

**Assessing the taxpayers'
comprehension of tax
reduction strategies**

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DECLARATION

I, **Tidimalo Daniel Moreeng**, understand what plagiarism entails and am fully aware of the North-West University (NWU) policy in this regard. I declare that this study "**Assessing the taxpayers' comprehension of tax reduction strategies**" is my unaided work carried out by myself under the supervision of Prof Wedzerai Musvoto. The mini-dissertation has not been summited at any institution of higher qualification for any other qualification. Where other materials are used, acknowledgement is made through citing all the sources from which materials were sourced.



Signature

26 November 2021

Date

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ABSTRACT

Paying tax is like swallowing a bitter pill for most citizens hence any form of tax minimizing or avoidance is always welcome. The South African tax system is structured in a way that allows tax minimization within the limits of the law. This is done by implementing certain measures as indicated in the Income Tax Act. The Income Tax Act, no. 58 of 1962 contains several sections that deal with tax deductions for individual taxpayers. This involves making contributions and incurring some costs. The tax-deductibility of these contributions and costs is vital to the individual taxpayers for the reduction of tax liability. The purpose of this study is to assess how much taxpayers know about these options and if they utilize them to reduce the amount of tax they pay. A qualitative research approach and a systematic review was applied in the study. Existing literature and tax reports from the South African institutions that deal with the payment and tax related matters were analysed. The study firstly did an evaluation of sections 11A and 11F, section 6B, section 12T, and section 18A of the Income Tax Act. The provisions of these sections were evaluated concerning the tax deductibility of the measures within the sections and the application thereof. The study then reviewed the literature concerning tax deductibility measures available to taxpayers as well as annual reports about the tax deductions knowledge of mechanism at the taxpayer's disposal for lowering the tax burden. The study associates the utilization of tax reductions strategies with the level of comprehension the taxpayers have of these strategies. Comprehension of the strategies is a subject of the readability of the SARS communications and tax legislation. The impediment to comprehension of the tax reduction strategies is the above-average readability index of SARS communications. This in light of the literacy level of the individuals in a society with lower literacy level compared to other countries with similar economic challenges. Findings suggest that some tax minimisation strategies are underutilise, owing to the minimal comprehension of tax reduction strategies. The study indicates a strong desire amongst academics to establish the solution to the lack of comprehension which if addressed can alter the attitude of citizens towards tax. The study concludes that the use of plain and simple language to communicate with taxpayers in a way that is easy to understand could be useful in altering attitudes towards tax as this might lower the readability index on SARS communications and improve taxpayers' ability to read and understand SARS communications. This is likely

to increase the level of comprehension taxpayers have on tax reduction strategies and tax legislation and subsequently encourage the utilization of tax reduction strategies which stand to benefit both the state and the taxpayers.

Keywords: Tax reduction, section 11, Individual taxpayers, section 12T, retirement annuity, section 6B, medical tax credit, section 18A, comprehension. Income Tax Act No. 58 of 1962

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LIST OF ABBREVIATION

MNC	Multinational Corporate
MTC	Medical Tax Credit
OTO	Office of the Tax Ombudsman
PAYE	Pay as You Earn
PIT	Personal Income Tax
RA	Retirement Annuity
RSA	Republic of South Africa
SARS	South African Revenue Services
SASSA	South Africa Social Security Agency
TFSA	Tax Free Savings Account
UK	United Kingdom
UNESCO	United Educational Scientific Organization

CHAPTER ONE

1. NATURE AND SCOPE OF THE STUDY

1.1 Introduction and background

The purpose of this study is to assess how much South African taxpayers know about tax reduction strategies, and if they utilize them to reduce the amount of tax they pay. A qualitative research approach and a systematic review was applied in the study. This introductory chapter provides the study background, outlines the research problem and provides the rationale for the research. The chapter also outlines the research objectives as well as the questions that guided the study. Definitions of key concepts of the study are also provided to locate the study in its appropriate context. A preliminary literature review, and a note on methodology is included in this chapter. The chapter ends by an outline of the dissertation structure to help prefigure how the research problem is treated in this dissertation.

Taxation is used by governments around the world as a main source of replenishing the state treasury (Nigamaev *et al.*, 2018:243). Taxes are further used as a form of revenue to maintain fiscal balance and avoid the deterioration of the economy (Dudine & Jalles, 2017:3). In light of the importance of taxes, they are considered involuntary fees levied on individuals and organisations and enforced by the state (Kagan, 2021). More often, citizens perceive taxes as a burden (Habibov *et al.*, 2018:52) in spite of the use thereof. Literature suggests that public opinion on taxes is shaped by the tax knowledge which people have (Gideon, 2017:98). How tax knowledge is shaped in the citizenry is crucial in creating a suitable environment for policy initiation and implementation. It is this environment that will influence the appreciation and success of the implementation of the policy to fulfil its core purpose.

The South African Income Tax Act 58 of 1962 is the law relating to taxation of income. It provides for the recovery of taxes and deductions of amounts in respect of tax liabilities from remunerations (RSA, 1962). The Act further makes provision for filling of tax returns wherein certain deductions (hereafter referred to as tax reduction strategies) aimed at reducing the individual taxpayer's tax liability can be made (Businessstech(d)), 2021). It is these

deductions on tax paid that can encourage compliance to tax authorities. This because every taxpayer will appreciate some kind of return from tax. In addition, the sections within the Income Tax Act that deal with this aspect of tax and the Act is expected to draw much interest to the taxpayers.

Certain conditions have to be in place for the taxpayer to qualify for participation in tax reduction strategies. For example, even though donations to public benefit organisation are tax deductible according to section 18A of the South African Income Tax Act (Collier, 2021), certain condition has to be in place such as the donation being limited to 10% of the individual's taxable income (SARS(a), 2021). Moreover, in light of the decline in the net household savings in South Africa. In March 2015, Treasury in terms of Section 12T of the Income Tax Act introduced tax exempt savings instruments called tax-free savings to boost the morale towards savings(Groenewald, 2018:1-3).

As already alluded to, the understanding of any tax reduction strategy is central to the achievement of the objectives of the strategy. The formulation of the opinions of the taxpayers on these strategies is driven by the popularity and the familiarity with the tax reduction strategies. However, the tax system has been criticised for being too complex for the layman to understand (Godbout *et al.*, 2017:1). This complexity of the tax system has been identified as the cause of confusion on individual taxpayers resulting in unintended behaviour towards tax (Alstadsæter & Jacob, 2017:2779).

It is important, therefore, to determine the link between the use of tax reduction strategies and the understanding that tax payers have about the reduction strategies. Previous studies have revealed a lack of comprehension of tax reduction strategies by taxpayers (Gideon, 2017:105). This affects the taxpayers negatively when it comes to the reduction of tax liability (Yusoff & Mohd, 2017:53) as it leads to fewer taxpayers participating in the tax reduction strategies (Alstadsæter & Jacob, 2017:2779). Here the comprehension that the individual taxpayers have about the tax system and policies has a bearing on the accuracy in determining the taxpayer's tax liabilities (Al-Ttaffi *et al.*, 2020:16). The question that arises therefore is why the complexity? This question is important in light of the unhelpful confusion caused by the complexity of the tax system in achieving the objectives of the system. As scholars suggest, the complexity of tax systems has a positive co-relation with the lack of

comprehension of tax reduction strategies which in turn negatively impacts the reduction of tax liability. This defeats the whole purpose of tax reduction strategies.

In an attempt to encourage savings for retirement and to lessen the burden on government social services, (Burnett *et al.*, 2018:902), the Act makes provision for contributions towards pension, provident and retirement annuity plan to be deducted from the taxes that an individual pay in a year of assessment. This is subject to certain limits which if understood can encourage the use of this tax reduction strategy (SARS(a), 2021). To lessen the pressure on the state healthcare system through membership to medical aid (Pyburn, 2021), provision is made for a rebate upon contributions to medical aid subject to specific requirements. Moreover, Section 8 (a) (i) of the Income Tax Act allows for deduction of expenses incurred in the production of income such as travelling expenses (SARS(a), 2021) for which certain conditions has to be met. For instance, section 8 (1) (a) (i) of the Income Tax Act states that travel allowance should be included in the taxpayer's income. However, this income has to be expended on business travel which excludes travelling between the place of residence and the place of employment. SARS(a) (2021). It is evident that the structure of some of the tax reductions strategies benefit the taxpayer in two ways. This relates firstly to the inherent benefit in the implementation of the strategy such as the financial relief that comes with contributions to a retirement fund at retirement, and secondly to the tax benefit of the deductibility of retirement contributions. However, if the provision of the Act in this regard is not clear to the taxpayers, the effectiveness and intentions of the Act in this may be a fruitless exercise.

Tax reduction strategies should be welcome in a society like South Africa which is considered to be one of the highest taxed countries in the world (Berliant & Gouveia, 2018:2). However, some government interventions such as tax-free savings do not yield desired results in terms of take up by the taxpayers even though they are aimed at encouraging the saving culture through an instrument that does not attract tax (Groenewald, 2018:1).

Since the lack of comprehension of tax reduction strategies appears to negatively affect the use of tax reduction strategies (Alstadsæter & Jacob, 2017:2779) , adequate comprehension of tax systems and tax reduction strategies can bring about change in attitude and behaviour to tax reduction strategies (Al-Ttaffi *et al.*, 2020:16). However, the

weakness in the system lies in the lack of comprehension of the tax reduction strategies which to a large extent has a bearing on the utilization of the strategies. This because the utilization of the strategies has a significance bearing on the attitude of taxpayers and influences how the strategies are welcomed by the individual tax payers.

1.2 Research aim and objectives

The aim of this study was to assess the taxpayers' comprehension of tax reduction strategies. Specifically, the study set out to achieve the following objectives.

1.2.1 Research objectives

- a. To obtain insight into the extent to which tax reduction strategies are utilized to reduce the tax liability of the individual taxpayer.
- b. To obtain insight into the extent of comprehension of tax reduction strategies by taxpayers.

1.2.2 Research questions

It is the necessary corollary to the above objective that the following questions be asked:

- a. What is the level of use of tax reduction strategies on the individual taxpayer's tax liability?
- b. To what extent does the comprehension of tax reduction strategies affect the use of these strategies to reduce tax liability?

1.3 Problem statement

The South Africa Income Tax Act is a very comprehensive piece of legislation which forms a framework for the tax system. A number of sections with the South African Income Tax Act no. 58 of 1962 exist for the purpose of bringing into light some measures aimed to reduce the taxpayers tax liability. However, a key challenge for taxpayers is the understandability of not only the legislation but the sections with the Act that deal with tax deductions¹. This problem to a certain extent could be exacerbated by the inability to read with comprehension the sections of the Act. This because some of the terminologies in the Act could be hard to read and understand by the average person. For example, the use of words such as

“assessments, filling period, 3rd party data, medical certificate,” could prove difficult to read and understand by the very taxpayers in light of the literacy level of the South African population.

Studies demonstrates a positive co-relation between how taxpayers understand the tax system and the utilization of tax deduction benefits (Kalgutkar, 2018:12) . This suggests that knowledge of the tax system is key to reducing the tax liability of the individual to the minimum (Kalgutkar, 2018:12). This is vital to the South African taxpayers who are considered to be paying more tax than they should (Berliant & Gouveia, 2018) in spite of available tax reduction strategies. This indicates that taxpayers do not benefit as they should from available tax reduction strategies.

Regardless of the tax deductibility of contributions to retirement savings which are aimed at promoting savings into these plans (Toder *et al.*, 2020:1), studies reveal that most South Africans will retire with inadequate retirement income (Antoni *et al.*, 2020:528). This was evident in the presentation by the retirement savings industry to the South African parliament that almost half (49%) of South Africans do not contribute to a retirement plan. This suggests that South African taxpayers still do not utilize the tax benefits of a retirement annuity as the study of (le Roux, 2017:63)concluded.

In spite of the tax benefits of membership and contribution to a medical aid an additional benefit to access to better health services (Pyburn, 2021), membership to medical aid is declining in South Africa (Buthelesi, 2021). This implies that the tax reduction benefit of membership to a medical aid is forfeited, confirming the view that lack of tax understanding leads to irresponsible tax decision (Godbout *et al.*, 2017:4). Tax incentives such as allowances, deductions and exemptions are aimed at encouraging certain taxpayer behavior (Groenewald, 2018:16). For instance, the introduction of tax-free savings was meant to increase the savings culture and diminish the financial vulnerability of South African households. However, Groenewald (2018:16) concluded that these tax-free savings never achieved the purpose for which they were put in place. This because people’s understanding of policies determines their support for such and shapes their normative views (Stantcheva, 2020:2).

The introduction of tax education in SARS is to empower taxpayer with knowledge to eradicate errors (Misra, 2004). However, many SA taxpayers still make the mistake of submitting returns when they do not need to (SARS-d, 2020) exposing the level of ignorance on tax matters. This justifies the argument by many professionals that tax systems are too complex for the understanding of the ordinary taxpayers (Godbout *et al.*, 2017:1), a phenomenon which does not only impact tax compliance but has negative ramification on individual taxpayer's tax return (Yusoff & Mohd, 2017:53). Tax reduction strategies are aimed at saving money for the taxpayers (Alstadsæter & Jacob, 2017:2779) (however, studies show that there is lack of comprehension to tax reduction strategies by taxpayers (Gideon, 2017:105). This suggests that knowing and understanding or comprehending tax legislation is an important factor to the utilization of tax reduction strategies (Gideon, 2017:98),(Kalgutkar, 2018:2).

The main research problem is that a number of sections within the Income Tax Act exist to bring down the tax liability of individual taxpayers yet the strategies within these sections seem not to be fully utilized. Studies show a link between the taxpayers' utilization of these tax reduction strategies and the comprehension they have of the strategies. These strategies have a foundational bearing on the reduction of tax liability for individual taxpayers.

In summary, whereas taxpayers have got a number of ways to reduce their tax liability as recorded on sections 11F, 6B, 8, 12T and 18A (Tim, 2020), the utilization of these strategies is underwhelming (Gideon, 2017:105). This can be attributed to lack of comprehension of these sections even though a number of factors could contribute to this. The problem that arises, which the study addresses is: do South African individual taxpayers know and comprehend tax reduction strategies?

1.4 Rationale for the study

Paying income tax is obligatory to all income earners. This is because taxes make it possible for the state to render necessary services to its citizens (Nigamaev *et al.*, 2018:53) , (Kagan, 2021). Be that as it may, Income tax framework to some depicts a government bent at collecting revenue from the citizens at all cost (Berliant & Gouveia, 2018:2) . South Africans are considered to be paying more tax than they should and lack of vigilance on tax matters

including assessments and rebates is blamed for this (Goss, 2021). Data from KPMG, one of South Africa's top audit firms ranks the country amongst the 31st highest tax-paying countries in the world (Businesstech(a)), 2021). Nevertheless, taxpayers are forever looking at ways to reduce their tax liability wherein some legal and illegal approaches are explored (deg'Innocenti & Rablen, 2017:16).

A study conducted in Sweden showed how only a few of the taxpayers participate in the legal tax reduction strategies (Alstadsæter & Jacob, 2017:2779). Regardless of the benefits of tax reduction strategies for the individual taxpayer, lack of awareness to this practice and its benefits to the individual taxpayer is what conceivably affects the usage of these strategies (Alstadsæter & Jacob, 2017:2779). Therefore, it is important, as this study attempts, to establish the level of understanding of these strategies. Lim *et al.* (2018:2) suggest that knowledge about tax reduction strategies and experience is shared only amongst firms via the directors' network ties. Public knowledge of the tax system shapes public perception on taxes asserts (Sheffrin, 19940 as cited (Gideon, 2017:98). However, taxpayers are sitting with the challenge of having to interpret the South African tax legislation which is not easily understood when read by an average person. The following illustrates a Fog readability index of a tax form on the SARS website;

*Now is a good time to get your tax matters ready to ensure a smooth filing experience!
Make sure that you have received your IRP5/IT3(a)s and other tax certificates like
medical certificate, retirement annuity fund certificate and any other 3rd party data
that are relevant in determining your tax obligation*

Readability calculations:

50 words = 25 average sentence length (ASL)

2 sentences

12 difficult words x 100 = 24 Percentage Hard Words (PHW)

50 words

$$25 + 24 \text{ (ASL + PHW)} = 49 \times 0.4 = \underline{\mathbf{19.6}} \text{ (Gunning Fog Index)}$$

The above calculation shows readability index of 19.6 which is way above the recommended and ideal Fog Index score of 7 or 8 for an average person (Webfx, 2021). This indicates the extent to which the South African tax legislation may not be easily readable and understandable to an average person. Taxpayers are supposed to submit returns when they are at a certain income threshold, yet a 2020 report by the statistics South Africa shows that many taxpayers still submit returns when they do not have to (SARS-d, 2020:38), revealing a shortfall in terms of understanding the tax policy.

It is concerning that citizens of a third world country such as South Africa could be classified amongst the highest tax paying in the world (Goss, 2021). But what is even more concerning is when taxpayers are said to be looking at ways to reduce their tax liability as suggested (degl'Innocenti & Rablen, 2017:16). The assumption is that the available tax reduction strategies could be utilized to a point where capacity becomes an issue. However, underutilization seems to be an issue for which lack of awareness to the strategies is the key causative factor (Alstadsæter & Jacob, 2017:2779). The general concern raised by scholars on the opinions of the taxpayers which is informed by the level of tax knowledge is a matter worth exploring. The difficulty of the inability to decode a message from which action is required is unbearable. This because the general communications from tax authorities in most cases require the attention of the whole taxpayer population. Understanding of the message is key to the actions required more especially if failure to act by the tax payer could have financial ramifications of loss and or penalties.

Be that as it may, the South African Revenue Services offers tax education workshops to increase the basic understanding of the various tax types (SARS, 2021). However, these workshops seem to say little to none about the tax reductions strategies available to tax payers (SARS, 2021). This may seem to validate the assertion by Berliant and Gouveia (2018:2) that authorities will strive at all cost to get the maximum they can from the citizens in the form of tax.

The examination of databases and records could not give a clear picture of the level of comprehension the taxpayers have on tax reduction strategies. However, there is enough

proof that the utilization of these strategies is lower than one would expect them to be. The findings of this study could paint a better picture of the lack of comprehension taxpayers have on tax reduction strategies which has a bearing on the attitude towards paying tax and using these strategies to benefit them in the long run. In as far as this study is concerned, focus is placed on the perception of taxpayers on the decision to acquire products that have the benefit of tax reduction.

To put the reader into perspective, it is important to explicate key concepts that underpin this study. These include the definition of tax as well as tax types. Understanding of these concepts are pertinent to the understanding of the key question that this study asks: do South Africans understand tax reduction strategies available to them?

1.5 The Concept of Tax

Generally defined, taxation is when government as taxing authority imposes or levies a financial obligation on the citizens. This practice has been a mainstay of civilization since the ancient time. Tax is therefore the revenue derived from taxation (Kagan, 2021). To generate revenue for the execution of projects and offer the necessary services to the citizens, governments rely on tax and non-tax sources (Alkhatib *et al.*, 2019:690). Taxes according to Johansson (2020:1) are not only legal but legitimate means by which wealth is transferred from individuals and businesses to the state for the provision of public services such as education, health and the servicing of the national debt.

The South Africa Tax Administration Act, Act no. 28 of 2011 exists to ensuring the effective and efficient collection of taxes by way of aligning tax Acts administration in a practical manner, prescribing the obligations as well as rights of taxpayers. The Act further prescribes the duties and powers of the administrators of the tax Act as well as effecting the objectives and purposes of the tax administration. The responsibility to administer the Act is that of the South African Revenue Services (SARS) under the leadership and control of SARS Commissioner (SARS, 2021). The world over, collection of tax is associable with the sustainability of the collection taking into consideration the purpose of taxation in society. The cohesion between taxpayers and the tax collectors is key to the sustainability of the tax system and its smooth administration.

However, tax is often considered a burden by citizens. Habibov *et al.* (2018:52) proposed two approaches to taxation namely the ability to pay approach, which advocate for equal

contribution to tax; and the benefit approach, which advocate for the Pareto efficiency context to taxation (*also see (Berliant & Gouveia, 2018:2)*). This aligns with the Benefit theory of taxation which suggests that taxes are to be imposed on the individuals as per the benefit they derive from the state (Cooper, 1994); (Babatunde *et al.*, 2017:12). However, it is the trust that taxpayers have in the political system to perform on the redistribution policies that, according to Habibov *et al.* (2018:52) influences the taxpayer's willingness to pay tax.

Meanwhile, Babatunde *et al.* (2017:12) refer to Adam Smith's view that taxation is aimed at sustaining the government. They echo Ricardo's view that taxation is aimed at funding government activities and the regulatory function of taxation to redistribute national income. Nevertheless, it is when the outcome matches the expectation that the citizen's trust in the political institution is increased and the dissatisfaction with the burden of tax is reduced (Habibov *et al.*, 2018:52). However, one of the challenges of the tax system lies in the political nature of the system. With politics at the centre of the taxation system, trust is bound to be an issue in light of the complexities of the political system and its influence on the taxation system. One of the major weaknesses of a tax system is that citizens are somehow suspicious of anything that has a political voice in it. Trust, which requires a balance between the expectations and the outcomes, puts an ever-ending weakness on the system.

The number and kinds of taxes that are there give credence to the assertion by Berliant and Gouveia (2018:2) that the income taxation framework depicts a government with the sole purpose of collecting revenue from the citizen. As if to echo these sentiments, the South Africa Revenue Services enlist the following as the kinds of taxes individuals pay(SARS(a), 2021):

- Capital Gain Tax (CGT),
- Income tax,
- Pay as You Earn (PAYE),
- Dividend tax,
- Donations Tax,
- Estate Duty,
- Provisional tax,
- Unemployment Insurance Fund (UIF) and
- Value Added Tax (VAT)

It is important to note here that it is not the number of types of taxes that this study is concerned with. Rather, the interest is how the available tax reduction strategies to the tax payers are communicated. SARS in its endeavour to collect the maximum it can in terms of tax throws too much weight on highlighting the collection methods and techniques but appears to fail to do the same on what is to be paid back to the taxpayers.

There are legal tax reduction strategies available to taxpayers. Alstadsæter and Jacob (2017:2779) list three conditions that could hinder the taxpayers' participation namely:

- a. Incentive: the need for a monetary incentive to take part in it,
- b. Access: having more opportunity to utilize the strategies, and
- c. Awareness: being aware of the available tax codes and opportunities for this purpose.

Below is a discussion on the tax reduction strategies available to South African taxpayers. These include donations, tax-free savings, contributions to retirement plans, medical credits and travelling expenses (Tax-Consulting, 2021). While it is reasonable to expect the enthusiasm to be high on legal tax reduction strategies, the opposite seems to be the case in the South African context. The legality of the strategies seems to be failing to serve as motivation for driving them with some level of urgency. Amongst the three conditions which serve as hindrances to the utilization of tax reduction strategies is awareness to the strategies (Alstadsæter & Jacob, 2017:2779) which this study associates and links very closely to the comprehension of the tax reduction strategies.

1.5.1 Donations

Giving for charity is for the good of the society. However, the encouragement to give is partly influenced by the tax benefit of charitable contribution which serves to reduce the cost associated with contributing towards charity (Greene & McClelland, 2001:433). Section 18A of the South African Income Tax Act allows taxpayers to donate 10% for their taxable income towards charitable organization and get a tax deduction for it. (Collier, 2021) alludes to a R100 000 tax exemption that natural persons have to donate without incurring donations tax. However, the South African Revenue Services specifies four categories pertaining to charitable giving and the tax benefit thereof (SARS, 2021). Comprehension of the categories and the conditions attached to them serve to encourage the practice. Of great concern, however, is the availability of information concerning the tax benefit of donating to public

benefit organisation not to mention the issue of understanding how the strategy works in practice.

1.5.2 Tax-free investment

In light of the decline in the net household savings in South Africa which was confirmed by the World Bank as being critically low compared to other developing countries, SA treasury introduced a new tax incentive on 1 March 2015 in terms of section 12T on the SA Income Tax Act (58 of 1962) (Groenewald, 2018:1-3). Though not tax deductible, capital income earned through the assets in these accounts are tax exempt. These flexible general-purpose tax-free accounts (Zaman, 2017:333) were meant to diminish the financial vulnerability of the South Africa households by increasing the household savings and thereby reducing reliance on debt suggests Aron & Muellbauer (2000) as cited by (Groenewald, 2018:1). However, the limit on how much you can save in a year is R36, 000 and R500, 000 lifetime limit for an individual investor (Businessstech(d), 2021a) The reception and take up of these savings plans did not make the impact they were expected to.

1.5.3 Retirement savings

There is a common consensus that majority of people do not save as much as they should for retirement (Bernheim, 1992; Choi et al., 2004; Munnell et al., 2006; Skinner, 2007; Beshears et al., 2009; Benartzi, 2012;) as cited by (Burnett *et al.*, 2018:900). The authors also highlight social, political and global economic challenge posed by this, and how it affects both individuals and societies at large. In spite of the tax benefits of a retirement annuity which are over and above the long-term investment and a possibility of a comfortable retirement (Collier, 2021), circumstances still dictate that people spend more than 50% of their consumptions and living expenses as discovered in the period between 2011 and 2015 (Willows, 2019:305). This can clearly be associated with lack of comprehension taking into consideration not only the tax benefits outlined in section 11F over and above the advantage to one's retirement wellbeing.

1.5.4 Medical credits

Discussions around the medical deductions and how they impact on income inequality has been taking place globally. This is due to the rising healthcare costs, coverage by medical insurance and how the tax system is structured relating to its fairness (Serocki & Murphy 2009) as cited by Nhamo and Mudimu (2020:1). This is also linked with the possibility that the taxpayer will not honour their tax obligation if they encounter financial hardship as a

result of high medical expenses. For this reason, when originally medical aid contributions were a deduction against the taxpayer's taxable income, the South African Revenue Services has had to change the treatment of medical expenses by introducing medical schemes tax credit (MTC) (SARS(a), 2021). Medical tax credit serves to reduce the normal tax a person is paying (SARS(a), 2021). This is by way of a two-tier credit system established in 1 March 2012 by National treasury consisting of the capped medical tax credit and the additional tax credit (Nhamo & Mudimu, 2020:1). However, the extent to which the general public was made aware of the changes made to the treatment of medical aid deductions as implemented and the benefit of these changes remains a matter to be explored. It is not clear how the taxpayers understand these changes or even the previous structure of medical aid deductions.

1.5.5 Travel claims

The UK tax system allows employees to claim tax relief for travelling expenses incurred in the performance of employment duties (Gascoyne-Richards, 2018:32). The South African tax system on the other hand allows taxpayers to claim business travel expenses provided they have kept a logbook as required by the revenue services (SARS-d, 2020). Furthermore, travelling according to SARS should be with an engine powered road vehicle (Businessstech.co.za, 2021). According to Section 8 (1) (a) (i) of the Income Tax Act, the deduction is based on the premise that a travel allowance is included in the taxpayer's taxable income. The travelling has to be expended on business travel which excludes travelling between the taxpayer's place of residence and the place of employment (SARS(a), 2021). However, commission earners unlike the salaried employees can claim the actual travel expenses as deductions regardless of the fact that they do not have travel allowance. They can claim all expenses ranging from wear-and-tear on vehicle cost, fees and interest on sale agreement instalments, fuel, license and maintenance as well as insurance cost provided they have records thereof (Musviba, 2020). This benefit lacks clarity in how it is structured to benefit the taxpayers especially those incurring more cost in the production of taxable income. If it is not well understood, it has potential to tempt the taxpayers to hide some of the income streams for fear of paying too much tax. If it is clearly understood, it can be an opportunity to drive disclosure and openness in terms of the self-employed citizens.

1.6 Comprehension of tax reduction strategies

It is not surprising that, from as early as the 2000s studies such as that conducted by Ibadin and others, has established the abundance of empirical evidence of positive correlation between education and the attitude of taxpayers on taxes (Ibadin & Eiya, 2013:3). For Eriksen & Fallan (1996) as cited by (Koster, 2012:8-9), a better understanding of taxation by taxpayers is influenced by the level of education they received on tax matters. Yet there is no clarity as to what tax education initiatives SARS has put in place, which is a weakness in the system that can lead to lack of comprehension of tax reductions strategies.

A thorough comprehension of tax system is required for the individuals to utilise tax reduction strategies to reduce tax liability without ostensibly violating tax regulations (degl'Innocenti & Rablen, 2017:817). Tito Mboweni, the South African Minister of Finance suggested a winning formula to increase compliance and broaden the tax base, namely a better education and service to the taxpayers by SARS (SARS Annual report, 2019/20:2). However, the Minister did not give direction as to what tax education approach SARS should implement to give effect to the winning formula.

The argument made in this dissertation is that both the state and the individual taxpayers can benefit from the understanding and utilization of tax reduction strategies. In the foregoing, the concept of tax was explained. Various strategies that constitute tax reduction strategies were introduced these include making donations to charities, investing in Tax free investment products, taking out additional retirement savings besides the employer schemes, contributions towards a medical aid scheme or additional medicals expenses, and finally the travel claims for business travel allowance. The chapter argued that an understanding and familiarity with these strategies can lead to a high level of tax compliance. Tax education is therefore necessary, if the benefits that scholars have established have to be realised for the good of both the individual tax payers and the tax system as well. But do South African individual taxpayers know and comprehend these tax reduction strategies? The next section outlines the methodology used to address this question.

1.7 Ethical consideration

The importance of potential ethical issues that arise at various stages of the research process were given a thorough forethought (Coe et al., 2017:38) as cited by (Mothusi, 2020:12). The researcher needs to obtain ethical clearance as concerns relating to the use

of secondary data usually revolve around the harm to individual subjects as well as issues of return to consent according to (Tripathy,2013: 1478) as cited by (Mothusi, 2020:12). Ethical clearance was therefore obtained from the North West-University's Research Ethics committee in the school of Economics and Management Science. The researcher ensured the protection of confidentiality and integrity of the secondary data and in ensuring that the secondary sources consulted were duly acknowledged and referenced.

1.8 Definition of key concepts

There are key technical terms used in this study whose unpacking is crucial to the reading of this dissertation. In this dissertation, unless explicitly stated, the terms set down hereunder shall take the meanings assigned to them, as follows:

Retirement annuity

A definition by (Kagan, 2021) is adopted. This refers to a contract entered into between an individual and an insurance company in which and a person makes contribution of a certain amount where the insurer promises payment of the money with interest at some time in the future in the forms of lump-sum or regular payments

Tax Free Investment

This is defined as “an investment introduced by the government to encourage savings in which no income tax, dividends tax or capital gains tax is paid” (Government, 2021)

Medical aid

This shall mean “a type of insurance in which a person makes a monthly payment referred to as contributions or premiums to receive financial cover in case of medical treatment and medical expenses” (Fedhealth, 2016).

1.9 Dissertation structure

The problem under investigation is treated in five (5) chapters that constitute this dissertation. These are arranged as follows:

1.9.1 Chapter One: Nature and scope of the study

This is an introductory chapter that introduces the study and present a background to the research problem. It covers the background, rationale as well as the problem statement. This will be followed by the research questions and research objectives that influence the study. The chapter reviews what is already known in the public domain about the topic. A brief literature review on key concepts and types of tax is presented. The chapter also outlines the qualitative research approach and a systematic review that was employed for the study. The research design as well as data gathering and analysis methods and techniques are described.

1.9.2 Chapter Two: Available tax reduction strategies

The chapter presents a legislative review of available tax reduction strategies. It begins with a review of the sections of the Income Tax Act 58 of 1962 that has to do with deductions allowed by the legislation. The chapter continues with a look at sections 6,12T, 18A and concludes with a presentation of how these strategies are applied to reduce an individual's tax liability.

1.9.3 Chapter Three: Issues concerning tax reduction strategies

Chapter three gives a review of scholarly writings on tax reductions strategies. The chapter commences with look at the origin of the concept of taxation and how it spread across the world. This is followed by the definition of tax and a review of the literature on the different tax reduction strategies. The chapter concludes with what literature has recorded on the taxpayers' comprehension of tax reduction strategies.

1.9.4 Chapter Four: Tax payers' comprehension of tax reduction strategies

The chapter presents the analysis conducted in the study. It begins with an outline of the literature of reviewed in the study. It then follows with an assessment of reports from the tax ombudsman and SARS annual report, and lastly an analysis of the readability of the SARS written communications with the taxpayers as well as the legislation with comparison of the readability indices according to school grades.

1.9.5 Chapter Five: Conclusions and recommendations

This chapter presents the conclusions drawn from the study, and some recommendations for practice and future research. The findings as well as the implications of the study are then presented. The chapter concludes with the limitations as well as possible future studies about the topic.

1.10 Summary

This introductory chapter has outlined the background, rationale and problem under investigation. The study questions and objectives that guide the study are also specified as well as key concepts utilised in the study were defined. The chapter concludes by plotting how the argument of thesis of this dissertation is presented, which constitute the structure of the dissertation whose purpose is to determine the individual taxpayers' comprehension of the tax reduction strategies. The next chapter reviews the theoretical literature on available tax reduction strategies as per the legislation, and how these strategies can be applied by the individual taxpayers.

CHAPTER TWO

2. AVAILABLE TAX REDUCTION STRATEGIES

2.1 INTRODUCTION

Chapter one above defined the scope of the study as well as the approach adopted for its execution. This chapter reviews the theory on tax reduction strategies and the taxpayers' comprehension of same. The chapter thus provides an overview of Income Tax Act pertaining to the tax reduction strategies. Particular attention is given on the sections of the Income Tax Act that deal with tax deductions available to individual taxpayers and the application thereof.

2.2 THEORETICAL REVIEW

Theoretical literature on taxation and tax deductions generally focuses on five main aspects. These are income measurement (Givati) tax expenditure (Stanley Surrey), efficiency (Givati), tax deduction (William Andrews) and net income (Mark Kelman). However, theoretical formulation on taxpayers' comprehension of tax reduction, which is the focus of this study, remains unclear.

From as early as the beginning of the 19th century, scholars have been showing keen interest on not only tax but the subject of personal income tax deductions. This according to (Griffith, 1988:343) is as a result of the impact that personal deduction has on the amount of revenue raised by tax authorities. Griffith (1988) further alludes to the loss incurred by the authorities as a result of allowable deductions, a subject that has drawn much interest from tax scholars. However, in an ideal income base, the role relevant to personal income tax deductions is to make amendments for discrepancies between real consumption, accumulation and money income (Andrews, 1972:331).

Tax law scholars, as (Givati, 2019:1) suggests, commonly view personal tax deductions as a means to properly measure income. According to Givati (2019:1), the Income Measurement theory of tax deduction finds its roots on Haig-Simons' definition of income. Gruber (2016: 564) as cited by (Givati, 2019:1) seem to suggest that based on the comprehensive income definition which refers to the net increment of resources over time, the cost of doing business or raising income should be deducted from personal income for

tax purposes. In addition, there has never been any questions to the principle that taxation of income should only be when that income exceeds the cost incurred in generating the income (Richter, 2006:685). The function of net income measurement, as William Andrews (date) suggests, is not only to provide a clearer and most vital function of deductions, but it is singularly the most relevant function (Givati, 2019:1-2). Bradford as cited by (Givati, 2019:2), argues that the fundamental approach utilized to measure income for individuals is the allowance of deductions for outlays perceived not to form part of consumption or savings.

While the income measurement theory of tax deductions is mainly focused on the treatment of business expenses, the efficiency theory allows the taxpayer to choose the activity for deduction based on the marginal benefit they derive from the activity as well as the cost they incur in the activity (Givati, 2019:1-2). The activity could be a business hiring an extra employee or the consumption of a good by an individual. Upon the imposition of income tax, certain activity benefits attract tax while others do not, for example the hiring of an employee attracts tax while the utility one derives from consuming a good does not attract tax. It is at this point that the constraints in the technology administering tax is revealed (Givati, 2019:1-2).

The tax expenditure model by Stanley Surrey considers personal deductions together with departures as equivalent to direct state expenditures. Surrey's view is that the tax expenditure tends to favor the rich over the poor (Griffith, 1988:344-345), a view also shared by (Kelman, 1978:832) This model by Surrey was considered the most common theory although Surrey considers tax expenditure undesirable as they seem to provide less benefits for the poor than to the rich (Givati, 2019:1).

Andrews model of tax deduction by William Andrews posits that there is an ideal tax base from which the judgement of tax departures as direct government expenditure should be based. The model argues for personal consumption and accumulation of goods and services as the ideal base rather than the net income. According to (Kelman, 1978:831), the Andrews model rejects the argument of building a concept of uses in as far as the tax base is concerned though it is a common view amongst scholars. The model suggests that if the state favors charitable giving and health, tax laws can be used to encourage the purchase of medical care or charitable giving. This could be done by a deduction of amounts spent on

such. However, Kelman is of the view that this practice does not favor the poor or low-income taxpayers (Kelman, 1978:832).

The kelman model, as with the Surrey model, support the use of net income as the tax base. According to this model, this base not only reflects the difference in earnings capacity on the part of the taxpayer but it will also respect the decision of not exercising the capacity (Griffith, 1988:345). The meaning of personal income is according to Andrews too complex with various overlapping strands. Furthermore, personal income should be taxed uniformly and comprehensively (Andrews, 1972:381) Though the effect of specific tax deductions is acknowledged as having an influence on taxpayer behavior by tax scholars, the common view is that no particular unified economic framework on tax deduction amongst tax scholars exists (Givati, 2019:2).

In terms of the available theories mentioned above, it is important to note here that their applicability in this study is marginal. This is because the study aims at assessing the taxpayers' comprehension of tax deduction strategies. This may be a useful area for further investigation. What maybe important conceptually for the purposes of this study is to examine allowable tax deduction.

2.3 Allowable deductions and limitations

The point of departure is that individual taxpayers are people who derive a taxable income in the form of salary, commission, fees and other means subject to exemptions and rebate applicable (SARS(a), 2021). A difficulty experienced by the state in terms of the definition of **what is and isn't "income"** has resulted in the state taxing different types of income at different rates and applying different types of tax reliefs (Durankev, 2017:2). Of significance is how conversant the taxpayers are with the classification of income and the different treatment of tax on the types of income.

There is a disconnection that sometimes arises due to failure to link the tax laws with the economic ones, the point at which taxpayers are encouraged to earn income in a way that reduces their tax liability. Nevertheless, individual taxpayers do have strategies they can apply to reduce their tax liability as per section 11 read with section 23. While section 23

prohibits certain deductions such as the maintenance of oneself or one's family or deduction that relate to employment in terms of section 11 by a person deriving remuneration, certain deductions are however allowed if the expenses are related to employment (Coetzee *et al.*, 2020:156). As per the wording of the Act pertaining to the deductions, a specific order has to be followed when claiming for the deductions. This is done so as to determine the taxable income after each deduction when calculations are done (Haupt, 2017). The weakness identified here is the ability of the taxpayers' to firstly understand the Act and to systematically comply and follow the order as directed by the Act. The assumption that the wording of the Act will make sense to the average person seems to be farfetched.

Therefore, while Section 11(a) of the income tax allows for deductions of expenditures and losses incurred in the production of income for businesses, Section 11 further allows for other deductions which applies to individual taxpayers. Amongst these are the costs incurred by the taxpayer as contributions or payments to retirement planning products.

Section 11(f) reads as follows:

any amount contributed during a year of assessment to any pension fund, provident fund or retirement annuity fund in terms of the rules of that fund by a person that is a member of that fund...

This implies that a deduction can be made for contributions made by the taxpayer towards pension, provident and retirement annuity wherein section 11(f)(South-African-Treasury-2) specifies the limitations that apply to these deductions. In cases where contributions have exceeded the set limitations for a particular year of assessment, the exceeding limitations can be carried over to the following year as contribution in the new year (SARS(a), 2021). The quotation above like many other areas in the Act is meant to transmit a very important message to the taxpayers. However, how this message will be decoded by the receiver seems to be a matter of less concern to the encoder of the message. Besides the obvious confusion that can emanate from lumping the three products namely pension, provident and retirement annuity into one deduction option, and to position them all in to one statement, terms such year of assessment which have double meaning is not helping in the comprehension of section 11F. This is because while year of assessment in terms of tax implies the period wherein income was earned and taxed, assessment also means the act

of assessing something or someone (Oxford language dictionary google, 2021, keka.com,2021). How conversant the taxpayers are to the rules of the funds involved could be a matter that exacerbate the weakness identified.

Coetzee *et al.* (2020:161) draw a distinction between these products in that while pension and provident are linked to employment, membership to a retirement annuity on the other and is voluntary and agreements are made independently between the individual taxpayer and the retirement fund. Of the three components namely pension funds, provident funds and retirement annuities, this study concerns itself with contributions for retirement annuities. This because it is not linked to employment and therefore the individual taxpayer has control over how they would implement the strategy.

In determining the taxable income of an employee, any amount incurred by the employer for the benefit of the employee on medical reasons is included in the employee's gross taxable income. A court determination was made on the Income Tax Act 58 of 1962 that when a payment is made by the employer in the form of a remuneration to an employee, a deduction should be made for medical cost paid by the employer for the benefit of the employee². The amount deducted should be paid to the Commissioner at the end of the month. However, the Act makes provision for the following under section 6:

there must be deducted an amount, to be known as the medical scheme fees tax credit, equal to the sum of the amounts allowed to that natural person by way of rebates.

This implies that medical expenses, whether paid by the employer on behalf of the employee are considered income in the hands of the employee are thus deductible for the employee as medical fees tax credits. Here the greatest undoing is the mention of amounts in the statement without stating the actual figures in terms of rand and cents that apply on this matter. The term "rebates" is likely to be difficult to understand as some sections refer to

This determination was made by Judge President Erasmus in the appeal of case number 11011, income tax special court case (SARS (e), 2021, case no. 11011).

deductions and not rebate. In as far as the tax credits apply, section 6B set out the following as the distinctions:

(i) a medical scheme registered under the Medical Schemes Act; or

(ii) a fund which is registered under any similar provision contained in the laws of any other country where the medical scheme is registered

Section 6A therefore allows for a rebate to be claimed in the form of medical fees tax credit for any amount contributed by a natural person to a registered medical scheme both in or outside the borders of South Africa (Haupt, 2017:243).

Furthermore, Section 6B allows for deduction as tax credit, medical expenses or contributions made to a medical scheme are included as taxable income for the taxpayer. While the section states the individual rebates per person covered in the medical scheme, Taxpayers would be encouraged by what comes into their pocket at the end of the day.

Section 12T as stated in the Act allows for the “exemption of amounts received or accrued in respect of tax-free investments”. This means exemption from the payment of tax by a taxpayer for payments received from tax free investment. The obvious weakness that will impact negatively on the comprehension of this tax reduction strategies is how this piece extracted from the Act uses difficult terms such as ‘accrue’. which is rather a heavy term.

The Act further gives clarity in the following manner:

tax free investment’ means any financial instrument or policy as defined in section 29A—

However, section 12T (4) outlines the limitations that applies to this tax benefit. When in some instances this strategy if referred to as tax-free savings, a rather simplified expression which will appeal to most individual the Act opted for the term investment in the place of savings. It is the assumption of this study that term savings is much easier to understand and its familiar to ordinary citizens when the term investment is associated with being rich or wealthy.

Section 18A states the following:

Notwithstanding the provisions of section 23, there shall be allowed to be deducted from the taxable income of any taxpayer so much of the sum of any bona fide donations by that taxpayer

in cash or of property made in kind, which was actually paid or transferred during the year of assessment...

This implies that the taxpayer can make a deduction for any donations made to certain approved organisations. However, the Act states the following in terms of the public benefit. The organization should be the one that:

carries on in the Republic any public benefit activity contemplated in Part II of the Ninth Schedule, or any other activity determined from time to time by the Minister by notice in the Gazette for the purposes of this section.

The public benefit organisation should be approved by SARS following the criteria set out in section 30 of the Act or by an institution in whichever form that performs public benefit and complies with requirements and definitions of section 10 (Coetzee *et al.*, 2020:165). The weakness in this part as with other sections depicts the Act as something written for a certain part of the citizenry and not to the general public. This is due to the upper tone usage of terminology that seeks to give clarity to the section.

Furthermore, a donation made to the following organisation can be deductible:

- a. A public benefit organisation set up according to the rules of section 30 providing funds to a section 18A organisation or any section 10 organisation.
- b. A specialised Agency overseas which meets Diplomatic Immunity and Privileges set out in schedule 4 or as determined by the Finance Minister that complies with section 18A requirements.
- c. Any government department (national, provincial or local) as contemplated in section 10 (1)(a) (Haupt, 2017:163).

The provisions of the Act in this regard are not simplified to appeal to the ordinary taxpayers. While giving towards charity should come natural from the individual human being, the tax benefit associated with the implementation of this strategy should serve to accelerate the urge to give. However, it is evident from the Act that the situation in practice would not be different.

Nevertheless, the approved organisation should issue a section 18A receipt for the year of assessment in which the organisation received the donation. Section 18A further specifies the limits and calculations pertaining to how much the taxpayer can donate to an approved organisation. Finally, section 8 allows for a deduction for travelling expenses carried out by the taxpayer for business travelling as a sole proprietor or in partnership with others. The travelling should be by way of motor vehicle. However, a logbook has to be kept specifying business travelling as fraction of the total kilometres travelled. In addition, when a claim is made, a logbook serves as a supporting document for deduction of business travelling in the year of assessment. According to *CIR v De Villiers* (1962 (1) SA581 AD), a determination was made to exclude travelling expenses between the taxpayer's home and place of work as it was determined to be private expenditure which is not deductible (Haupt, 2017:147). However, this does not clarify the position with regard to working from home which the current environment with the Covid-19 pandemic has become the new normal.

2.4 Application of tax reduction strategies

2.4.1 Retirement fund

Section 11F provides that contributions to retirement annuity either as a lump-sum or recurring subject to the rules of the fund will be allowed as a deduction subject to the following limitations: R350 000 per year or 27.5% of the whichever is the highest between the remuneration and taxable income excluding retirement fund lump-sum benefit or withdrawal benefit from a retirement lump-sum benefit of severance benefit. This refers to the taxable income for the benefit of the taxpayer before additions of taxable capital gain and before allowing deductions for contributions to provident, pension. Changes proposed by the Finance Minister on the 24 February 2021 for the tax year of assessment 2022 require individuals to register for tax if they earn an income of R87 300 when under the age of 65 (SARS(a), 2021). Section 11F like other parts of the Act fails to simplify the matters of income but rather adds to the confusion by using two terms; remuneration and taxable income when referring to income. The section further failed to put distinction between the employer related contributions and the individual contributions when it comes to retirement planning and the tax benefit thereof. The weakness identified in this section is the complexity of the section even when attempts are made to simplify it further. New changes on the income scale still does not contribute to comprehension of the section.

For an individual earning a pensionable income of R87 300, with an employer contribution of 10% (R8730 per year) and the employee contribution of 7.5% (R4365) the tax deduction will be as follows:

$R87\ 300 + R\ 8\ 730 =$ taxable salary of R96 030 (The taxable income plus the employer's contribution to the individual's pension/provident fund).

With the individual's contribution of R4365 to the pension/provident fund the tax position will be:

$R96\ 030 - R\ 13\ 095 = R\ 82\ 935$

With a taxable income of R96 030, section 11F allows 27.5% which is R 26 408 in rand value to be contribute towards pension funds, provident funds and retirement annuity. In the above scenario a combined employer and employee contribution to pension of R 13 095 of the taxable income, the individual still has R 13 313 to contribute towards a retirement annuity and get a tax deduction. However, these calculations done by the researcher require a degree of understanding which is high than an average person can do.

2.4.2 Medical credits

Section 6A allows a rebate of the amount of Medical Tax Credit for the fees a natural person has paid to a medical aid scheme. However, the medical aid has to be register under Act 131 of 1998, the Medical Scheme Act. This section provides for the Medical Tax Credit amount to be deducted from the tax liability payable by the individual taxpayer on a monthly basis in the year of assessment in which the fees are paid. The amount of MTC for the benefits of the taxpayer is R319 or R638 in case of the benefits of the spouse and one dependent upon which and additional R215 is paid for the benefits of each additional dependent in the medical scheme. Any individual taxpayer, irrespective of the age or disability qualifies for the Medical Tax Credit. Furthermore, if the taxpayer does not belong to a medical scheme but is paying fees for a dependent who belongs to a registered medical scheme, the Medical Tax Credit of R 319 would still be allowed in the taxpayer's hands. The sections lack the ability to utilize the opportunity to simplify the strategy further of the average individual taxpayers. The use of the two terms namely; credits and rebates would be confusing to an average person. This can lead to lack of comprehension of the strategy.

2.4.3 Tax free savings

Section 12T of the Income Tax Act allows for an exemption from tax for an individual of amounts received from a tax-free savings or investment. In addition, Capital Gains Tax (CGT) will be disregarded from the capital gains or capital loss made from the disposal of the investment. Furthermore, dividends tax will be exempt from dividends paid to an individual relating to a tax-free investment. There are however limitations under section 12T pertaining to tax-free investments. During a particular year of assessment, the amount is limited to R36 000 and a lifetime contribution is limited to R500 000 for an individual taxpayer.

2.4.4 Donations

The persons liable for the donations tax are both the donor and the donee. In an instance where the donor fails to pay tax as the per the prescriptions of sub-sections (1) of section 6, both the donor and the donee will jointly be liable for tax. Furthermore, the payment of the donations tax is to be made by the end of the month following the month in which a donation was made (SARS(f)); Collier, 2021,); (SARS(a), 2021)). However, a claim for a donation made to a public benefit organisation is to be accompanied by the receipt with a reference number of the organisation stating clearly the amount donated. Section 18A therefore allows for a deduction of donations of up to 10% of the individual taxpayer's personal income tax. In addition, each individual taxpayer has up to 100 000 to donate to public benefit organisation without donations tax implications (Income Tax Act; 1962, SARS (f), 2021). The Act lacks the ability to encourage charitable giving. The weakness results from the manner in which it is positioned to the general public. Instead of positioning it as a strategy to encourage charitable giving. The Act through its complexity makes this a rather sensitive issue with possible negative implications if done incorrectly.

2.5 SUMMARY

This chapter outlined the available tax reduction strategies as contained in the Act. The chapter began by stating the allowable deductions and the limitations that apply to them. This is followed by an explanation of section 11(a) deductions of pension, provident and retirement annuity contributions, the medical tax credit as stated in in section 12T. Also discussed was section 12T as it relates to tax-free investments. Finally, the donations tax as contained in section 18A was outlined. The chapter concludes by a note on how the

different strategies apply in practice. The next chapter deals with the issues concerning the tax reductions strategies as recorded in literature.

CHAPTER THREE

3. ISSUES CONCERNING TAX REDUCTION STRATEGIES

3.1 INTRODUCTION

The previous chapter gave an overview of the current legislative allowances pertaining to tax reductions strategies. The chapter reviewed the South Africa Income Tax Act no. 58 of 1962 with specific focus on sections 11, read with section 23. It followed with sections 6A, 12T, 18A and lastly section 8. In this chapter, an in-depth review of literature concerning the income tax and the definition of tax will be discussed. The chapter begins by an outline of the origin of tax and how the practice of taxation spread throughout the world. Finally, a review of literature on tax reductions strategies is provided.

3.2 The origin and practice of taxation

From as far back as history has recorded until human civilization, taxes have been used by both the Monarchs and the democratic system to replenish state treasury (Nigamaev *et al.*, 2018:243). It owes its existence from as early as 3000 B.C. in Egypt and also in historical sources such as the bible (Dudine & Jalles, 2017:3) in which grain collections were regarded as a tax as recorded in Genesis, 47:33 (Bible-Society-of-South-Africa, 1995). However, taxation and the practice of tax developed from Greek civilization and continued to spread throughout Europe, North America, the Middle East, and the rest of the world. Taxation has also been utilized by governments around the world as a means of revenue for the state and a mechanism to maintain fiscal balance to curb economic deterioration (Dudine & Jalles, 2017:3). In spite of this, taxation to the citizens is perceived negatively as scholars have established.

In the US as with many countries the world over, tax is used as a means of funding the government for spending on fighting antipoverty programs and social insurance (Ballard-Rosa *et al.*, 2017:1). Contrary, taxes are considered to be completely unfair by citizens around the world albeit for different reasons (Durankev, 2017). For Nigamaev *et al.* (2018:243), the incapability and ineffectiveness of tax systems around the world is a common problem for which no modern state has succeeded in implementing an ideal tax

approach as a solution. For this reason, the Nigerian revenue services have put measures in place to ensure that taxpayers have full access to the courts for tax dispute resolution (Ebrahim *et al.*, 2019:8). However, what exactly is fair and what isn't when it comes to tax and taxation in specific areas and moments is still a matter under discovery (Durankev, 2017). But the fact of the matter is that tax and taxation to the general public has got a negative connotation.

South Africa's approach to tax dispute is that of the "pay now, argue later" rule which is considered unreasonable and unjustifiable as it limits the taxpayer's access to the legal systems (Ebrahim *et al.*, 2019:8) While tax is considered a burden to citizens Habibov *et al.* (2018:52), Berliant and Gouveia (2018:2) proposed two approaches to taxation namely the ability to pay approach advocating for equal contribution to tax and the benefit approach advocating for the Pareto efficiency context to taxation. Cooper (1994)'s Benefit theory of taxation suggests that taxes are to be imposed on the individuals as per the benefit they derive from the state. However, it is the trust that taxpayers have in the political system to perform a certain level and on the redistributions policies that according to (Habibov *et al.*, 2018:52) influences the taxpayer's willingness to pay tax. In essence, Babatunde *et al.* (2017:12) referred to Adam Smith's view that taxation is aimed at sustaining the government, echoing Ricardo's view that taxation is aimed at funding government activities and the regulatory function of taxation to redistribute national income. Nevertheless, it is when the outcome matches the expectation that the citizen's trust in the political institution is increased and the dissatisfaction with the burden of tax is reduced (Habibov *et al.*, 2018:52) The authoritarian nature of the South African tax system and approach to a certain degree dampens the mood and of the citizens when mention is made of tax. Denying the taxpayers avenue to explore legal remedies before payment is made in the time of dispute could result in a negative attitude towards tax.

The number and kinds of taxes that are there give credence to the assertion that the income taxation framework depicts a government with the sole purpose of collecting a given amount of revenue from the citizen (Berliant & Gouveia, 2018:2). As if to echo these sentiments, the South Africa Revenue Services list the following as the kinds of taxes individuals pay:

- Capital Gain Tax (CGT),
- Income tax,

- Pay as You Earn (PAYE),
- Dividend tax,
- Donations Tax,
- Estate Duty,
- Provisional tax,
- Unemployment Insurance Fund (UIF) and
- Value Added Tax (Givati) (SARS, 2021b).

However, there are legal tax avoidance methods available to taxpayers even though (Alstadsæter & Jacob, 2017:2779) list three conditions that could hinder the taxpayers' participation in this as incentive (The need for a monetary incentive to take part in it), access (to have more opportunity to utilize the strategies) and awareness (to be aware of the available tax codes and opportunities for this purpose).

3.3 Tax reduction strategies and their benefit to taxpayers

As a foundation for the argument the study seeks to present, it is important to reinforce the matters that regardless of the view that tax is a burden to the citizens (Habibov *et al.*, 2018:52), tax planning is presented as an alternative for taxpayers to organise their affairs so as to lower their tax liability without breaking the law (SARS(a), 2021). Therefore, Tax-Consulting (2021) suggests 6 methods individuals can utilize to lower their tax burden namely: Donations, Tax-free investments, retirement annuity, medical credits, and travel claim. Regardless of these tax reduction strategies available to taxpayers, the burden of high taxes causes individuals to reduce working hours, partake less in productive economic activity and leave their jobs all of which result in lower rate of economic growth according to (Poulson & Kaplan, 2008) as cited by (Dladla & Khobai, 2018:2).

Whilst wealthy individuals utilise financial intermediary, layers, bankers and financial advisors to help them identify gaps within the tax system to exploit the legal tax avoidance practices (Vlcek, 2019:350), ordinary individuals take employment in different places as a means of avoiding taxes through mobility (Rasmussen, 2017:63). Multinational Corporates (MNC) on the other hand engage in joint venture and separability of ownership through foreign investors as ways to get around tax. This they do instead of utilizing the tax law to

gain a tax advantage which the parliament never intended (degl'Innocenti & Rablen, 2017:816). In addition, taxpayers can utilize these strategies to save money through tax in a legal manner such as the provisions made by the South Africa tax system for individuals to reduce their tax liability (Alstadsæter & Jacob, 2017:2779). These includes: Donations, Tax-free investments, retirement annuity, medical credits, and travel claim. However, the legality of the phenomenon does not exclude it from being perceived as a system contrary to the very intent of the law it purports to follow (Vlcek, 2019:345-346) though it is regarded a product of the tax system. Though there are several other tax strategies available to taxpayers, the research chose these to be the focus of this study. These strategies will be looked at closely from the literature point of view to determine the scholar's opinions on the comprehension and utilization thereof.

3.3.1 DONATIONS

Giving for charity is for the good of the society. An increase in those giving to charitable organization strengthen the support base for charity organization (Colinvaux & Madoff, 2019:1868). However, the encouragement to give is partly influenced by the tax benefit of charitable contribution which serves to reduce the cost associated with contributing towards charity (Greene & McClelland, 2001:433). This because authorities such as USA's federal government has for a long time created attractive tax incentives of up to 74% of the amount of the gift to charitable organisation (Colinvaux & Madoff, 2019:1867). Furthermore, American taxpayers who make donations to charity organisation are allowed to make a tax deduction of the donations to charity when they itemise expenses (Greene & McClelland, 2001:433). This is much similar to what the situation is in the South African context. The distinction could lie in the approach in terms of tax education to the American tax system as compared to the South Africa tax system. Section 18A of the South African Income Tax Act allows taxpayers to donate 10% of their taxable income towards charitable organization and get a tax deduction for it (Collier, 2021) There is a further R100 000 tax exemption that natural persons have to donate without incurring donations tax. Figure 1 below shows categories of donations and the tax exemptions that apply on them in the different sections of the act.

Figure 1: categories of donations and their tax exemptions.

Category One	Category Two
<ul style="list-style-type: none"> • Certain donations are completely exempt from tax. • For example; a donation made to a spouse; an approved public benefit organization; any sphere of government; that is cancelled within six (6) months from the date it took effect; etc. (section 56(1)) 	<ul style="list-style-type: none"> • In the case a donor who is not a natural person (for example; companies and trust), the exemption is limited to casual gifts not exceeding R10 000 per year of assessment (section 56(2)(a)).
Category Three	Category Four
<ul style="list-style-type: none"> • The first R100 000 of property donated in each year of assessment by a natural person is exempt from donation tax (section 56(2)(b)) • The first R100 000 of property donated in each year of assessment by a natural person is exempt from donation tax (section 56(2)(b)) 	<ul style="list-style-type: none"> • So much of any bona fide contribution made by the donor towards the maintenance of any person. The exempt is limited to what the Commissioner considers reasonable (section 56(2)(c))

Source: <https://www.sars.gov.za>.

Donating to any registered political party or any sphere of government is exempt from donations tax (Collier, 2021). There are also donations of up to 10% of the taxpayer's taxable income to an approved Public Benefit organisation which are exempt from donations tax. The weakness is that even with the classification of the categories which the assumption is that it is done to simplify the matter relating to donations tax, with the categories there are still statements and terminologies that contribute negatively to comprehension.

3.3.2 TAX-FREE INVESTMENT

In many developing countries, citizens are subsidised for saving for pension, home ownership as well as for other life cycle events (Lavecchia, 2018:2) . These savings can be

in tax advantaged savings vehicles in the form of tax-post-paid and tax prepaid or tax deferred savings vehicles (Zaman, 2017:332). However, these traditional tax-deferred savings are criticised for favouring the affluent savers with larger subsidies due to high marginal tax rates in the year contributions are made and lower tax rates when assets are withdrawn (Lavecchia, 2018:2) . Be that as it may, to cater for the general household needs for savings, tax free savings accounts came into being (Zaman, 2017:331). This was an attempt to reverse the timing of the tax incentives (Lavecchia, 2018:2). Consequently, the 2008 federal budget introduced the tax savings accounts for the first time in Canada. An attempt by the Canadian government to encourage savings within its society.

In light of the decline in the net household savings in South Africa which was confirmed by the World Bank as being critically low compared to other developing countries, SA treasury introduced a new tax incentive on 1 March 2015 in terms of section 12T on the SA Income Tax Act no.58 of 1962) (Groenewald, 2018:1-3). Though not tax deductible, capital income earned through the assets in these accounts are tax exempt Adam M. Lavecchia.2. These flexible general-purpose tax-free accounts (Zaman, 2017:333) were meant to diminish the financial vulnerability of the South Africa households by increasing the household savings and thereby reducing reliance on debt suggested (Aron & Muellbauer 2000) as cited by (Groenewald, 2018:1).

Through TFSA individuals can invest in diverse asset classes without paying income tax, dividends tax and capital tax on returns from the investments. Investment in these accounts can be made at various banks, life insurers, stockbrokers or asset managers (Business tech, 2021). Furthermore, the decision on how much you want to save is entirely upon the investor (Old Mutual, 2021). However, the limit on how much you can save in a year is R36, 000 and R500, 000 lifetime limit for an individual investor (Businesstech(d), 2021a),TFSA allows an individual to grow their money without paying tax on it however, an investment above the lifetime limit of R500, 000 will attract tax at rate of 40%. In addition, TFSA has attracted not only the low to moderate income investors but high-income earners too (Groenewald, 2018:3). The trick according to Old Mutual is in investing for a longer period because it is when you get to see better growth for your money and a bigger tax saving. However, how this long-term investment approach serves to encourage or discourage investment into these savings products is a matter of intense debate. Research has however established

low interest into these savings vehicles according to Groenewald (2018:1). This can be associated with lack of comprehension of the strategy.

3.3.3 RETIREMENT SAVINGS

There is a common consensus that majority of people do not save as much as they should for retirement (Burnett *et al.*, 2018:900). The authors also highlight social, political and global economic challenge posed by this affecting mostly both individuals and societies at large. In spite of the tax benefits of a retirement annuity which are over and above the long-term investment and a possibility of a comfortable retirement (Collier, 2021), circumstances still dictate that people spend more than 50% of their consumptions and living expenses (Willows, 2019:305). The consequences of this behaviour are unfortunately a great demand by the elderly on government for social assistance due to widespread poverty at retirement putting pressure on the fiscus (Burnett *et al.*, 2018:902).

Only 6% of South African can retire comfortably in terms of the financial maintenance of the lifestyle indicating a poor retirement planning by citizens regardless of the tax benefits available for savings towards retirement (le Roux, 2017:1). In addition, an investigation by Finmark and the South African Savings Institute discovered in 2008 that savings by low income earners is very low (Willows, 2019:305). This raises concern as the ageing population and less funding for retirement is likely to create an instability in the global finance (Burnett *et al.*, 2018:902). Without generalising, it is not odd to link lack of comprehension with the low retirement planning even in the mist of the retirement planning options available and the tax benefit attached to them

Additional savings for retirement or pension is mostly done through retirement annuities (Willows, 2019:312). In addition, contributions into these retirement savings vehicles are tax deductible to a certain extent. This is because retirement annuity is one of the sources those in pension draw income from (Burnett *et al.*, 2018:906). However, a study by Old Mutual, one of South Africa's leading financial services providers reveal that a percentage of income spent on savings has declined to 12% amongst metro households in South Africa (Willows, 2019:305). This is in addition to the criticism levelled towards the tax benefit savings vehicle which are believed to be favouring the affluent as opposed to low income earners as a result of the effective marginal tax rates they fall (Lavecchia, 2018:2). This reveals the weakness of section 11F prove that tax education is still a need to the taxpayers.

However, retirement annuities are a great savings vehicle in that individuals have up to 27.5% of their taxable income capped at R350 000 to invest in a retirement annuity and get a tax deduction annually depending on how much of the income goes towards pension or provident deductions already. Furthermore, when the employer does not deduct pension or provident, the individual can invest the 27.5% on the taxable income in to a retirement annuity and get a tax deduction on the whole amount (Collier, 2021).

3.3.4 MEDICAL TAX CREDITS

Discussions around the medical deductions and how they impact on income inequality has been taking place globally. This is due to the rising healthcare costs, coverage by medical insurance and how the tax system is structured relating to its fairness suggested (Serocki & Murphy, 2009) as cited by (Nhamo & Mudimu, 2020:1). The authors also link this with the possibility that the taxpayer will not honour their tax obligation if they encounter financial hardship as a result of high medical expenses. For this reason, when originally medical aid contributions were deductions against the taxpayer's taxable income, the South African Revenue Services has had to change the treatment of medical expenses by introducing medical schemes fees tax credit (SARS(a), 2021) In addition, the deduction system wherein allowances within specific limits were deducted from the taxpayer's income to cater for medical aid contribution and out-of-pocket medical expenses, was a form of relief for the taxpayer which was criticised for being inequitable and favouring the higher taxpayers due to the progressive marginal tax rate (Nhamo & Mudimu, 2020:1). Consequently, the change in the treatment of medical expenses aimed at addressing the income inequality which is amongst the factors that affect health care in South Africa was introduced (Nhamo & Mudimu, 2020:1). In addition, the medical tax credit is made up of two components namely; the medical scheme fees tax credit as well as the additional medical expenses tax credit (SARS(a), 2021). Furthermore, the core objective of the medical tax credit is to reimburse the taxpayers making use of the private healthcare sector, which represent a transfer from the state to the medical scheme members (Armstrong, 2017:2). However, whatever change is implemented on the system should reflect in the increase in utilization of the strategy.

Medical tax credit serves to reduce the normal tax a person is paying (SARS(a), 2021). This is by way of a two-tier credit system established in 1 March 2012 by National treasury consisting of the capped medical tax credit and the additional tax credit (Nhamo & Mudimu, 2020:1). The authors further allude to the capped MTC as a benefit provided for in Section

6A of the Income Tax Act for the taxpayers paying any portion of the medical aid scheme themselves regardless of the size of the contribution and the subsidy paid by the employer. Subsequently, the monetary value of the medical tax credits according to SARS was R310 for the main member and the first dependent for the period 2018-2019 tax year while the rest of the dependents receive a tax credit of R209 for the same period. In addition, (SARS(a), 2021) further states that the employer is obliged to utilise the credit system in adjusting the Pay as You Earn (PAYE) of a member whose contribution to a medical aid is via a salary deduction while those contributing independent of the employer receive tax credits upon assessment when completing tax returns. Finally, research has proved the positive impact of medical tax credit on the affordability of medical aid by the poor thereby bringing down the inequality in the health care system in South Africa. But if this is not reflected in the increase in medical aid membership more still needs to be done in terms of educating the public on the issue

3.3.5 TRAVEL CLAIMS

The UK tax system allows employees to claim tax relief for travelling expenses incurred in the performance of employment duties (Gascoyne-Richards, 2018:32). The South African tax system on the other hand allows taxpayers to claim business travel deduction provided they have kept a logbook as required by the revenue services (SARS(a), 2021). In addition, the condition in the UK is that the employee must have been using their private vehicle to travel in performance of their duties (Gascoyne-Richards, 2018:32). Furthermore, travelling according to SARS should be with an engine powered road vehicle (Businessstech.co.za, 2021). The author further alludes to Section 8 (1) (a) (i) of the Income Tax Act according to which the deduction is based on the premise that a travel allowance is included in the taxpayer's taxable income. However, the travelling has to be expended on business travel which excludes travelling between the taxpayer's place of residence and the place of employment (SARS(a), 2021).

The South Africa Revenue Services website lists the following as types of travel allowances;

- Fixed travel allowance, when an employee is given a fixed amount to cover travelling expenses on a monthly fortnightly or weekly bases. These payments would be paid as part of the remuneration package for the employee of which 80% thereof is tax deductible.

- Reimbursive travel allowance, when an employee is reimbursed for the actual kilometres travelled for business purpose. Reimbursement amount is worked out by multiplying the actual kilometres travelled by a rate per kilometre. The tax deductibility of these amounts depends on whether they are taxable or non-taxable of which the non-taxable amount is based on the actual kilometres the employee travel for business according to limits set by the Minister of Finance.

Commission earners on the on other hand who earn more than 50% of their remuneration as commission income do not have a limit of the type of business expenses that they can claim (Musviba, 2020). The determination of the business expenses claims these employees can make is that the income recorded under code 3606 of the IRP5 form should be more than 50% of the total income reflected under code 3697, the gross retirement funding income and code 3698, the gross non-retirement funding income. While the South African Revenue Services alludes to the travel allowance as an allowance paid in advance to the employee by the employer for which a deduction can be made in respect of the travelling expense for salaried employees (SARS(a), 2021), commission earners unlike the salaried employees can claim the actual travel expenses as deductions regardless of the fact that the do not have travel allowance. They can claim all expenses ranging from wear-and-tear on vehicle cost, fees and interest on sale agreement instalments, fuel, license and maintenance as well as insurance cost provided they have records thereof (Musviba, 2020). The author further alludes to expenses such as home office space used for business, water and lights, interest on fees and mortgage bonds internet connectivity, cleaning, cellphone invoices as well as wear and tear on business equipment and office repairs. Proof of the use of these items for business has to be provided to validate the claim. However, SARS has opted to complicate this and position it as something too complex to implement and utilise for one's tax benefit.

3.4 TAXPAYERS' COMPREHENSION OF TAX REDUCTION STRATEGIES

There is no doubt that taxes are important to the society at large. This because without taxes the government cannot generate enough revenue to carry out its mandate of delivering service for the well-being of its citizens ((Nigamaev *et al.*, 2018:243); (Dudine & Jalles, 2017:3). Nevertheless, taxes are taken to be a burden to the citizens (Habibov *et al.*, 2018:52). Furthermore, in the case of South Africa it is even worse as citizens are ranked amongst the highest tax paying people in the world (Goss, 2021). On the other hand, in an

attempt to reduce their tax liability, citizens are exploring various means (degl'Innocenti & Rablen, 2017:16) in spite of available strategies which are generally utilised to minimise the taxes payable ;(Gideon, 2017:105);(Tim, 2020). A sign that the tax reductions strategies are not achieving the objectives they were meant to achieve.

While studies such as the one by (Lim *et al.*, 2018:2) pointed to lack of knowledge about tax reduction, (Alstadsæter & Jacob, 2017:2779) suggest that lack of awareness of the strategies and their benefits is what leads to the underutilization of the these strategies. Sheffrin (1994) levels blame squarely on the lack of knowledge which according to him influence public perception of tax matters (Gideon, 2017:98).

This study aims to assess comprehension of tax reduction strategies and the utilization thereof but of interest is the link between utilization and understanding that is identified by (Kalgutkar, 2018:12). This seems to reiterate (Lim *et al.*, 2018:2) on the knowledge of the tax system. However, (Kalgutkar, 2018:12) further draws attention to the key factor in tax reduction which according to him is the lack of knowledge about the tax system. This seems to reflect the South Africa citizens who in spite of all the available tax reduction strategies are still paying more tax than they should (Berliant & Gouveia, 2018:2). This indicates lack of utilization and benefiting from tax reduction strategies, a situation possibly influenced by lack of comprehension.

To the detriment of the South African economy, majority of its taxpayers are still lagging behind in terms of retirement planning (Antoni *et al.*, 2020:578), a possible indication to lack of understanding of the tax benefits of retirement annuity contributions (le Roux, 2017:63). As if to turn a blind eye on the benefits of membership to medical aid schemes, more people are withdrawing membership to medical aid schemes (Buthelesi, 2021). Furthermore, the introduction of tax-free savings into the South African never achieved its intended objectives (Groenewald, 2018:16). Though there could be other factors serving as motivation to this, (Stantcheva, 2020:2) points to the taxpayers' understanding of tax policies as a determinant of their support of such and that it shapes their normative views towards those policies. This in a way emphasises that lack of understanding of tax matters leads to irresponsible tax decisions (Godbout *et al.*, 2017:4).

Finally, while the benefits of understanding and utilizing tax reduction strategies is saving money on the part of the taxpayer (Alstadsæter & Jacob, 2017:2779), the reduction in

mistakes such as the submission of unnecessary tax returns will free some space in the SARS systems and reduce the strain by eradicating errors (Misra, 2004). However, a number of scholars still consider the tax system to be too complex for the ordinary taxpayers' understanding (Godbout *et al.*, 2017:1). This affects the taxpayers negatively in terms of tax returns (Yusoff & Mohd, 2017:53). This conceivably defeats the very purpose for which the sections of the Act aimed at tax reductions is concerned.

3.5 SUMMARY

In this chapter, literature on tax reduction strategies was reviewed. The chapter began with a brief outline of the origin of taxation. This is followed by the tax reduction strategies and their benefits to the taxpayers. The chapter concludes by literature concerning the taxpayers' comprehension of tax reduction strategies. The next chapter outlines the research methodology utilised in the study.

CHAPTER FOUR

4 RESEARCH METHODOLOGY

4.1 Introduction

The previous chapter gave a scholarly view on the comprehension of tax reduction strategies. This chapter provides details concerning the research methodology adopted in the study. A qualitative research methodology was applied and data was collected through a systematic review. Data was analysed deductively through an objective driven thematic analysis.

4.2 Research methodology

The main purpose of conducting a research is to add to the pool of knowledge, to prove the facts and offer solution to societal problems (Basias & Pollalis, 2018:92). Research is commonly conducted by way of a quantitative or qualitative methods depending on the aim, objective and nature of the research (Basias & Pollalis, 2018:92). This section provides a detailed insight into the research design and methodology used in answering the research questions of the study. The section begins with an explanation of the research paradigm underpinning the study. The research approach and rationale behind employing a qualitative research is then presented. Data collection and analysis methods are also outlined.

4.3 Research philosophy

Research is described by Pradeep (2019:96) as cited by (Mothusi, 2020:9) as a structured enquiry executed through a suitable scientific methodology to establish answers to a research problem. This study has adopted a qualitative research method by way of systematic review that analysis existing literature and documents on tax knowledge and tax reduction strategies. The objective is to obtain an in-depth understanding of the way South African tax payers comprehend tax reduction strategies available to them. In analysing literature on individual taxpayers' comprehension of tax reduction strategies, qualitative research by way of a systematic review was considered appropriate for the analysis of available records in order to attain a deeper understanding of the use of tax reduction strategies to reduce the tax liability of the individual taxpayers.

An interpretive paradigm as well as critical analysis was adopted as an appropriate guiding philosophy for this study to analyse and interpret both literature and the legislation for the

researcher to achieve the objective of the study. This philosophy of research assisted in bringing the researcher not only to the interpretation of discovered sources but also in pointing out shortfalls within the sections of the Act the study focuses on.

4.4 Research approach

The main purpose of conducting a research is to add to the pool of knowledge, to prove the facts and offer solution to societal problems (Basias & Pollalis, 2018:92). Research is commonly conducted by way of a quantitative or qualitative approach depending on the aim, objective and nature of the research (Basias & Pollalis, 2018:92). Qualitative research is mainly concerned with words and how individuals interpret the social set up they live in and not the testing of theories (Myburgh, 2019:13). It seeks to decode and translate concepts rather than record the frequency of phenomena (Basias & Pollalis, 2018:92). On the other hand, the descriptive nature of the quantitative research allows for the determination of causal relationships that exist between variables by use of formalised questions (Myburgh, 2019:122). The use of quantitative research is recommended in studies aimed at collecting data from large samples to carry out a logical investigation into understanding whether certain factors do influence others (Meyer, 2018:159).

4.5 Research design

The study adopted a systematic review of available documents and literature on the topic under investigation. This study involved an analysis of sections of the Income Tax Act dealing with tax deductions for individual taxpayers as well as the scrutinizing literature and other sources including SARS documents and communications to gain insight into its comprehension. Documents from relevant institutions such as the tax Ombudsman report containing tax related complaints by taxpayers were also analysed. Reports released by SARS on annual tax statistics were also considered useful to assist the researcher in achieving the study's objectives. Finally, the South African Revenue website was visited to observe communications and trends which can be of use to the study.

The research methods adopted by the study was qualitative and archival in nature. Archival research is a research method with the aim of exploring archival matters. This is a research used as an attempt to understand objects, activities and issues better as they related to a specific domain (Gilliland *et al.*, 2016:80). Also known as secondary field research, archival

research involves taking advantage of the already existing research data instead of generating new primary data (Barnes *et al.*, 2018:1454). To analyse the individual taxpayer's comprehension of the tax reduction strategies, historical archival sources such as the Ombudsman reports containing tax related complaints from the taxpayers, released SARS annual tax statistics reports containing tax payments and refunds as well as conducting the readability index calculations using communications from SARS to the public on matters of tax were consulted. Existing records, data, case law and studies pertaining to the comprehension of tax reduction strategies by the taxpayers and the use of these strategies were utilised. Records were intensely scrutinised and read through in an investigative manner to gain insight into the tax reduction strategies and the use thereof. In emphasizing the importance of archival research, (Barnes *et al.*, 2018:1454) points to the estimations recently published by IBM analytics services which draws attention to the findings that 90% of the global data have been generated in the last two years prior to 2018. The method also presents the benefits of learning valuable skills different from those in traditional research projects (Hayden, 2017:135).

Archival research is considered by Tamboukou (2019:1) to be a process conceived as part of a wider research projects capable of developing its own life with its own demands and requiring specific responses to its problems and questions. (Mohr & Ventresca, 2002:5) identified three modes to archival research. These are historiographic research, ecological projects and the new archivist. The latter is fairly new, contemporary and fitting to the current dispensation. When conducting a study, a historiographic approach has the advantage of close attention to details by way of medium of archival materials (Mohr & Ventresca, 2002:2). These archives, as Tamboukou (2019:3) suggests are conceived as entanglement of time rhythm and space capable of extending into the immediate locality and reference to the global position in colonial histories of the subject matter.

From as early as the 1970s, ecological analysis brought about a dramatic change to the traditional archival research wherein small amounts of information obtained from the life history of organisations are used to relate a story about the environment and the population (Mohr & Ventresca, 2002:6). Archivists have through archival theories and methods provided, preserved and appraised access to digital records as they developed paper records (Marciano *et al.*, 2018:1). Moreover, instead of limiting themselves to the formal social network analysis, archivalists are more interested in investigating relational systems

as well as the form of knowledge, style of understanding and shared beliefs (Mohr & Ventresca, 2002:11). The success of archivists to adapt to the current environment according to (Marciano *et al.*, 2018:1) lies in the examination of theories and methods dominating records practices because the struggles of archiving and sharing data can be resolved by reference to archival theories and methods.

This study utilised the historiographic research design by paying close attention to the details of available materials specifically relevant to the study on the understanding and use of tax reduction strategies by individual taxpayers. Historical archival sources such as government registries in the form of SARS and the tax ombudsman records, court records in the form of tax case law and judgements, online repositories, social media (Barnes *et al.*, 2018:1466) and digital information omnipresent across a variety of financial organisations such as insurance companies, relevant key government institutions such as the GCIS were consulted in the study. Records were carefully read through and investigated to gain insight into the tax reduction strategies and the use thereof by taxpayers.

The information gathered was analysed to ensure its relevance to the study conducted and previous studies were taken into consideration in doing the research. Credible and accredited scholarly journals, websites with relevant information were consulted. A number of electronic databases with journals and articles relevant to the study were consulted. These included the NWU thesis and dissertation data base, JSTOR, Emerald among others. Electronic search engines, such as Google and Google Scholar, specific websites were used to obtain information specific to the subject matter as well as books on research methodology, tax and tax reduction strategies.

4.6 Data gathering techniques

The advantage of using archival data lies in the abundance of information contained in large data sets with sample sizes rarely found in other areas of research (Barnes *et al.*, 2018:1458). According to Barnes *et al.* (2018:1464), company records containing data collected from organisations, academic records and previous researches are but some of the database useful in archival researches. Rabinowitz (2021) lists research organisations, academics and similar institution, business and industry as well as public record from government agencies among other places archival data can be collected from. Lastly, the

South African revenue Services (SARS) and the National Treasury are used as administrative data providers in a number of researches about tax (Ebrahim *et al.*, 2019:2).

The data for this study was derived from secondary sources such as the records from SARS containing information on tax payments and tax deductions, tax collection and returns filed as well as refunds paid to individual taxpayers and the tax ombud records of the complaints from taxpayers. Reports from the tax ombudsman on tax related complaints, The Income Tax Act, SARS annual tax statistics reports and literature written on related topics were collected for use in the study. In addition, SARS and the ombudsman websites were visited to access reports from these institutions. Furthermore, the NWU library website and google scholar were identified as platforms containing useful literature for the project.

Keywords such as Tax deduction, tax knowledge in South Africa, tax education in South Africa were used to search for existing materials on google scholar and the following were the results:

- Tax deductions resulted in 236 000 materials in 0.08 seconds.
- *Tax knowledge in SA, 1 030 000 related materials in 0,10 seconds*
- *Tax education in SA, 1 080 000 related materials in 0,11 seconds*

The SARS and tax Ombudsman website are rich with plenty of reports stretching from years in memorial. The identified materials were narrowed down to the past five years. The google scholar material were further reduced and narrowed down based on their perceived relevance to the topic under investigation. Upon narrowing the reports and literature down, the study was conducted on five SARS reports and five Ombudsman reports selected for the periods of 2016-2020. In addition, literature utilised on the analysis amounted to 6 literature documents of past studies. To filter the literature down to 6 studies factors such as how recent the study was conducted. The preferred timeframe was studies conducted in the past five years. However, due to the scarcity of studies in this field a study by Misra conducted in 2004 was selected due its relevance to the topic under investigation. Misra, investigated the impact of tax education on tax compliance on South African taxpayer while Smulders' study conducted in 2019 on tax education in South Africa contained findings and data which influenced this study positively. Godbout's study done in 2017 on the knowledge deficit about taxes was providing vital information on the effects of tax knowledge deficit on the taxpayers while Le Roux's 2017 paper on the effects of tax and financial literacy on retirement planning offered critical information to one of the aspect of the study on the

taxpayers' comprehension of tax reduction strategies. Furthermore, the scholarly work of Yusoff and Mohd conducted in 2018 on how well-informed the taxpayers are on their tax payments assisted the study in reaching a solid conclusion. Finally, Kalgutkar, 2018's study on the impact of tax awareness and tax planning on the wealth creation of assesseees was seen to be containing important data for the study. These amongst others contained information on tax awareness, tax knowledge, tax education and tax deductions which formed part of the study on taxpayers' comprehension of tax reduction strategies.

4.7 Data analysis

The study is qualitative in nature and adopted archival research method utilising existing data available online on a variety of platforms including SARS and tax Ombudsman reports as well as literature on related topics. Secondary field research offers the advantage of already existing data as opposed to generating new primary data (Gilliland *et al.*, 2016:90). Platforms such as SARS and the tax Ombudsman websites, case laws sources such as LexisNexis, financial institutions websites and the library contain free material for use in the study. Material containing tax and relating to tax reduction strategies were analysed to determine the comprehension of tax reduction strategies and use thereof by taxpayers to lower their tax liabilities. In analysing the identified data and reports, the research grouped the taxpayers' complaints in the past five years to the Ombudsman according to the types as related to tax knowledge. The complaints were deductively analysed to see how they related to lack of comprehension of tax reduction strategy. SARS reports on the other hand were analysed to determine trends in far as tax returns is concerned. Finally, literature was analysed to determine scholars' opinions and findings on the comprehension of tax reduction strategies. However, the researcher could have pursuit a quantitative approach of survey in the study. This remains an alternative to the approach and data gathering and analysis.

4.8 SUMMARY

This chapter described the qualitative methodology employed for this study. The systematic review and analytic processes were described. The following chapter presents data obtained through the methodology explained in the foregoing.

CHAPTER FIVE

5 TAXPAYERS' COMPREHENSION OF TAX REDUCTION STRATEGIES

5.1 INTRODUCTION

The previous chapter gave a review of tax reduction strategies and taxpayer's comprehension of these tax reduction strategies. This chapter provides an analysis of a compendium of literature on the taxpayer's comprehension of tax reduction strategies. The chapter also includes analysis of the tax Ombudsman and SARS annual tax reports as well as interpreting this data. Finally, the chapter concludes with the readability measurements of some text taken from SARS website to determine the readability index thereof with an explanation of the results of the indices.

In order to establish the scholars' views on the taxpayers' comprehension of tax reduction strategies, the study embarked on reviewing appropriated literature. Table 1 is compilation of the literature reviewed.

Table 1: Literature reviewed. Source: Author own compilation

Title	findings
<i>Taxpayers education: What is needed.</i>	The study established that the United Nations Educational Scientific Organizations (UNESCO) rates South African literacy level at 98.96. The Progress in International Reading and Literacy Study's assessment of the reading comprehension and reading literacy trends found South Africa to be the lowest performing out of 50 countries in 2016. In addition, about 78% of Grade 4 learners in South Africa were found to lack the basic reading skills. The study concluded that SARS has its hands full in terms of tax education based on the complexity of tax legislation and the Gunning Fog Index , a readability measurement according to the individual's formal education (Smulders, 2019:64-65)

<p><i>Retirement planning: could tax and financial literacy increase financial independence during retirement?</i></p>	<p>The study revealed lower levels of tax knowledge amongst South African taxpayers which meant that they could not benefit well from the tax benefits of contributions to retirement annuities. About 86.11% of respondent in the study showed lack of knowledge of retirement reforms while only 40% knew about the tax deductibility of retirement annuities though 72% are contributing to retirement annuities. From the study, about 58.33% of respondents were thoroughly informed about tax-free savings while about 56% showed an understand of the benefits of tax-free savings though only 25% were saving in tax-free products (Le Roux, 2017)</p>
<p><i>The Knowledge Deficit about Taxes: Who It Affects and What to Do About It.</i></p>	<p>The study established that tax knowledge is negatively impacted by lack of public data. It further discovered that the tax systems are generally too complex and it is the complexity of the tax system that leads to mistrust on tax authorities. The authors are of the view that people cannot trust systems they do not understand (Godbout <i>et al.</i>, 2017:8)</p>
<p><i>The Impact of taxpayer education on the tax compliance in South Africa.</i></p>	<p>The study concluded that there should be a balance between taxpayer education and enforcement for voluntary compliance to be achieved (Misra, 2004:102).</p>
<p><i>How well-informed are taxpayers on their income tax payment?</i></p>	<p>The study concluded that tax knowledge and awareness are vital not only for tax compliance but tends to encourage correct tax filling for individual taxpayers (Yusoff & Mohd, 2017:53)</p>
<p><i>Tax awareness and tax planning on wealth creation of individual assessees.</i></p>	<p>The author concluded that tax awareness and tax planning have the tendency to increase wealth in the hands of the assesses or taxpayer (Kalgutkar, 2018:21).</p>

Sources: Sharon Smulders (IntegriTax) 2019., Le Roux, D.J. 2017., Godbout et al. 2017., Misra, R. 2004., Yusoff, S.N. & Mohd, S. 2017., Kalgutkar, P.2018

The study by Le Roux investigated how tax and financial literacy impacts the individual taxpayer's financial independence at retirement. le Roux (2017:64-67) discovered that:

- a) A fair majority of respondents in the study (72%) do contribute to retirement annuities though almost half of them (40%) know about the tax deductibility of retirement annuity contributions.
- b) Just over half of the respondents (58.33%) claim to have a good knowledge of tax-free savings when only a quarter of them (25%) have taken advantage of the tax benefits of tax-free savings by utilizing the products for savings.
- c) The study revealed low levels of comprehension of the two tax reduction strategies investigated.

Godbout and his colleagues on the other hand confirmed the complexity of the tax systems in general which affects the trust of the citizen on the authorities. Even though it is an old study, it concluded that enforcement is not the solution but tax education should be added into the mix for voluntary compliance with legislation. Yusoff and Mohd (2017:53)'s study focused on the knowledge of income tax payment and concluded that tax knowledge has an effect on the correctness of tax filling by individual taxpayers. Another study, Kalgutkar (2018:21) aimed at analysing tax awareness and planning in terms of wealth creation of assesses. The findings of the study confirmed how tax awareness and tax planning which speaks to the comprehension of tax reduction strategies enriches the taxpayers.

Reviewed literature as per table1 displayed the low levels of comprehension of tax reduction strategies and use thereof which negatively impacts of the ability of the taxpayers to benefit from the tax reduction strategies. Literature further highlighted the complexity of tax systems but proved how tax knowledge or comprehension can empower taxpayers in correctly completing tax returns. Finally reviewed literature proved how comprehension of tax reduction strategies can result in extra cash in the hands of the taxpayers.

5.2 Tax Ombudsman reports

In order to measure the taxpayers' comprehension of the tax reduction strategies in relation to the complaints received and dealt with by the tax Ombudsman, the study involved an analysis of the annual reports released by the tax Ombudsman. The reports analysed (Table 2) were for the period 2016 to 2020.

Table 2: Tax Ombudsman reports. Source: Author own compilation

Tax reports	Ombudsman	Years of release	Findings and common theme
Total complaints received		2016-2017	Total number of complaints: 5904
		2017-2018	Total number of complaints: 3652
		2018-2019	Total number of complaints: 4741
		2019-2020	Total number of complaints: 4822
Category of users		2016-2017	Individual taxpayers formed 64 % of complainants
		2017-2018	Individual taxpayers formed 53.77% of complainants
		2018-2019	Individual taxpayers formed 55.03% of complainants
		2019-2020	Individual taxpayers formed 49% of complainants
Refunds complaints		2016-2017	Refunds complaints 15% of all complaints received
		2019-2020	Refunds complaints 21.29% of all complaints received
		2018-2019	Refunds complaints made up 24.43% of all complaints received
OTO recommendations and determinations		2016-2017	Taxpayer education amongst the recommendations made to SARS
		2017-2018	A significant number of complaints required SARS to provide tax education to taxpayers
		2018-2019	Lack of tax awareness considered to be one of the contributing factors to some complaints
		2019-2020	A significant number of complaints required SARS to provide renewed tax education

An analysis of the reports indicate that individual complaints made up half of the total complaints received. Furthermore, just over 20% of the complaints relate to tax refunds. However, it is worth noting that a significant number of the complaints according to the report has tax education as a recommendation. The tax ombud obviously identified lack of tax education as a need to reduce the complaints received by the office. The suggests lack of comprehension in the system.

5.3 SARS Annual tax statistics reports

A further analysis was conducted on the SARS annual tax statistics reports shown on Table 3. The reports provide an overview of the revenue collected from different types of taxes and the expected returns submission and assessment. The study's findings from the reports suggest that taxpayers still don't know when they are supposed to submit returns and when they are not supposed to. In addition, when the tax system is simplified the rate of use of retirement annuity as a tax reduction strategy increased. Lastly, when changes were made to the submission threshold of medical tax credits, the number of submissions reduced.

Table 3: SARS Annual tax statistics report. Source: Author own compilation

SARS tax statistics for 2016 to 2020				
		(total individuals registered for tax)	Total individuals assessed	Percentage of assessed with zero assessment
Total revenue	2016-2017	19 980 110	4 800 344 (24.5% of the total registered)	19.4%
	2017-2018	20 953 564	4 898 565 (23.3% of the total registered)	15.5%
	2018-2019	21 104 375	4 917 029 (23.2% of the total registered)	11.3%
	2019-2020	22 919 701	4 337 923 (18.9% of the total registered)	13.6%
Retirement contribution deduction		2016-2017: 64.7 % of assessed individuals		
		2017-2018: 59.7% of assessed individuals		
		2018 -2019: 85.2% of assessed individuals		
		2019-2020: 83.4% of assessed individuals		
Medical scheme fees tax credit		2016-2017; Contributions:74.1%		
		2017-2018 Contributions: 85.7%		
		2018-2019 Contributions: 60.3 %		
		2019-2020 Contributions: 59.8 %		
Travel allowance Assessments received		2016-2017 Contributions: 25.7% of total assessed		
		2017-2018 Contributions: 24.5% of total assessed		
		2018-2019 Contributions: 24.9% of total assessed		
		2019-2020 Contributions: 26.3% of total assessed		
Donations tax Assessments received		2016-2017: 0.7%		
		2017-2018: 0.4%		
		2018-2019: 0.4%		
		2019-2020: 0.4%		
Unnecessary tax return submissions		A significant number of tax payers who are not required to submit returns still do. This happened consistently over the years		

A further analysis was made to measure the readability of the communication from SARS to the taxpayers. The Gunning Fog Index tool was applied for this analysis.

5.4 Tax readability index

The Gunning Fog Index tool suggests an optimal readability index of 7 or 8 in order for the communication to be read and understood by an average person. In addition, the index is based on the length of the sentence and the use of plain English wherein shorter sentences and written in plain English would result in a lower index (Textcompare.org, 2021).

Table 4: Readability Index. Sources: <http://gunning-fog-index.com/index>

Measuring readability of SARS communications		
Communication snippet	Readability index	Three syllable words
SARS's Client Information System was implemented in 2014 and allows taxpayers and registered representatives to register, maintain and view all its associated tax and customs registrations in a consolidated tax profile[.]	<p>THE GUNNING FOG INDEX IS 24.01</p> <p>The number of major punctuation marks, e.g. [.,], was <input type="text" value="1"/></p> <p>The number of words was <input type="text" value="31"/></p> <p>The number of 3+ syllable words, highlighted in blue, was <input type="text" value="9"/></p>	<p>SARS's Client Information System was implemented in 2014 and allows taxpayers and registered representatives to register, maintain and view all its associated tax and customs registrations in a consolidated tax profile[.]</p>
Taxpayers need to submit a tax return to SARS so we can calculate your tax liability based on the income you declare and the tax-deductible expenses you have incurred for a year of assessment. In some cases, it may result in a refund. The annual Filing Season is when you will be required to submit a return. For most taxpayers this runs from July to November every year	<p>THE GUNNING FOG INDEX IS 14.95</p> <p>The number of major punctuation marks, e.g. [.,], was <input type="text" value="3"/></p> <p>The number of words was <input type="text" value="68"/></p> <p>The number of 3+ syllable words, highlighted in blue, was <input type="text" value="10"/></p>	<p>Taxpayers need to submit a tax return to SARS so we can calculate your tax liability based on the income you declare and the tax-deductible expenses you have incurred for a year of assessment. In some cases it may result in a refund. The annual Filing Season is when you will be required to submit a return. For most taxpayers this runs from July to November every year</p>

Table 4 reflects the indices of two communication texts extracted from SARS website. The two texts are meant to communicate on SARS' clients' information system and the need for taxpayers to submit tax returns. The Gunning Fog Indices of 24.01 and 14.95 respectively were yielded upon conducting the calculation. This translates to more than twice the recommended indices.

Figure 2 below was considered relevant for the study in order to indicate the level of comprehension based on the different Fog indices in relation to the schooling levels.

Figure 2. Fog Indices. Source: <https://www.textcompare.org/readability/>

FOG Score	School Level	Comprehension
0-5	5th Grade and below	Very easy to read
6	6th Grade	Easy to read
7	7th Grade	Fairly easy to read
8	8th Grade	Conversational English
9-12	9th & 12th Grade	Fairly difficult to read
13-16	College	Difficult to read
17	College Graduate	Very difficult to read
18-20	Professional	Extremely difficult to read

According to the figure, a fog index of above 8 starts to be difficult to read with indices of 18 -20 being extremely difficult to read yet SARS communications are both way above an index of 8 which exacerbate the problem of lack of comprehension of the tax reduction strategies.

5.5 SUMMARY

In this chapter, the views pertaining to the comprehension of tax reduction strategies are discussed. The chapter begins with the findings from the literature reviewed relating to the topic under investigation. This is followed by the tabulation of the data and findings from the tax ombudsman and SARS reports analysed. The chapter further provides details regarding the readability of the tax legislation as well as SARS communication with the taxpayers. The chapter concludes with a comparison of the recommended Gunning Fog readability index and the index of the readability of SARS communication and tax legislation as per the

findings of the study. The next and final chapter concludes the thesis based on the foregoing analysis.

CHAPTER SIX

6 CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

The previous chapter presented the findings concerning the comprehension of tax reduction strategies. This chapter concludes the discussion and suggests some recommendations for practice and further research. The chapter commences with how the objectives of the study were achieved followed by the implication of the study. This is followed by recommendations from the study then limitations and possible future studies in this field.

6.2 ACHIEVEMENT OF OBJECTIVES

The study was conducted to assess the taxpayers' comprehension of the tax reduction strategies. The study has addressed its objectives by analysing specific sections of the of the Act including section 11F on the deductions of contributions for retirement annuities, section 6B n rebates for medical scheme contributions, section 12T on tax exemptions on tax-free investments, section 18A on deductions on charitable donations and section 8 deductions of travelling expenses. These were analysed in light of the available literature, SARS and tax ombudsman reports.

6.2.1 Objective one

The study's objective was to determine the extent of utilization of tax reduction strategies to reduce the tax liability of the individual tax payers. The objectives sought to answer the research question relating to the use of tax reduction strategies. The study found the following:

- a. The utilization of tax reduction strategies as specified in the sections dealing with deductions for individual taxpayers is low. This because, while there is proof of a considerable number of taxpayers utilizing some tax reductions strategies such as contributions to retirement annuity, membership to medical scheme is low. Savings

in tax-free investment is lower than it was anticipated. Furthermore, donations to public benefit organization is much lower and travelling expenses claims are less.

- b. The tax system is too complex for the taxpayers. The positioning of the tax reduction strategies put emphasis on implications of non-compliance than the benefits of compliance. The system lacks simplicity. This is evident in how contributions for pension, provident and retirement are lumped together when two of them are employer employee related and the one is optional for individual taxpayers regardless of the employment status. Furthermore, literature reviewed showed how the complexity of the tax system leads to mistrust by the taxpayers on the tax system hence the low utilization of the tax reduction strategies
- c. Finally, the provisions of the Acts in these sections as they do not serve the purpose for which they were intended. The effectiveness and efficiency of the income Tax Administration serves the tax authorities alone and fails to appreciate the cohesion necessary between the taxpayers and tax collectors. The tax system therefore is depicted as self-serving and ignorant to the plight of the taxpayers.

6.2.2 Objective two

The study's objective was to assess the individual taxpayers' comprehension of tax reductions strategies; to analyse the utilization of the strategies; to analyse SARS written communication with the taxpayers; to obtain an insight into the readability of SARS communication. The study found the following:

- a. The sections of the Act that deal with tax reduction strategies are presented with terminologies and wording of positioning that lack the ability to influence comprehension. The choice of terminologies utilised in the particular sections is key to how the taxpayers will comprehend the strategies. It is found that the sections of the strategies relating to tax reduction strategies are difficult to understand due to the use of difficult to words, this leads to the readability of the sections to be high that an average person can do.
- b. Test conducted on snippets of the SARS communications proved to have the readability more than twice the recommended Fog readability index. More importantly

the lowest readability of index of the two communication snippets taken from the SARS website is 14.95, almost twice the recommended index

- c. The SARS communications are not compatible with the level of literacy in the country. The average Grade 4 learner in South Africa lacks the skill to read with comprehension the communication from tax authorities (Smulders, 2019).
- d. It is also established that majority of complaints dealt with by the tax ombudsman which mainly had to do with tax returns are as a result of lack of knowledge which if brought to the context of the study is lack of comprehension of tax reduction strategies. Reports from SARS showed a continual trend of submission of tax returns by the taxpayers who are not supposed to submit them indicating a need for tax education.

6.3 IMPLICATIONS OF THE STUDY

The study's findings enhance the society's understanding of the interconnectedness of the usage of tax reductions strategies and the comprehension individual taxpayers have on the strategies. Literature review highlighted how important it is to simplify the tax system for the average person to understand and benefit from the provisions of the legislation. Data from SARS reports analysed show how tax reduction can result in higher tax returns for taxpayers which will result in extra cash for in their pockets. In addition, the tax ombudsman reports revealed how comprehension of tax reduction strategies can lead fewer mistakes and complaints about tax returns thereby create capacity in the system.

In practice the outcome of the study can benefit both the individual tax payers and the state to remove the hurdles that prevent the use of available tax reduction strategies. This because if there is an uptake in the use of section 11F provision, more people will contribute towards retirement planning thereby reducing the state's burden on South African Social Security Agency (SSASA) at the time of retirement. This could also reduce the burden on the state's healthcare system by way of increase in medical scheme membership as it is the purpose of section 6B. In addition, a higher increase in the use of section 12T provisions will lead to greater financial independence that comes with the increase in the savings culture. Furthermore, a rise in the use of section 18A will lead to less dependency on the state by

the charity organisation. Finally, the utilization of section 8 will result in the enrichment of taxpayers.

What stood out in the study is that tax legislation as well as SARS communications are not easily readable to the average South African. This because the country has got a low literacy level. A review of the legislation and SARS documents with the intention to make it readable to the average person could be a contributing factor to understanding them better and help South African get more tax returns. If this is addressed the attitude of taxpayers towards tax could be influenced positively and paying tax will not be seen in a negative light.

Even though the study opted for the term comprehension, similar word such as understanding could still serve the purpose very well. The reason behind the choice of comprehension as the term to form the foundation of the study was in the rich definition of the word and how it would shape the context of the study.

6.4 RECOMMENDATIONS

From the analysis conducted above it is clear taxpayers do not have the comprehension of the tax reduction strategies are recorded in sections of the Act dealing with deductions for individual taxpayers. It can be noted that the tax deductibility of these sections is not utilised fully by the taxpayers and that there is complexity in the tax system. Here it can be recommended that the tax system should be simplified. This can be done by identifying aspects of the sections of the Act that can be separated for easier understanding by tax payers such drawing distinctions between contributions towards pension, provident and retirement as three different components of retirement planning. Furthermore, medical scheme contribution and individual expenses to healthcare could be dealt with separately for ease of use and understanding. This also can apply to other deductions such as donations tax and the different donations categories.

The study also noted how unreadable these sections and some of the communications documents from SARS are to the average person. A review of the Act and SARS communication to identify three syllabus words and terminologies used in communications and positioning of tax reduction strategies could be helpful. It is further recommended that

SARS should simplify its systems and communication. This should be done by the use of simple language and avoiding difficult terminology in its communication.

The study also identified lack of tax knowledge as a weakness. Tax education initiatives should be put in place by SARS to increase knowledge and highlight the benefit taxpayers can derive from utilization of tax reduction strategies. This will strengthen the cohesion between SARS and the taxpayers and change attitude towards paying tax.

6.5 Limitations

Due to the nature of the study and the intricacy of the tax system when it comes to allowable deductions and the related sections of the Income Tax Act, the study could not address all the aspects of tax reduction strategies and the comprehension thereof.

6.6 Directions for further research

Possible future studies in the field could be on the attitude of taxpayers on the available tax reduction strategies. Future studies should also consider analysing the relationship between the South African education system and tax compliance

6.7 Conclusions

This study observed a lack of comprehension of the tax reduction strategies. The conclusion from this study is that tax authorities need to do more in educating taxpayers on matters relating to the benefits of reducing one's tax liability in a legal manner and simplify the communication with taxpayers. The analysis of the reports and the review literature sought to highlight the plight of taxpayers pertaining to the available and yet not utilised tax reduction strategies. This was aimed at achieving the main objectives of the study. The use of tax reports was aimed at painting a picture of the realities of the level of tax comprehension.

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APPENDIX A: ETHICAL CLEARANCE

Economic and Management Sciences Research
Ethics Committee (EMS-REC)

27 September 2021

Prof W Musvoto
Per e-mail
Dear Prof Musvoto,

EMS-REC FEEDBACK: 23092021
Student: Moreeng, TD (27620859)(NWU-00969-21-A4)
Study leader: Prof W Musvoto - MBA

Your ethics application on, *Assessing the taxpayers' comprehension of tax reduction*, which served on the EMSREC meeting of 23 September 2021, refers.

Outcome:

Approved as a minimal risk study. A number **NWU-00969-21-A4** is given for one year of ethics clearance.

Please note that the ethics approval of this application is subject to the Covid-19 protocols.

Kind regards,

Mark
Rathbone



Digitally signed by Mark Rathbone
DN: cn=Mark Rathbone, o=North-
West University, ou=Business
management,
email=mark.rathbone@nwu.ac.za,
c=ZA
Date: 2021.09.27 15:37:18 +0200

Prof Mark Rathbone
Chairperson: Economic and Management Sciences Research Ethics Committee
(EMS-REC)

APPENDIX B: TURNITIN REPORT

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APPENDIX C: LANGUAGE EDITING CERTIFICATE

MUSARA LUBOMBO

LANGUAGE EDITOR

CONTACT

Centre For Teaching &
Learning
North-West University
South Africa

+27 83 490 1604

40663256@nwu.ac.za

10 December 2021

TO WHOM IT MAY CONCERN

Re: Copy editing: Individual taxpayers' comprehension of tax reduction strategies in South Africa

This letter serves to confirm that the the above MS was copy-edited by me.

Errors in spelling, grammar, and punctuation were checked. In some cases, stylistic changes were effected to improve readability and flow of the argument.

Three copies were returned to the client:

- a. Original MS
- b. Edited copy in Track changes, and
- c. Cleaned edited copy.

Please note that the editor shall not be responsible for any changes effected after the editing process.

Sincerely,



Musara Lubombo, Ph. D