of 1.00. As the midpoint on the Likert-scale were 2.5, these results shows that most of the respondents do not use these methods to obtain information about SARS. It was, however, observed that

SARS website was utilised far less frequently than the other methods to obtain information. The method most often used was reading of pamphlets.

Table 4.1c: A summary of Cronbach's alpha, mean and standard deviations

Variable	Construct	Cronbach's alpha	Mean	Standard deviation
Tax information requested	I use SARS website to seek information	0.79	1.57	0.95
	I visit SARS office to seek information on tax matters	0.67	2.01	1.09
	I read pamphlets of information brochures from SARS	0.66	2.18	0.97
	Overall	0.79	1.92	1.00

4.3.4. Level of taxpayers' knowledge

In table 4.1d, the level of taxpayers' knowledge on tax matters was measured using three constructs of "upon registering for tax SARS explained the different categories of taxes for businesses to me", "My level of tax knowledge is enough to be tax compliant" and "I know what is required in respect of all my business tax obligations". Again, these constructs obtained high values for Cronbach alpha. The score for the construct on different categories of tax being explained was 0.78, that for the construct of having enough tax knowledge to be tax compliant 0.67 and that of knowing what is required was 0.73. The overall Cronbach alpha for the variable was significantly higher (0.80) than the acceptable minimum of 0.6. The scale used to measure the variable can therefore be confirmed to be reliable.

To measure the dispersion of responses, the mean for the three constructs was computed. With the mean of 1.71 for explanation on different categories of taxes, the results show that SARS rarely explained the different categories of business taxes to respondents. The same applies to the construct of having enough knowledge in respect of all the business obligations. In this regard the mean was 2.13. The combined mean for the variable level of taxpayers' knowledge obtained was 1.94, leading to the conclusion that most of the respondents did not feel comfortable with their level knowledge on tax matters.

Table 4.1d: A summary of Cronbach's alpha, mean and standard deviations

Variable	Costruct	Cronbach's alpha	Mean	Standard deviation
Tax knowledge	Upon registering for tax, SARS explained the different categories of taxes for business to me	0.78	1.71	1.04
	My level of tax knowledge is enough to be tax compliant	0.67	2.00	1.09
	I know what is required in respect of all my business tax obligations	0.73	2.13	1.13
	Overall	0.80	1.94	1.08

4.4. DISCUSSION OF FINDINGS

4.4.1. Assessing the level of tax compliance

In order for taxpayers to be regarded as tax-compliant, they must satisfy all the four compliance requirements of knowing how to compute their tax liability, when to file their returns, how long records must be kept and when to make payment to the tax authority (Franzoni, 2000:54 & Oladipupo, 2016:1). If any one of the four requirements is not met, then the taxpayer is deemed not compliant.

The statistics from the respondents as shown on Table 4.2a below indicates that only 13% know how to compute their tax liability and 49% know when to submit. On the question “I know how long records must be kept after filing”, approximately 29% of the respondents admitted that they know while 36% indicated that they know when to make payment to the tax authority. Approximately 71% of the respondents indicated that they do not know how to complete their tax returns. This is consistent with the research conducted by Mulugeta (2016:88) which reveals that 78.4% of the respondents did not know how to complete their tax returns. The results of the study show that only 8% of the respondents meet all four requirements to be regarded as tax compliant.

Table 4.2a: Level of tax compliance (%)

I know	YES	NO
How to calculate my tax liability	13%	87%
How long tax records must be kept after filing	29%	71%
When to submit my tax returns	49%	51%
When to pay tax due to SARS	36%	64%
How to make payment to SARS	36%	64%
How to complete my tax returns	28%	72%
How to file my returns through e-Filing	22%	78%

4.4.2. Assessing the taxpayers level of tax knowledge

Empirical evidence by Puspita *et al* (2016:152) indicates that taxation knowledge affects tax compliance behaviour. The results of the survey on the items “I know what is required in respect of all my business tax obligations, my level of tax knowledge is enough to be tax compliant and I know how to file tax returns through e-Filing” revealed that 61%, 67% & 78% respectively disagreed. Furthermore, approximately 73% of the respondents as shown on Table 4.2b below indicated that they never used the SARS website to seek information, while 58% said they have no idea about the deductions they qualify to claim in the computation of their tax liability. Empirical evidence from Mulugeta (2016:90) proves that 86.4% of taxpayers did not know the deductible and non-deductible expenses in the income tax law.

The research found that in general tax knowledge has a strong positive relationship with tax compliance ($r=0.65$, $p<0.05$). The three constructs used to measure tax knowledge showed positive relationship with tax compliance. The results are as follows:

- Explaining the different categories of business taxes ($r=0.59$, $p<0.05$)
- The level of tax knowledge is enough to be compliant ($r=0.70$, $p<0.05$)
- Knowing what is required in respect of all my business tax obligations ($r=0.65$, $p<0.05$)

From the above, it can therefore be concluded that the level of tax knowledge has a strong positive relationship with tax compliance. Based on these findings, the following hypothesis can be accepted.

H2: Tax knowledge among SMMEs in the Kroonstad area has a positive relationship with tax compliance.

The findings are supported by the studies conducted by (Trochim and Donnelly., 2005; Eriksen & Fallan, 1996; Fischer *et al.*, 1992; Loo *et al.*, 2009; Puspita *et al.*, 2016; Supriyati & Hidayati, 2008 and Witono, 2008) which reveal that the taxpayer level of tax knowledge has a positive relationship with tax compliance.

Table 4.2b: Summary of Cronbach alpha, mean, standard deviation, correlation, agree/yes and disagree/no

Construct	Cronbach alpha	Mean	Standard deviation	Correlation	Disagree / No	Agree/Yes
I know how to complete the tax returns					70%	30%
I use tax professionals					79%	21%
The complexity of the tax laws makes it difficult to comply	0.06	2.83	1.09	0.13	38%	62%
When I have easy access access to tax information I will be more eager to comply	0.05	3.64	0.64	0.13	1%	99%
It is the duty of SARS to make information easily accessible	0.2	3.85	0.4	0.05	4%	96%

4.4.3. Assessing the perceived complexity of the tax system

Tax complexity is caused by intricate tax laws (Belay & Viswanadham, 2013:626). These authors are of the view that complexity comes in different forms; it may either be calculation complexity, tax form's complexity, complexity of tax laws or procedural complexity. On the item "The complexity of the tax laws and regulations makes it difficult to comply with tax" 62% of the respondents supported the statement. Empirical evidence from Mulugeta (2016:92) also found that 70.4% of the taxpayers are of the view that tax laws are not simple and easy to comprehend.

Approximately 71% of the research participants in Table 4.2c below indicated that they do not know how to complete their tax returns. While the empirical evidence exists to support the notion that tax systems are complex, 79% of the respondents indicated that they do not use the services of tax professionals. Approximately 70.6% of the respondents are of the view that the South African tax system is too complex to enable compliance.

The following results for correlations were found between the constructs that measured tax complexity and tax compliance:

- The complexity of the tax laws and regulations makes it difficult to comply (r=0.13, p<0.05)

- When I have easy access to tax information I will be more eager to comply with tax laws ($r=0.13$, $p<0.05$)
- It is the duty of SARS to make tax information easily accessible ($r=0.05$, $p<0.05$).

The overall correlations between tax complexity and tax compliance shows a weak positive relationship ($r=0.10$, $p<0.05$). These findings suggest a positive relationship exists between complexity of tax system and tax compliance. Based on these findings, the following hypothesis can be rejected.

H3: The complexity of the South Africa tax system has a negative relationship with tax compliance of SMMEs in the Kroonstad area.

These findings are in contradiction with the study conducted by Clotfelter (1983:372) which revealed that complexity of the tax system is associated with underreporting of taxes.

Table 4.2c: Summary of Cronbach alpha, mean, standard deviation, correlation, agree/yes and disagree/no

Construct	Cronbach alpha	Mean	Standard deviation	Correlation	Disagree / No	Agree/Yes
I know how to complete the tax returns					70%	30%
I use tax professionals					79%	21%
The complexity of the tax laws makes it difficult to comply	0.06	2.83	1.09	0.13	38%	62%
When I have easy access access to tax information I will be more eager to comply	0.05	3.64	0.64	0.13	1%	99%
It is the duty of SARS to make information easily accessible	0.2	3.85	0.4	0.05	4%	96%

4.4.4. Assessing the level of information availability

The results of a laboratory experiment on the effectiveness of taxpayer information assistance conducted by Alm *et al.* (2011:22) indicated that taxpayer compliance under uncertainty is improved when a tax collection agency provides information to taxpayers. The overall perception among the respondents is that SARS provides information to taxpayers using different platforms (Table 4.2d). Approximately 68%

agreed that SARS conducts information sessions, 76% consented to the statement that information is available by means of pamphlets and 95% of the respondents said that the SARS information desk provides adequate information to taxpayers.

On the items of whether information is available on the website and through different languages, 60% and 61% of the surveyed respondents respectively support the statements. However, 53% of the respondents are of the view that SARS does not conduct enough tax seminars. This finding is supported by the research findings of Mulugeta (2016:94) that 55% of taxpayers do not agree that there are enough seminars for information sharing. Approximately 99% of the respondents are of the view that their tax compliance will improve once they have easy access to tax information.

Table 4.2d: Summary of statistical analysis

Questionnaire item	Statistical Analysis (%)	
	Lower rating	Higher rating
	Disagree	Agree
Information sessions	32%	68%
Tax seminars/Workshops	53%	47%
Pamphlets/brochures	24%	76%
Radio advertisement	34%	66%
Television advertisement	22%	78%
SARS information desk	5%	95%
SARS website	40%	60%
Print Media	36%	64%
Information is freely available in different languages	39%	61%
Overall Perception	31%	79%

The overall results of the correlations (Table 4.2e) indicate that information availability has a positive relationship with tax compliance ($r=0.55$, $p<0.05$). In fact all the variables used to measure information availability show a positive relationship with compliance: effectiveness of revenues outreach programme ($r=0.60$, $p<0.05$), printed information ($r=0.56$, $p<0.05$) and tax information provided ($r=0.49$, $p<0.05$). Based on the findings, it may be concluded that there is a moderate positive relationship between information availability and tax compliance. Due to this finding, the following hypothesis can therefore be accepted:

H1: Tax information availability has a positive relationship with tax compliance of SMMEs in the Kroonstad area.

The findings of the study are consistent with the findings of Alm *et al.* (2011:22), Vossler *et al.* (2010:3) and Feld and Frey (2002:6) that providing taxpayers with information will improve tax compliance.

Table 4.2e: Summary of Cronbach alpha and correlation

	Variable	Construct	Correlation with Total	Cronbach's alpha
TAX KNOWLEDGE	Tax revenue outreach	Information sessions	0.58	0.74
		Tax seminars/workshop	0.77	0.63
		SARS information desk	0.43	0.80
		Radio advertisement	0.62	0.72
		Overall	0.60	0.78
	Printed information	Pamphlets/brochures	0.45	0.76
		Print Media	0.65	0.66
		Information available in different languages	0.63	0.67
		Television advertisement	0.53	0.72
		Overall	0.56	0.76
	Tax information provided	I attended SARS information sessions	0.31	0.74
		I have heard SARS advertisement on radio	0.55	0.58
		I have read about SARS tax information on newspaper	0.52	0.61
		I have seen SARS advertisement on television	0.56	0.57
		Overall	0.49	0.69

4.4.5. Assessing the level of revenue information services

Many researchers are of the view that if the revenue authority adopts a customer-centric approach, tax compliance will improve (Vossler *et al.*, 2010:3; Feld & Frey, 2002:6; Okello, 2014:4). Approximately 60% of the respondents believe the general level of information service at SARS is acceptable (Table 4.2f) below. Empirical evidence from the study conducted in Uganda by Bosco (2011:26), differs in the sense that in Uganda, he found out that 80% of the corporate taxpayers believes the revenue authority did not give any form of assistance. On item “upon registration for tax,

SARS explained the different categories of corporate taxes to me”, only 24% of the respondents agreed.

Table 4.2f: Summary of statistical analysis

Questionnaire item	Statistical Analysis (%)	
	Lower rating	Higher rating
	Disagree	Agree
Information sessions	32%	68%
Tax seminars/Workshops	53%	47%
Pamphlets/brochures	24%	76%
Radio advertisement	34%	66%
Television advertisement	22%	78%
SARS information desk	5%	95%
SARS website	40%	60%
Print Media	36%	64%
Information is freely available in different languages	39%	61%
Overall Perception	31%	79%

4.5. CHAPTER SUMMARY

In chapter 4 the findings of the research were discussed with the focus on the demographics explaining the study, descriptive statistics, measuring the mean and standard deviations, Cronbach’s alpha and correlations between variables.

In order to measure the reliability of the measuring scale, Cronbach’s alpha was conducted on all the constructs of the study. Tax knowledge received the highest Cronbach’s alpha of 0.80 followed by tax information requested at 0.79. However, tax complexity received the lowest Cronbach’s alpha of 0.17. The overall Cronbach’s alpha for the seven variables of the study obtained was 0.62, which was above the minimum acceptable of 0.60. It may therefore be concluded that the general scale used for this study was reliable.

The mean and standard deviations were determined to show the dispersion of responses to the items of the questionnaire. Tax complexity obtained the highest mean of 3.46, while tax information requested received the lowest mean of 1.92.

The results of the study indicated that tax knowledge and tax information availability affect tax compliance. These results showed an existence of a strong relationship between tax

knowledge and compliance and a moderate relationship between information availability and compliance. However, a weak relationship between complexity of the tax system and tax compliance was recorded.

CHAPTER 5: SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1. INTRODUCTION

This chapter comprises a summary of the study findings, recommendations and limitations of the study as well as further research and conclusions.

5.2. OVERVIEW OF THE STUDY

In chapter 1 of this study the problem statement, research objectives as well as the research method to be followed were addressed. In chapter 2, the literature review on the subject of tax compliance, tax compliance theories, impact of self-assessment tax system and asymmetry information on tax compliance was conducted. In chapter 3, the research questions and hypothesis were discussed in details. In chapter 4 of this study, empirical findings by means of descriptive statistics and statistical analysis were discussed.

5.3. REVIEW OF STUDY OBJECTIVES

The main focus of the study was to investigate the relationship between information availability and tax compliance of SMMEs in the Kroonstad area. The specific objectives were:

- To investigate the level of tax information available to small business owners in the Kroonstad area.
- To investigate the relationship between access to tax information and tax compliance behaviour of SMMEs.
- To determine the perception of small business owners on the tax information provided by the South African Receiver of Revenue.

5.4. SUMMARY OF FINDINGS

This section comprises a discussion of the summary of the research findings relating to the relationship between tax compliance and level of taxpayers' tax knowledge, availability of tax information as well as the complexity of the tax system.

Level of tax knowledge

The study found that a strong relationship exists between the level of tax knowledge and tax compliance. It was also discovered that 67% of the respondents are of the view that they do not have the required level of tax knowledge to be compliant. It was further established through this research that 63% of the respondents failing to submit tax returns are doing so because they do not know how to complete tax returns.

Availability of tax information

The study showed a moderate positive relationship between tax information availability and tax compliance. The overall perception (69%) among the respondents was that SARS made information available in different ways to taxpayers. However, 76% of the respondents believe that SARS failed to explain the different categories of business taxes to them upon registration. Despite the fact that 95% of the respondents believe that SARS information desk provides adequate information, this construct received the lowest correlation with tax compliance. On the impact of information availability on compliance, 99% of the respondents believe that they will be more eager to comply with tax laws and regulations once they receive relevant tax information.

Complexity of the tax system

The results further showed that complexity of the tax system has a weak positive relationship with tax compliance. This was confirmed by the lowest correlation of 0.10 among all the constructs. This, however, is the case despite 62% of the respondents being in agreement with the statement that the complexity of the tax system impacts negatively on tax compliance. The complexity of the tax system was confirmed by 70% of the respondents who are of the view that they do not know how to complete their tax returns and how long tax records must be kept after filing.

5.5. RECOMMENDATIONS

The study findings pointed to some areas of improvement to increase the level of SMMEs tax compliance in the Kroonstad area. The following recommendations are therefore made to SARS:

- The SARS Branch Operations Engagement (BOE) must engage in frequent corporate taxpayer education, targeting small businesses in areas outside the Metropolitan areas. Unlike personal income tax which is mostly withheld by employers, corporate taxpayers are required to compute their tax liability, complete and submit tax returns as well as pay tax due to SARS. This requires the taxpayers to have a certain level of tax knowledge. It is therefore believed that this type of knowledge transfer will contribute to improved tax compliance.
- SARS should make tax information available in public places through pamphlets and the internet. The research findings showed that most of the respondents were not accessing sufficient tax information through the pamphlets and Internet even though they have indicated that such information is available. It is therefore crucial that taxpayers are encouraged to use such platforms to seek information on tax matters.
- When drafting tax-related documents, SARS should attempt to make them easy to read and understand in order to encourage taxpayers to read for themselves.

5.6. LIMITATIONS OF THE STUDY

- The study was limited to formal SMMEs in the Kroonstad area only and the results cannot therefore be generalised to other areas or in South Africa as a whole.
- The study was limited to access to information availability only and not to the quality of information provided by SARS.
- The time to conduct the study was limited due to the requirements to submit the dissertation for examination purposes and therefore the researcher was unable to dig deeply into the study variables.
- The method of data collection was based on questionnaire only and other methods that could have enhanced the quality of the research further were not considered due to cost considerations.

5.7. FUTURE RESEARCH

Due to the limitations outlined in 5.6 above, the following future research (es) will be recommended.

- A study to investigate the quality of information provided to SMMEs by the South African Revenue Services.

- A study to determine the estimated rand value of non-tax compliance among informal small businesses in South Africa.

5.8. CONCLUSION

The results of the study in Chapter 4 indicated that tax knowledge and information availability affect taxpayers' level of tax compliance. The results showed a strong positive relationship between tax compliance and tax knowledge and a moderate positive relationship with availability of tax information. The study also showed a weak positive relationship between tax compliance and the complexity of the tax system.

The study purpose and objectives as indicated in Chapter 1 have also been achieved. The research questions and hypothesis as well as the problem statement of the study were successfully addressed.

Based on the empirical evidence from the study, it can therefore be concluded that availability of information has a positive relationship with tax compliance among SMMEs in the Kroonstad area.

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ANNEXURES

Annexure A Questionnaire

Annexure B Cronbach alpha values and the means of constructs