



An assessment of tax compliance costs among Small Medium and Micro Enterprise in South Africa

LA Lesejane



orcid.org 0000-0002-3912-5930

Mini-dissertation accepted in partial fulfilment of the
requirements for the degree *Master of Business
Administration* at the North-West University

Supervisor: Prof W Musvoto

Graduation: August 2021

Student number: 24048739

DECLARATION

I, **Lesego Audrey Lesejane**, declare that this study entitled "**An assessment of tax compliance costs among Small Medium and Micro Enterprises in South Africa**" is my own work carried out under the supervision of Professor Wedzerai Musvoto. This mini-dissertation has not been submitted for any qualification in any institution of higher learning. All sources cited in this study have been acknowledged by means of complete references.

Lesejane
Signature

22/02/2021
Date

ACKNOWLEDGEMENTS

I acknowledge all those who assisted me in the research and compilation of this dissertation. I specifically thank the following:

- My supervisor, Professor Wedzerai Musvoto for his encouragement, guidance and support throughout the research process.
- Aspen Pharmacare Limited for the financial support throughout my study.
- My family, in particular my mother, Mmabatho Flora Lesejane, for holding the fort, her endless love, moral support and encouragement throughout this arduous journey. I am grateful to my two-year-old son, Kgatoentle Omatla.
- The Mkutano Family - Disebo Moremi, Baile Sebetlele, Bongani Sibanyoni, Peter Maluleka and Lerato Modise for the journey we travelled together. We laughed, cried, threatened to quit; however, we made it through grace.
- Refilwe Harabe, James Oben and Tshidiso Kalamore we journeyed as a strong and united team. Your unwavering support spurred my hope.
- God, the Almighty Father and my ancestors for blessings and strength to complete this journey.

ABSTRACT

Small, Medium and Micro Enterprises (SMMEs) are significant pillars for sustaining the economies of most countries. In South Africa, SMMEs contribute approximately 67% of employment, 91% of formal business and over a third of the national GDP. However, compared to large enterprises, SMMEs face a number of challenges ranging from poor performance, low profitability and high failure rate. Most SMMEs perceive tax-related matters as the most burdensome. This is because every SMME, regardless of form, size or sector, is lawfully bound to comply with legislation, including taxation. The cost of complying with taxation is a heavy burden to the development and growth of SMMEs. In South Africa, these burdens are compounded by the subjective evidence that tax compliance costs have prevented most SMMEs from registering their business with the Companies and Intellectual Property Commission (CIPC), the South African Revenue Service (SARS) and other regulatory bodies. The purpose of this study was to assess tax compliance costs among SMMEs in South Africa.

The study employed a systematic qualitative review of relevant literature for insight into the various challenges SMMEs experience in complying with tax authority requirements. The study also strove to establish why tax compliance costs are highest among SMMEs in South Africa compared to other countries.

The study established that the main drivers of tax compliance cost among SMMEs are government departments and the non-integration of enterprises. There are also significant challenges in the inefficiency of SARS, specifically inefficiencies in tax administration, complex and incessant changes in tax legislation, SMMEs level of inefficiencies and tax practitioner costs. The study further identified other factors such as lack of tax education, non-registration, low incomes and high tax rates as impediments in the compliance with tax administration among SMMEs.

The study concludes that in framing tax policies, the South African government should consider the various factors affecting tax non-compliance, especially among SMMEs. The study recommends that tax authorities in South Africa should improve tax compliance by ensuring favourable and fair tax rates, especially among SMMEs. The study further suggests that SARS should encourage non-compliant SMMEs to

regularise their affairs by encouraging voluntary disclosure applications for a limited timeframe before imposing non-compliance penalties. Recommendations for future research are also provided.

Keywords: regulatory tax burden, Small Medium and Micro Enterprises, South Africa, tax compliance burden, tax compliance costs

TABLE OF CONTENTS

DECLARATION	i
ACKNOWLEDGEMENTS	ii
ABSTRACT	iii
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF APPENDICES	x
LIST OF ABBREVIATIONS	xi
CHAPTER 1	1
INTRODUCTION TO THE STUDY	1
1 INTRODUCTION	1
1.2 BACKGROUND TO THE STUDY	2
1.3 RATIONALE OF THE STUDY	5
1.4 PROBLEM STATEMENT	6
1.5 RESEARCH OBJECTIVES	7
1.6 RESEARCH QUESTIONS	7
1.7 SIGNIFICANCE OF THE STUDY	8
1.8 DEFINITIONS OF KEY CONCEPTS	8
1.9 DELIMITATION	9
1.10 RESEARCH METHODOLOGY	10
1.10.1 Research philosophy	10

1.10.2	Research design	11
1.10.3	Data collection	11
1.10.4	Data analysis	12
1.11	ETHICAL CONSIDERATIONS	12
1.12	LAYOUT OF THE DISSERTATION	13
1.13	SUMMARY	14
CHAPTER 2		15
	TAX COMPLIANCE BURDEN FOR SMMEs IN SOUTH AFRICA	15
2.1	INTRODUCTION	15
2.2	DEFINING SMMEs	15
2.3	TAX COMPLIANCE COST AND BURDEN	19
2.3.1	Tax administrative burden	22
2.3.2	Strategies to improve compliance in terms of tax filing, tax evasion and tax payments	22
2.4	TAX COMPLIANCE COST	23
2.4.1	Administrative penalty	26
2.5	TAX REGULATORY BURDEN	26
2.6	STRATEGIES TO PROVIDE A TAX FRIENDLY ENVIRONMENT FOR SMMEs	29
2.6.1	Tax incentives	30
2.7	THEORETICAL MODEL	31
2.8	SUMMARY	33
CHAPTER 3		34
	MEASURING TAX COMPLIANCE COSTS FOR SMMEs IN SOUTH AFRICA	34

3.1	INTRODUCTION	34
3.2	METHODS TO CALCULATE TAX COMPLIANCE COSTS	34
3.3	QUANTIFYING TAX COMPLIANCE COST	35
3.4	TURNOVER TAX COMPLIANCE COST	38
3.5	COST OF PREPARING A TAX RETURN	39
3.6	TAX RATES FOR SMALL BUSINESS CORPORATION AND MICRO BUSINESS	41
3.7	SUMMARY	43
	CHAPTER 4	44
	SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	44
4.1	INTRODUCTION	44
4.2	SUMMARY OF FINDINGS	44
4.3	RECOMMENDATIONS	46
4.4	RECOMMENDATIONS FOR FURTHER RESEARCH	48
4.5	PRACTICAL IMPLICATIONS	49
4.6	CONCLUSION	50
	REFERENCES	52

LIST OF TABLES

Table 2. 1: Categories of SMMEs as set out by DTI	16
Table 3. 1: Time spent by SMMEs attending to tax compliance matters	36
Table 3. 2: Amount of tax compliance cost per SMME's compliance activity	39
Table 3. 3: Small business corporations and micro-businesses tax rates	42
Table 3. 4: Capital gains tax.....	42

LIST OF FIGURES

Figure 3. 1: Compliance cost incurred by South Africans in preparing for tax returns (Rand per annum)	40
--	----

LIST OF APPENDICES

APPENDIX A: ETHICAL CLEARANCE.....	66
APPENDIX B: LANGUAGE EDITING CERTIFICATE.....	67
APPENDIX C: TURNITIN REPORT	68

LIST OF ABBREVIATIONS

BMW	Bayerische Motoren Werke
CC	Close Corporations
CIPC	Companies and Intellectual Property Commission
COVID-19	Coronavirus
EU	European Union
KPMG	Klynveld Peat Marwick and Goerdeler Limited
NCA	National Crime Agency
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay-As-Your-Earn
PWC	PricewaterhouseCoopers
RSA	Republic of South Africa
SAICA	South African Institute of Chartered Accountants
SAIPA	South African Institute of Professional Accountants
SARS	South African Revenue Service
SBC	Small Business Corporation
SCA	Supreme Court of Appeal

SDL	Skills Development Levy
SMMEs	Small, Medium and Micro Enterprises
UIF	Unemployment Insurance Fund
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax
ZAR	South African Rand

CHAPTER 1

INTRODUCTION TO THE STUDY

1 INTRODUCTION

Small, Medium and Micro Enterprises (SMMEs) are significant pillars for sustaining the economies of most countries (Ravšelj *et al.*, 2019:69). In South Africa, SMMEs contribute approximately 67% of employment, 91% of the formal business and over a third of the national GDP (European Commission, 2018:1; Olla, 2016:1). However, compared to large enterprises, SMMEs face a number of challenges. Such challenges have culminated in poor performance, low profitability and high failure rate (Ravšelj *et al.*, 2019:69). Although the literature identifies various causes for the challenges facing SMMEs, Ravšelj *et al.* (2019:69) contend that compliance with tax rules and laws is one of the major burdens for SMMEs in South Africa. The main burden is that regardless of sector, size and form, every SMME is required to comply with tax legislation (Ravšelj & Aristovnik, 2018:75). Moreover, the judicial definition rendered in “*Chief Justice Latham in Mathews v Chicory Marketing Board*” decision provides that taxation is a compulsory extraction of money by a public authority for public purposes, enforceable by law, and not a payment for services rendered ((1938) 60 C.L.R 263, 276; Ramfol, 2019:7).

Taxation play and important role in the development and growth of every economy (Tee *et al.*, 2016:119). The cost of compliance with taxation is identified as a pivotal inhibitor to SMMEs development. Tax non-compliance is when the taxpayer does not comply or adhere to the tax authority's tax regulations and rules (Mohamad & Deris, 2018:1293). Mohamad and Deris (2018:1293) further argue that the increasing tax non-compliance among SMMEs has negatively affected the amount of tax revenue accruing to many governments. In South Africa, these burdens are more heighten due to the subjective evidence that tax compliance costs have prevented most SMMEs from registering their business with the Companies and Intellectual Property Commission (CIPC), the South African Revenue Service (SARS) and other regulatory bodies (Ndlovu, 2015:1). For these reasons, SMMEs that are not register for tax purposes are not regard as organised entity and it is difficult for such entities to obtain

contracts and tenders from the government institutions or cannot get services from the municipalities. SMMEs have to comply with various taxes, imposing a massive burden on the owners in terms of finance, administration, paperwork and time (Mahadea & Pillay, 2008:439). Some of these taxes include Value Added Tax (VAT), income tax, the Unemployment Insurance Fund (UIF) and the Skills Development Levy (SDL). Klins (2014:20) suggests that for the state to promote SMMEs, creating a stable tax regime is the best initiative for the development of tax-compliant SMMEs.

Like in many countries globally, SMMEs play a vital role in South Africa in raising revenue for the state (Inasius, 2019:100). However, SMMEs contribute lower tax revenue than large corporate enterprises because they do not pay the required tax due to high tax compliance cost and regulatory burden (Susila & Pope, 2012:719). Although the South African National Treasury (NT) is implementing various strategies to create a tax-friendly environment for SMMEs, tax compliance is still a significant burden hindering the sustainability of many SMMEs (Ndlovu, 2015:8).

1.2 BACKGROUND TO THE STUDY

Internationally, SMMEs are an essential force for economic development and are a significant contributor to job creation in smaller economies (Anyadike-Danes et al., 2015:822). SMMEs are generally private enterprises, and they are confronted with many challenges, especially compliance with tax legislation (Tee et al., 2016:119). Majority of business taxpayers in third world countries are SMMEs (Mohamad & Deris, 2018:1293). One of the major problems influencing the overall regulatory environment for SMMEs is tax compliance and its associated costs (Naicker & Rajaram, 2018:95). Tax compliance cost is defined as “the time, cost of preparing, handling and submitting required tax forms and returns, filling and effecting payments to the country’s tax authorities” (Coolidge, 2012:250). These costs are sometimes greater than the amount of tax paid and can add the burden that business operations have to contend with to the extent that these exert a significant impact on the operational viability of the SMMEs.

A significant majority of SMMEs participate in tax evasion due to various reasons such as the complexity of tax administration and tax legislation, inadequate tax competency and high tax rates (Mohamad & Deris, 2018:1293; World Bank Group, 2007:9-20). Naicker and Rajaram (2018:98) state that legislation and regulations that apply, taxes, consumer protection, access to information and corporate laws impose reporting and administrative burdens, with the constant threat of non-compliance and risks, are some of the challenges threatening the growth of SMMEs in South Africa. These challenges are evident from the court case between SARS and Africa Cash & Carry, whereby SARS raised a concern regarding the level of tax compliance of the Cash and Carry industry. The main focus was on the Ooplang schemes involving Ghost Exports, non-recording of the sale of cell-phone airtime, manipulation of loan accounts, claiming fraudulent invoices for VAT and income tax purposes, utilisation of intermediary shell companies to create invoices and sales suppression systems. The Supreme Court of Appeal held that the Tax Court order, which altered the assessments and confirmed the SARS' imposition of 200% additional tax. The Supreme Court of Appeal (SCA) dismissed the taxpayer's appeal and issued a cost order favouring SARS (ZASCA 148; [2020] 1 All SA 1 (SCA); 2020 (2) SA 19 (SCA); SARS, 2019).

Corporate income tax is the third-largest source of tax revenue for the South African government (Jansen, Ngobeni, Sithole & Steyn, 2020:1). During the 2018/2019 fiscal year, corporate income tax contributed 16.6% to the total tax revenue collected by SARS (SARS, 2019: 144). In South Africa, the tax rate for small business corporation (SBC) is 28%. Countries such as Australia, India and the United Kingdom(UK) have all reduced their tax rates for small businesses (Ssenyonjo, 2019:157). For example, in the 2018/2019 fiscal year, the Australian government reduced the tax rate for small businesses from 30% to 27.5% and this rate will continue to decrease annually till it reaches 25% in 2026/2027 fiscal year. India has reduced its concessional tax rate to 25%, while the UK ring-fence companies with small profit at a tax rate of 19% (Ssenyonjo, 2019:157). In the wake of these comparative tax regimes, it is vital for policy makers in South Africa to align the tax system so as to promote the growth and sustainability of SMMEs.

The South African government is actively involved in promoting SMMEs through creating mechanisms that support a tax-friendly environment for those SMMEs, especially in economic growth, employment generation and income redistribution (Berry et al., 2002:1). The South African government has been continuously putting efforts towards promoting the growth of SMMEs (Olla, 2016:9). One of these initiatives is the creation of the National Small Business Act No 102 in 1996 with the main aim of promoting SMMEs in South Africa. Furthermore, the Tax Administration Act was designed to encourage small businesses to comply with the tax act (National Treasury, 2013:12). One of these measures includes the creation of the Small Enterprise Finance Agency in 2010 with the aim of creating a tax-friendly environment for SMMEs in South Africa. In addition, with the compliance cost being identified as the main challenge for SMMEs, the Davis Tax Committee (DTC) was created in 2013 to assess the South African tax policy framework with the aim of supporting inclusive growth, employment, development and fiscal sustainability (Olla, 2016:1).

SARS is the tax collection authority in South Africa established as an independent and autonomous agency under the South African Revenue Service Act 34 of 1997 (Storm & Coetzee, 2018:161). There have been several concerns with most businesses' tax compliance levels in South Africa (SARS, 2019). Sitharam (2014:1) indicates that tax laws and regulations have a significant negative impact on the growth of SMMEs. For instance, in the court case between *“BMW South Africa (Pty) Ltd v The Commissioner for the South African Revenue Service (1156/18) [2019] ZASCA”*, the SCA of South Africa held that tax compliance services provided to an employee at the cost of the employer constitute a taxable fringe benefit in the hands of the employee.

In the United States, the Internal Revenue Services (IRS) is the tax organisation that administers the revenue code enacted by Congress (Storm & Coetzee, 2018:155). The United States Internal Revenue code contains illegal findings on non-compliance with tax legislation by businesses. In the court case between *“Sansone v, US, 380US 343, 354 (1965)”*, it was held that the element of the offence can be broken down as: an effort to avoid tax or the payment thereof; and wilfulness. Wilfulness was defined in the court case between *US v. Pomponio, 429 US 10, 12 (1976)* as the “voluntary, intentional violation of a known legal duty.”

In the United Kingdom, Her Majesty's Revenue and Customs (HMRC) and the National Crime Agency (NCA) investigated alleged tax fraud relating to non-compliance (Storm & Coetzee, 2018:155). Furthermore, the UK Taxes Management Act of 1970 is also one of the many acts in the UK that deals with fraudulent non-compliance with income tax.

1.3 RATIONALE OF THE STUDY

Tax compliance is a subject that can be traced back to the introduction of taxes, which is the reason such compliance remains an essential topic in the current literature of academic engagements and practices (Alshira'h, Alsqour, Lutfi, Alsyounf & Alshirah, 2020:1). Tax non-compliance is a significant concern among governments worldwide, and South Africa is not an exception. Although the South African government has undertaken various fiscal measures to increase tax compliance, the country still experiences a considerable increase in the fiscal deficit that can be traced back to the increase in non-compliant payment of taxes, especially among SMMEs.

A substantial amount of literature on the complexity of tax laws and tax compliance cost has mainly focused on the simplification of tax laws; causes of complexity in these tax laws; the measurement of the complexity of tax laws; the impact of such complexity on tax compliance costs; and the estimation of tax compliance costs (Alshira'h et al., 2020; Cuccia & Carnes, 2001; Evans, 2003; Forest & Sheffrin, 2002; Luca, Richard & Jaime, 2012:58; Mahangila, 2017:57). However, limited studies focus on assessing tax compliance costs among SMMEs, especially in developing nations such as South Africa. The rationale for this study was to fill this empirical gap by making a contribution to the body of knowledge by assessing the tax compliance cost among SMMEs in South Africa.

1.4 PROBLEM STATEMENT

In most third world countries, tax non-compliance affects the administration of income tax as well as impeding tax revenue performance (Wadesango, Mutema, Mhaka & Wadesango, 2018:1). Complying with tax regulations and laws is seen as time-consuming, with high regulatory costs and burden that negatively affect the growth of SMMEs in South Africa (Junpath *et al.*, 2016:97). For most SMMEs to remain viable as enterprises, a significant portion of their resources are directly allocated to ensuring tax compliance (Batrancea *et al.*, 2012:210; Naicker & Rajaram, 2018:98; Retief, 2010). This problem has diminished the business abilities of SMMEs to expand their operations and has forced most SMMEs to operate largely through tax evasion and avoidance (Naicker & Rajaram, 2018:98). It was evident in the case between “Miller v CIR and McDougall v CIR” whereby Baragwanath emphasised that in the end, avoidance and evasion is to be decided by the Commissioner, the Tax Review Authority and ultimately the court (Kumarasingam, 2010). Coolidge (2012:250) state that “the burden of tax compliance, which include the time and cost relating to preparing tax returns, filling, effecting payments and interacting with tax authorities are heavier than the tax payments themselves.”

In South Africa, the failure rate of SMMEs is alarming, with the majority of them not developing into well-established organisations (Olawale & Garwe, 2010:729). One of the main reasons for the high failure rate is the excessive compliance cost and prohibitive regulations on SMMEs (Naicker & Rajaram, 2018:98). At the same time, research shows that tax compliance cost in Western countries is lesser compared to the levels in developing countries. The World Bank Group reported that SMMEs in developing countries incur an average tax compliance cost of 15% of turnover every year (Coolidge, 2012:250). Recent statistics in South Africa show that the cost of tax compliance for SMMEs with an annual turnover of ZAR 1 million is almost 3% of turnover compared to 0.1 to 0.5% of turnover for larger enterprises ZAR 1 billion with the resources to engage tax consultants (Matarirano *et al.*, 2019:2). Mahangila (2017:57) argues that tax compliance cost is the main reason for the high tax non-compliance cases among SMMEs.

Limited studies focus on assessing tax compliance costs among SMMEs, especially in developing nations such as South Africa. This study strives to establish why tax compliance is one of the leading most extensive regulatory costs and burden that negatively impact the growth of SMMEs in South Africa.

1.5 RESEARCH OBJECTIVES

This study designed specific objectives as follows:

1.5.1 Primary objective

- To assess tax compliance costs among Small Medium and Micro Enterprises in South Africa

1.5.2 Secondary objectives

- Gain insight into the various challenges faced by SMMEs with regards to compliance with tax regulations and laws;
- Establish the reasons why tax compliance costs are highest among SMMEs as compared to larger business enterprises; and
- Generate and develop possible recommendations on how to improve tax compliance amongst SMMEs, specifically in tax filing and payments.

1.6 RESEARCH QUESTIONS

- What are the causes of high tax compliance costs among SMMEs in South Africa?
- What are the various challenges that SMMEs face with regards to compliance with tax regulations and laws?
- What are the reasons for the high tax compliance costs among SMMEs as compared to larger business enterprises?
- How can SMMEs be encouraged to improve compliance in terms tax filing, tax evasion and tax payments?

1.7 SIGNIFICANCE OF THE STUDY

South Africa experiences a high unemployment rate, sluggish economic growth and strives to reduce poverty. Creating a tax-friendly environment for SMMEs would encourage entrepreneurship that could contribute positively to alleviate these challenges (Lignier, 2014:217). This study's results are unique because they could open up other theoretical perspectives in the form of explanations for tax compliance cost and burden. This study contributes to the existing literature and theoretical understanding of the tax compliance cost and regulatory burdens affecting the growth of SMMEs in South Africa compared to the mechanism used in other countries. Furthermore, this study extends new horizons in the body of knowledge by making suggestions on further interventions and possible strategies that could be used by the legislative authorities to mitigate tax compliance cost for SMMEs. This study contributes to epistemic resources that could add to SARS in understanding what factors increase the tax compliance cost of SMMEs and might as well assist in managing compliance behaviour of SMMEs in South Africa (Smulders *et al.*, 2016:715).

1.8 DEFINITIONS OF KEY CONCEPTS

The following terms are contextually defined and situated within the context of this study.

SMMEs

The National Small Business Act No. 102 of 1996 of South Africa (1996) and The National Small Business Amendment Act (26 of 2004) define SMMEs as a

"separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy."

This study adopts the definition of micro-enterprises and SBC according to section 12E of the Income Tax Act, which refers to it as enterprises whose turnover does not exceed R 1 million per annum, amongst other requirements and that of the SBC which is referred to as an entity with a gross income not exceeding R 20 million per annum. The term SMME, SME, SBC, Micro-enterprise are used interchangeably in this study.

Tax compliance costs

Smulders (2006:1) define tax compliance cost as “the costs incurred by a business in the course of complying with tax regulations.” Furthermore, tax compliance cost is defined as the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities over and above the actual payment of tax; costs which would disappear if the tax was abolished (Coolidge *et al.*, 2009:26; Smulders *et al.*, 2012:188).

Tax compliance

Tee *et al.* (2016:120) defines tax compliance as the fulfilment of all tax obligations specified by the law.

1.9 DELIMITATION

For the purpose of this study, SMMEs in the mining and exploration companies; recruitment companies; personal service companies (and labour brokers); and farming enterprises are excluded in this study. This is because SMMEs in these sectors are subject to specific tax policies. SMMEs classified as a trust are also excluded from this study due to the complexity surrounding trust's tax compliance (Sieberhagen, 2008:4).

For this study, the tax compliance cost for SMMEs that are discussed are based on these tax Acts:

- The Income Tax Act no. 58 of 1962;
- VAT Act no. 89 of 1991;
- The National Small Business Act no.102 of 1996);

- The Tax Administration Act no. 28 of 2011); and
- Other programmes introduced and implemented by South African Revenue Service.

1.10 RESEARCH METHODOLOGY

A research methodology is defined as "the logic of development of the process used to generate theory that is a procedural framework within which the research is conducted" (Mohajan, 2018:26). Pumela (2011:2) suggests that research methodology entails how the research will be done. The research methodology for this study comprises of the research philosophy, research design, data collection and data analysis.

1.10.1 Research philosophy

Research is regarded as a scientific process of answering research questions, generating answers to the research problem, generating new knowledge through a methodical and organised data collection method, and analysing information to make the research useful in decision making (Kabir, 2018:2). Kabir (2018) further offers that the rules of logical reasoning guide research. In this regard, it was necessary to define the research paradigm that underpins the investigation into modalities that support a tax-friendly environment for SMMEs in South Africa.

A research paradigm is described as a primary collection of beliefs shared by researchers (Rahi, 2017:403). Rahi, (2017) further states that a research paradigm is "a set of agreement about how research problems are to be understood, as well as how the researcher perceived that world and how they go about conducting research". For this study, an interpretive paradigm is adopted. Researchers within an interpretive paradigm seek an in-depth understanding of a research phenomenon and explore the world's understanding in which they live (Rahi, 2017:403). Interpretive paradigm privileges in-depth interpretations of subjects in order to explicate the context more fully.

1.10.2 Research design

A qualitative archival research method, with an extensive literature review as the data collection method was adopted in this study. Cropley (2019:5) opines that qualitative research aim at assessing people make sense of their own real-life experiences. Cropley (2019:5) further highlights that the advantage of qualitative research is to gain an in-depth understanding into the constructions of reality and the nature of the universe as it is experienced, structured and interpreted by humans in the course of their everyday lives. Qualitative research method was considered suitable because it provides the researcher with a comprehensive understanding of how the available tax legislation of South Africa, USA, UK, Australia, China, Europe, Mauritius and other countries can provide a tax-friendly environment for SMMEs.

Archival research method includes a broad range of activities applied to facilitate the investigation of documents and textual materials produced by and about organisations (Ventresca & Mohr, 2001:2). In other words, archival methods involve utilising historical documents to gather arguments and contrasts as well as evolving information under that particular study. This refers to information and documents that were created at some point in the relatively distant past, providing the scholars with access that in some instances is not a particular organisation, individual, and event of that earlier time. Archival methods are also used by researchers engaged in non-historical study about contemporary organisations, often as tools to supplement other research strategies such as field methods and survey methods organisations (Ventresca & Mohr, 2001:2). A comprehensive literature review was conducted, which include the following sources: court cases, legislation, government publications, journals, books, and electronic resources.

1.10.3 Data collection

This study depended mainly on secondary sources to gather relevant and necessary archival data. According to Vogt et al., (2012:86), archival data have been gathered by previous researchers before any action by the current researcher. Vogt et al. (2012) further concurs that archival data might be collected from numerical records, verbal documents, or visual artefacts such as those on websites. For data management, the

researcher stored electronic data in a password protected computer for five years. Post that period, the data shall be permanently deleted from the researchers' personal computer using a relevant software programme.

1.10.4 Data analysis

The researcher performed a critical archival analysis of facts and information already available. An archival analysis reports the incidence and prevalence related to a specific phenomenon (Rahi, 2017:2). A comparative analysis is performed to compare South Africa, USA, and the UK's available tax legislation to determine whether the South African tax legislation could be improved to provide a tax-friendly environment for SMMEs. This is done by comparing the available legislation of the USA, UK and South Africa. The US and UK were considered appropriate countries in this study to answer the research questions due to their vigorous attempts and success in creating a tax-friendly environment for SMMEs in their countries (Lilley, 2012; Storm & Coetzee, 2018:155).

Content analysis is a research method used for the qualitative or quantitative systematic analysis of written, verbal or visual documents (White & Marsh, 2006:22). The content can originate from various sources, including books, manuscripts, drawings, photographs, recorded conversations, videotaped events, messages on electronic mailings lists and online forums, and blog posts (Wilson, 2011:177). Content analysis was considered appropriate as the researcher aims to analyse documentary texts such as archival material, legislation, government publications, journals, books, electronic resources and court cases.

1.11 ETHICAL CONSIDERATIONS

Research approaches used to collect data have ethical implications that the research addresses (Orb et al., 2001:95). For this study, the author obtained ethical clearance from the North-West University Ethics Committee. The researcher also ensured that every information source from other authors was acknowledged through references and citations.

1.12 LAYOUT OF THE DISSERTATION

This study comprises four chapters as discussed below:

Chapter 1: Introduction to the study

Chapter one of the study provides the background to the research problem, research questions and objectives. The chapter further annotates the significance of the study and the definition of the key concepts for the study. The research design and methodology are highlighted. The chapter concludes with ethical consideration as well as the outline for the study.

Chapter 2: Tax compliance burden for SMMEs in South Africa

Chapter two reviews relevant literature relating to the tax compliance costs in South Africa. The aim is to obtain an insight into the various challenges SMMEs encounter with regards to compliance with tax regulations and laws; to establish the reasons tax compliance costs are highest among SMMEs as compared to larger business enterprises, and to put forward possible recommendations on how SMMEs can improve compliance in terms tax filing and tax payments. The chapter commences with a review of literature relating to barriers facing SMMEs. Next, tax compliance burden, regulatory tax burden, strategies and mechanism to provide a tax-friendly environment for SMMEs in South Africa. The chapter concludes with a review of various theoretical models for tax compliance burden.

Chapter 3: Measuring tax compliance cost for SMMEs in South Africa

In chapter three, the various methodologies to calculate tax compliance cost are assessed. The chapter quantifies the compliance costs for SMMEs in South Africa and provides estimates of taxpayer burden and tax rates for SMMEs.

Chapter 4: Summary, recommendations and conclusion

The last chapter of the study provides a summary of the main findings. The chapter begins with a summary of the main findings from the literature review. The chapter

provides recommendations based on the findings of the study. The chapter further submits suggestions for future researches. The chapter terminates by providing the practical implications of this study.

1.13 SUMMARY

The cost of compliance with taxation is noted as a critical inhibitor to SMMEs development. In South Africa, these burdens are more heightened due to the subjective evidence that tax compliance costs have prevented most SMMEs from registering their business with the CIPC, SARS and other regulatory bodies. In this chapter, the background and problem statement to the study was provided. In tandem, the research objective and research questions that guided the study were derived. Definition of the critical concepts for the study was provided. The delimitations, research methodology and the chapters' layout for the study were provided. The next chapter reviews relevant literature relating to the tax compliance burden in South Africa.

CHAPTER 2

TAX COMPLIANCE BURDEN FOR SMMEs IN SOUTH AFRICA

2.1 INTRODUCTION

The preceding chapter provided the background to the research problem, the research objectives and questions which guided the study. This chapter reviews relevant and recent literature on tax compliance burden for SMMEs in South Africa. The principal aim is to contextualise the study and gain insight into the various challenges SMMEs face with regards to compliance with tax laws, identify and explicate the reasons tax compliance costs are highest among SMMEs as compared to larger business enterprises; generate possible recommendations on how SMMEs could improve compliance in terms tax filing and tax payments. The chapter commences with a review of literature relating to barriers facing SMMEs. This is followed by an examination of the tax compliance burden, tax regulatory burden, strategies, and mechanisms to provide a tax-friendly environment for SMMEs in South Africa. The chapter closes with a full review of various theoretical models that have addressed the tax compliance burden.

2.2 DEFINING SMMEs

SMMEs have been defined in myriad ways. In South Africa, the definition of SMMEs takes on several variables, namely: the size of the enterprise, the number of employees and turnover. Standard Bank of South Africa classifies SMMEs as firms with a turnover of between R150 000 and R5 million per annum; and registered businesses with fewer than 250 employees (Falkena, 2012, Kunene 2014). Section 1 of the National Small Business Act of 1996, as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act), officially defines a small business as:

"... a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any

sector or sub-sector of the economy mentioned in Column I of the Schedule14..."

A comprehensive definition of SMMEs, according to the Department of Trade and Industry (DTI, 2014), is provided in Table 2.1 below.

Table 2. 1: Categories of SMMEs as set out by DTI

Categories of SMME	Description
Survivalist/ Enterprise	“Operates in the informal sector of the economy, mainly undertaken by unemployed persons, income generated below the poverty line, providing minimum means to keep the unemployed and their families alive, little capital invested not many assets and not much training and opportunities for growing business are minimal.”
Micro- Enterprise	“Between one to five employees, usually the owner and family; informal, no license, formal business premises, labour legislation, turnover below the VAT registration level of R300, 000 per year, basic business skills and training, and potential to make the transition to a viable formal small business”.
Very small enterprise	“Part of the formal economy, use technology, less than ten paid employees and include self-employed artisans (electricians, plumbers) and professionals.”

Small enterprise	“Less than 100 employees, more established than very small enterprise, formal and registered, fixed business premises and owner-managed, but more complex management structure.”
Medium enterprise	“Up to 200 employees, still mainly owner-managed, but decentralised management structure with the division of labour and operates from fixed premises with all formal requirements.”

Source: DTI (2014)

From the definitions outlined above, it can be deduced that the income generated by SMMEs is below the poverty line. However, the little income generated is channelled towards complying with the tax burden. Furthermore, the above definition shows that SMMEs have little or no training on tax-related issues, making opportunities for growing their business very little. In addition to that, one of the definitions states that SMMEs have no license, formal business premises, or labour legislation, and have turnover below the VAT registration level of R300, 000 per year. It implies that most SMMEs do not encounter tax burden or incur compliance cost relating to VAT.

SMMEs often face a number of challenges. Ravšelj *et al.*, (2019:69) argue that compliance with tax laws is one of the major challenges affecting the business activities of many SMMEs. The tax-related burden facing SMMEs can be grouped into tax compliance burden on the one hand, and tax compliance cost on the other hand. Ravšelj *et al.* (2019:69) argue that tax compliance costs are mostly related to administrative tax burden from tax rules. A number of studies (e.g. Djankov *et al.*, 2006; Ravšelj *et al.*, 2019) concur that SMMEs in countries with a good tax system have the potential to grow faster than those with punitive systems.

In order to avert the complexities of definition based on literature, this study opted to classify SMMEs from a tax perspective such that this aligns with the focus of the study. Section 12E of the Act defines SBC as

“Any close corporation or co-operative or any private company as defined in section 1 of the Companies Act if at all times during the year of assessment all the holders of shares in that company, co-operative or close corporation are natural persons, where (i) the gross income for the year of assessment does not exceed an amount equal to R 20 million: Provided that where the close corporation, co-operative or company during the relevant year of assessment carries on any trade, for purposes of which any asset contemplated in this section is used, for a period which is less than 12 months, that amount shall be reduced to an amount which bears to that amount the same ratio as the number of months, during which that company, co-operative or close corporation carried on that trade bears to 12 months,

(ii) at any time during the year of assessment, no holder of shares in the company or member of the close corporation or co-operative holds any shares or has any interest in the equity of any other company as defined in section 1...

(iii) not more than 20 percent of the total of all receipts and accruals (other than those of a capital nature) and all the capital gains of the company, close corporation or co-operative consists collectively of investment income and income from the rendering of a personal service, and

(iv) such company is not a personal service provider as defined in the Fourth Schedule...”

According to Timm (2015:3), the requirements of S12E are complex and might not be clearly understood by many SMMEs which ultimately results in SMMEs and its owners not adopting this section and Act's concessions. This then renders this section as ineffective for SMMEs in terms of classification. Based on the extract above, it is noted that there is an intricate amount of sections in the tax legislation that SMMEs need to adhere to for them to be considered tax compliant. These often place a high tax compliance burden and costs on SMMEs and hinder their growth.

2.3 TAX COMPLIANCE COST AND BURDEN

The tax compliance burden is defined as "the time and cost associated with preparing tax returns, filing, effecting payment and interacting with the tax authorities, while tax compliance cost includes preparing, handling and submitting a required tax return to the countries tax authorities" (Ahmad et al, 2017; Coolidge, 2012:250). Matarirano *et al*, (2019:1) argue that tax compliance costs are regressive in nature and impose a heavy burden on performance and sustainability of small businesses. SMMEs business owners in most developing countries, including South Africa, have voiced concern that tax compliance costs add a significant burden to their operations and have significantly impacted their bottom line (FIAS, 2008). FIAS (2008) further found that in South Africa, these complaints are corroborated by subjective evidence that tax compliance costs also prevent many SMMEs in South Africa from registering with the CIPC, SARS and other regulatory bodies. Coolidge (2012:250) found that the burden of tax compliance is heavier than the number of tax payments themselves.

Both locally and internationally, SMMEs are under immense pressure to comply with tax compliance costs. Tax compliance costs are one of the factors behind poor performance and failure, as often cited by small businesses (Matarirano *et al*, 2019:1). Although some countries have introduced significant tax relief and incentives, this has not been sufficient as SMMEs are still over-burdened. Rametse (2010) found that the Australian Bureau of Statistics raised the concern that compliance with government regulations had impacted SMMEs, resulting in them having to bear a disproportionate burden of compliance cost in relation to their size. She also emphasises that it is usually smaller enterprises that endure higher compliance costs due to their limited capacity and resources (Rametse, 2010:1).

In her study, Rametse (2010) indicates that this situation is experienced by SMMEs in South Africa and other African countries, which provide evidence that the compliance burden relating to tax is experienced by SMMEs in other countries as well as South Africa. Countries such as Finland, Romania, and France are known for their dedication towards uplifting SMMEs by implementing tax programmes and policies that decrease SMMEs' tax regulatory cost and give them a chance to grow and succeed compared to well-established larger enterprises (Impact Trust, 2012).

The study conducted in 2012 by Impact Trust also noted the following:

- Mauritius is offering support programmes that assist SMMEs with tax matters. Some of the initiatives and concessions include but are not limited to the allowances of bad debts, customs duty exemptions, and low tax rates.
- Some countries in the European Union have allowed SMMEs accelerated depreciation allowances and preferential tax rates. They also afforded to opt-out of registering and paying VAT if the specific taxpayers' turnover falls below a certain threshold.
- The UK tax authority also allowed SMMEs to pay at the preferential rate. Additionally, they have introduced the requirements in their tax legislation whereby SMMEs are given the opportunity to calculate and pay on cash basis as well as use a simplified expense rules.
- Italian SMMEs taxpayers have been allowed to manage their businesses in “duty-free” zones. This initiative or concession allows SMMEs in Italy to be subjected to lower tax rates and a reduced tax wedge.
- Singapore offered SMMEs many other tax concession and incentives, including the income tax rebate that is once-off (Impact Trust, 2012).

It is evident then that globally there is a range of measures that have been adopted in the face of the experiences and burden of tax compliance cost SMMEs deal with and the tax authorities are attempting to solve through implementation of some tax concessions and incentives.

In 2015 SAICA conducted a study on the difficult barrier to entry when starting a new company where the following key findings were noted (SAICA survey, 2015):

- Compliance with legislation
- Registering for tax;
- Registering for VAT; and
- Registering for PAYE and UIF.

Tax compliance is the accurate reporting of income and expenses based on applicable tax regulations (Alm, 1991; Inasius, 2019:101). Yulianto *et al.*, (2019:363) define tax

compliance as "the willingness of taxpayers to pay taxes under the tax burden set by the government without manipulation of revenue values." Kirchler (2007) contends that tax compliance is the taxpayer's willingness to obey tax laws to maintain the country's economic equilibrium. Tax non-compliance exists in all economies when taxes are perceived and understood as a government revenue source (Iswahyudi, 2017:87). The increasing complexity of tax legislation has an associated increase in taxpayers' compliance burden (Gcabo and Robinson, 2007:358). According to Smulders and Evans (2016:3), tax compliance resulting from corporate and personal income tax currently produce less revenue than consumption-based taxation. Bird & Gendron (2006) contend that tax compliance cost is intensified in most developing countries.

Each individual, whether in their individual capacity, representative of household, as employees, consultant or as business owners, pay taxes and therefore they are either directly or indirectly interacting with the tax system as taxpayers (Eichfelder & Vaillancourt, 2014:111). Eichfelder and Vaillancourt (2014) further point out that these individuals and business legal structures are supposed to comply and adhere to complex tax laws and regulations. As a result, they are burdened with tax compliance obligations that significantly increase with complexity. Manhire (2015:11) avers that almost every business is engaged in voluntary tax non-compliance (Manhire, 2015:11). Akinboade (2015:394) argues that the primary reasons for the non-compliance among SMMEs taxpayers are inadequate knowledge about the calculation of taxable income, types of taxes that SMMEs are supposed to pay, non-registration for tax, non-filling of tax returns, poor payment record, under-reporting of turnover and profit; and poor bookkeeping.

A study in Zimbabwe by Nyamwanza et al. (2014) established that SMMEs in most developing countries, including South Africa, do not comply with tax as most do not believe in the tax system and considered tax rates to be too high, hence significantly affecting their business. Nyamwanza et al. (2014) further found that SMMEs considered compliance with tax as burdensome as the process of complying with all taxes as unnecessarily time-consuming. Complying with tax was also seen as very costly as most SMMEs do not have accountants as employees who would assist with the tax compliance, and hence they depend heavily on tax practitioners who charge high fees.

2.3.1 Tax administrative burden

Tax administrative burden refers to a tax-related encumbrance that arises from administrative obligations that SMMEs must comply with due to legislation (Ravšelj et al., 2019:70). Tax administrative burden can also arise as a result of the complexity of the tax system. Block (2016:1) contends that the administrative burden represents the operating cost independent of profitability of the business. James and Alley (2002:27) state that tax compliance is the willingness of taxpayers or enterprises to act per tax legislation without the use of coercive measures. Ravšelj et al., 2019:70) remark that to fulfil the tax compliance obligations, SMMEs are required to report on the correct tax base, correct computation of tax liabilities, and timely filing of tax returns as well as timely payment of the amount due to the tax authority.

Wadesango et al (2018:1) identifies tax compliance as a serious problem for many tax authorities. This is because it is a burdensome undertaking to influence taxpayers to comply with tax requirements (James & Alley, 2014:27). Literature has established that the administrative tax burden resulting from existing tax legislation generally leads to a decrease in productivity and negative growth of SMMEs (Ropret *et al.*, 2018; Slabe-Erker & Klun, 2012). SARS has also introduced administrative non-compliance penalties for non-compliance corporates (including SMMEs) whose tax return is long outstanding. This non-compliance penalty has a potentially adverse impact on several SMMEs as SARS, in collaboration with the CIPC, can obtain a list of non-compliant SMMEs quickly (Deloitte. 2019:1). Prior research shows that tax compliance burden is a worrisome development (Coolidge *et al.*, 2009:4; Guyton et al., 2003:676). Smulders *et al.* (2016:715) define tax compliance burden as “the amount of time, and financial resources (compliance cost) spent to comply with the tax.”

2.3.2 Strategies to improve compliance in terms of tax filing, tax evasion and tax payments

South Africa has experienced massive changes since 1994, post the apartheid regime. From the beginning of introducing the new government to the structural changes in tax

administration and compliance (Junpath et al., 2016:97), the bureaucracy and corruption, registration and processes, and strict tax regulations have been factors impacting the growth of SMMEs in South Africa (Klins, 2014:20). Additionally, tax compliance cost is one type of regulatory costs that have an enormous negative impact on SMMEs (Chamberlain & Smith, 2006:2). Besides the contributions to the economy, SMMEs must pay tax to facilitate development activities (Peprah et al., 2020:2). Studies have shown that SMMEs tend to evade tax more than larger enterprises (Kirchler et al., 2006; Peprah et al., 2020:2). One of the main reasons for the tax evasion amongst SMMEs is attributed to high compliance costs.

The state is tasked with ensuring that mandatory taxes are acceptable, fair, and beneficial (Delalande & Huret, 2013:301). One of the challenges the South African government faces within its fiscal policy is the restructuring of the tax system to create a friendly environment for both the citizens and small businesses (Junpath et al., 2016:97). Ramfol (2019:4) caution that taxpayers will mostly comply with tax when there is an effective mechanism for a tax-friendly environment. Increasingly governments realise that, while regulation may be necessary, the cost of regulations should be closely monitored and controlled. It is particularly true for SMMEs that, due to their size, they are more vulnerable to regulatory burden than larger companies. Mahadea & Pillay (2008:431) found that rising crime levels, laws and regulations, and taxation are significant constraints affecting SMMEs growth in South Africa.

2.4 TAX COMPLIANCE COST

Tax compliance cost is the costs incurred by taxpayers and third parties in meeting the requirements laid upon them in order to comply with a given structure and level of tax (Sandford et al., 1989). European Commission (2013:3) highlighted that there are many different areas of tax compliance. Furthermore, the compliance activities differ and these extend beyond preparing and filing the tax returns. The European Commission (2013:3) defines tax compliance costs as “all the costs borne by businesses and individuals for complying with tax regulation, excluding the costs of the taxes themselves.” Evans et al., (1997:2-3) also concur that tax compliance costs are those incurred by taxpayers to comply with their tax obligations without taking the actual tax liability into account. Stark and Smulders (2018:286) put it that tax

compliance costs would not exist if the tax system was abolished. Matarirano et al. (2019:1) argue that one of the main reasons for the low-performance failure of SMMEs in South Africa is taxation costs. Herrington and Kew (2016:48) concur that the costs associated with complying with taxation consistently appear to be significant burdens to SMMEs.

A review of empirical findings on tax compliance cost by Eichfelder and Vaillancourt (2014) found that tax compliance costs are high among SMMEs and they submit that this is a global problem facing many countries. Eichfelder and Vaillancourt (2014) further show that these compliance costs are regressive, implying that the costs greatly impact SMMEs than large businesses. Researchers therefore show that tax compliance costs are a considerable burden for SMMEs (Eichfelder & Hechtner, 2016:1). A study conducted in South Africa by Matarirano et al, (2019:1) reveals that business size, age, method of settling tax obligations and qualifications of the tax preparer drive tax compliance costs of small businesses.

Tax compliance costs have been widely discussed in the economic and public finance literature due to its negative consequences on efficiency and taxation equity (Eichfelder & Vaillancourt, 2014; Slemrod & Yitzhaki 2002). From the efficiency perspective, Eichfelder and Vaillancourt (2014:1) argued that costly compliance activities are a waste of economic resources as they increase the effective tax burden borne by SMMEs without raising revenue to the state. From the equity point of view, complicated tax rules may result in too high compliance cost (Rupert, Single & Wright 2003; Buettner et al. 2012). Jansen et al. (2020:1) contended that in addressing the tax-related regulatory on SMMEs, the state must first take an essential step in addressing non-compliance and the magnitude of tax evasion and avoidance activities.

In an Australian court case between Harris v Deputy Commissioner of Taxation ('Harris') it was held that:

"There is no basis upon which to conclude that there is a tort liability in the Australian Taxation Office or its named officers towards a taxpayer arising out

of the lawful exercise of functions under the Income Tax Assessment Act"
(Bevacqua, 2012:229).

From the taxpayer perspective, complicated and complex tax rules result in tax compliance burdens, which harm the taxpayers' economic resources without increasing the state's fiscal budget (Eichfelder & Hechtner, 2016:2). Evans (2008:447) indicates that although the consensus in subsequent literature is that these costs comprise three core elements – taxpayers' and unpaid helpers' time, tax practitioners' fees and incidental costs (such as computer software packages), there are several other costs that need consideration. Barbone et al., (2012) argue that the tax system induces psychological costs that include stress, anxiety, frustration and dissatisfaction suffered by taxpayers in trying to comply with their tax obligations. However, these costs cannot be quantified. Research has identified three broad elements of tax compliance cost, internal tax compliance cost, external tax compliance costs and incidental tax compliance costs (Evans, 2006:3; Tran-Nam et al., 2000:229).

From the internal perspective, tax compliance costs include taxpayer's and unpaid helpers' time (Smseverall, 2016:715). In other words, these are costs related to the labour costs or time devoted to activities of tax matters, such as the time taken by SMMEs owner, employee and unpaid friends or relatives who understand the tax laws and legislation. According to Evans (2008:451) and Klun & Blazic (2005:418), the internal tax compliance cost can also include the business's time to obtain documents and information to file the tax return. Coolidge et al. (2009:26) argue that the use of external service providers such as tax practitioners may be necessary, as this will decrease the internal tax compliance costs (time) compared to SMMEs that do not make use of such external service providers. A South African study conducted by Smulders et al. (2012) shows that the internal tax compliance cost of SMMEs increases as the size and turnover of the businesses increases. Tax compliance costs from the external perspective include tax practitioner costs, accounting costs and other external costs relating to tax compliance regulations (Smulders et al., 2016:715).

2.4.1 Administrative penalty

Tax administrative penalty is levied under section 210 of the Tax Administration Act 28 of 2011. The Tax Administration Act (TAA) 28 of 2011 prescribes different types of non-compliance, subject to a fixed administrative penalty (SARS, 2020:1). However, currently, this penalty is only imposed for non-compliance relating to non-submission of a tax return. SARS (2020:1) emphasis that the penalty would be imposed for companies where the company has failed to submit an income tax return as and when required under the Income Tax Act, for years of tax assessment ends. From 2009 and subsequent years, where the South African tax authority has issued the entity with a final demand referring to the public notice and requiring the submission of the outstanding income tax return, and the entity failed to submit the return within 21 business days of the date of issue of the final demand, the non-compliance penalty can there be imposed by SARS. Currently, the administrative non-compliance penalty ranges from R250 to R16 000 per month, and this is charged every month from the date the administrative non-compliance occurred to the last day of correction. It is also stated in the TAA (no. 28 of 2011) that failure to submit a return comprises a fixed amount of penalties based on a taxpayer's taxable income.

In the court case between "*A and Another v The Commissioner for the South African Revenue Service (IT13725, VAT1426, IT13727, VAT1096) [2018] ZATC 10 (8 February 2018)*", it was held that understatement penalties should be charged under Chapter 16 of Tax Administration Act 28 of 2011 at 150%, upon the basis that the behaviour of the first and second appellants fell to be classified as intentional tax evasion. Each of the cases was classified as "standard".

2.5 TAX REGULATORY BURDEN

All business, either incorporated or sole trader, interact with the tax system as taxpayers (Eichfelder & Vaillancourt, 2014:1). These taxpayers are required to comply with complex tax law and as a result, are burdened with tax compliance obligations that are presumed to increase with complexity (Eichfelder & Vaillancourt, 2014:1). Tee et al. (2016:119) asserted that an inadequate tax system might create a significant burden on SMMEs. Research has shown that most SMMEs are less likely to maintain

profitability due to tax burden (Tee et al., 2016:119). Despite the critical role SMMEs play in economic development, they are faced with various challenges, one of which is the regulatory burden which comes at a cost, imposed by tax legislation (Smulders et al., 2012:185). Studies have argued that regulatory tax burdens fall excessively on SMMEs (Tee et al., 2016:120).

The economic cost of taxation comprises the tax payments and excess burden and the time effort and the monetary expenses spent on tax compliance and tax planning (Blaufus et al., 2014:801). Blaufus et al. (2014:801) further argues that these costs are partly due to tax regulations and compliance regulations. Research has argued that regulatory tax requirements on businesses, especially those on SMMEs, can constrain SMMEs growth and sustainability (Inasius, 2015:67). The main concern for most governments is taxpayers' honesty, regardless of the reason for tax compliance (Inasius, 2019:99). Global evidence amply demonstrates that regulatory tax burden appears to fall excessively on SMMEs (Inasius, 2015:68).

One of the most challenging factors faced by SMMEs in South Africa is the regulatory and legislative burden imposed in the form of tax legislation (Evans et al., 2014:454; Smulders et al., 2016:715). Compliance with tax legislation is thus an additional cost to taxpayers. Tax compliance cost discourages business start-ups, diminishes business production and reduces business resources, without increasing the income for both the business and the state, resulting in a waste of economic resources (Eichfelder & Schorn, 2009:2; Smulders et al., 2016:715). These impacts affect the economic performance of the SMME and have a significant association on the level of compliance in that they could lead to an increase in tax evasion (Klun & Blazic, 2005:419; Sapiei & Kasipillai, 2013:82).

The study conducted in 2011 found the following different areas of tax compliance costs (Smulders & Naidoo, 2011:112):

- Compliance cost incurred for record-keeping;
- Compliance cost incurred in preparing and submitting tax returns;

- The amount of time employees of SMMEs spend in ensuring proper tax compliance;
- Compliance costs incurred in making use of the services of tax practitioners, accountants and other consultants to assist in tax compliance or resolving disputes with SARS; and
- Other incidental costs incurred in the course of tax compliance.

All the tax compliance sections attract various costs, and some of these activities need to be outsourced to accountants and tax practitioners while others are done internally. Unfortunately, SMMEs need to incur such costs for them to maintain professional and legal obligations. This might hinder their entrepreneurial spirit while attending to tax compliance costs and burdens.

FIAS (2007) found the following key findings from the perspectives of the accountants and tax practitioners:

- Registration of VAT takes an excessively long time
- SARS takes excessive amounts of time to process, capture and correct errors made by them in respect of Income Tax
- SARS incorrectly raises provisional tax penalties and interest (FIAS, 2007).

The inefficiencies in the SARS tax systems can be improved by the same tax authority. Rametse (2010) suggests that some burdens SMMEs are carrying are linked to the complicated tax system that most South African taxpayers struggle with. She further suggests that SARS needs to design a tax system that is simple and accommodating to alleviate the said tax compliance cost and burden.

2.6 STRATEGIES TO PROVIDE A TAX FRIENDLY ENVIRONMENT FOR SMMEs

Encouraging a tax-friendly environment requires a careful understanding of how taxpayers think about the entire taxation experience (Fjeldstad et al., 2012:1). Junpath et al. (2016:97) proposes that one of the government's mechanisms is to develop multiple tax amnesty programmes to provide immunity for limited periods to small businesses for past non-compliance without being subjected to additional tax, interest, penalties or prosecution for non-compliance. However, in the recent court case between the SARS and Cash and Carry industry, the Supreme Court of Appeal upheld the Tax Court order, which altered the assessments and confirmed SARS' imposition of 200% additional tax. Junpath et al. (2016) further argued that developing a tax-friendly environment might not generate additional revenue, as non-compliant taxpayers could continue to evade taxation in anticipation of additional future amnesties.

Gcabo and Robinson (2007:358) concur that creating a tax-friendly environment would generate a smaller government revenue than what might be drawn from a more moderate tax environment. Fjeldstad et al. (2012:1) indicates that the state must analyse opportunities and constraints for reform, before designing and implementing effective policy and administrative measures to enhance a tax-friendly environment for businesses. Ramfol (2019:4) offers that tax revolt is an effective mechanism to renegotiate exchange by applying strategies that mobilise the acrimonious association between taxpayers and government institutions.

The vast presence and regressive nature of tax compliance costs are well-documented components of most countries' tax systems (Smulders & Evans, 2016:1). The South African National Treasury has adopted differentiated tax policies to target two specific constraints for SMMEs, which comprises "access to equity finance" and "easing of the tax compliance burden" (Sieberhagen, 2008: iv). Smulders et al. (2016:715) suggest that a reduction in tax compliance costs could ease and increase the productivity and international competitiveness of SMMEs. In this regard, SMMEs could save some of these compliances costs, which might allow these businesses to

apply more resources to essential business activities and increase their employment capacity (Charron et al., 2008).

The complex nature of taxation can be the best measured by tax compliance cost (Inasius, 2015:68). Blaufus et al. (2014:803) argues that in addition to cost measurement, identifying the critical cost drivers is a vital question of research that still needs empirical answers. Williams and Horodnic (2017:1062) suggests that tax authority should ensure that the utility of non-compliance should be outweighed by the cost of non-compliance and increased the penalties and the perceived probability of detection of the non-compliant taxpayers. Horodnic (2018:868) argues that applying higher penalties and increasing the probability of detection will not reduce tax non-compliance for SMMEs.

2.6.1 Tax incentives

The South African government introduced many programmes and agencies through the office of DTI to assist and support SMMEs. The National Small Business Act (no. 102 of 1996) was also legislated to promote SMMEs in South Africa. Among others, is the National Development Plan which states that its objectives by the year 2030 is to simplify the regulatory environment for SMMEs, including regulations such as tax (National Development Plan, 2012:147). As already explained, SMMEs in South Africa deal with huge tax compliance costs and the burden resulting from complex tax regulation (Falkena et al. 2001).

SARS have introduced and implemented many tax incentives in order to alleviate the tax compliance burden and unnecessary costs on SMMEs. Should the SMME meet the section 12E requirements as defined earlier in this study, the following tax incentives are allowed (Income tax Act, No.58 of 1962):

- Tax is levied at lower rates ranging from 0% to 28% depending on the SBC's taxable income. This is detailed in Table 3.3 and 3.4.
- Capital allowance write-off periods are accelerated with manufacturing assets being allowed a 100% write-off in year one of acquisition. Normal companies are allowed write-off periods for manufacturing assets based on section 12C of

the Income Tax Act (No. 58 of 1962) either four years or five years depending on whether the assets are new or used. New assets are allowed 40% in year one and 20% in years two to four. Used assets are allowed 20% in years one to five.

- Non-manufacturing assets are allowed a write-off period of 50% in year one, 30% in year two and 20% in year three. This is also accelerated as normal companies may claim allowances on non-manufacturing assets as per section 11(e) of the Income Tax Act (No. 58 of 1962). These wear and tear allowance periods are published by SARS depending on the category of asset (Income tax Act, No.58 of 1962).

The South African government has provided government grants and tax incentives to all taxpayers, regardless of operational size or turnover, that may provide relief from the economic situation resulting from the coronavirus (COVID-19) pandemic (KPMG, 2020). On June 2020, the Disaster Management Tax Relief Bill, 2020 and Disaster Management Tax Relief Administration Bill, 2020 were tabled in the South African parliament. These bills aimed to provide tax measures to alleviate cash flow burdens on tax compliant SMMEs from the COVID-19 pandemic (KPMG, 2020). Tax relief measures introduced covered a delay of remittances of the "Pay-As-You-Earn" (PAYE), without triggering penalties or interest, a delay in interim remittances payments of income tax, without triggering penalties or interest and acceleration of specific employment tax incentives.

2.7 THEORETICAL MODEL

Two theoretical approaches can be used to understand taxpayers' compliance (Yulianto, 2019:363). These approaches comprise the economic and behavioural (non-economic) approaches (Inasius, 2019:100). The economic approach to tax compliance is grounded on economic reality, whereby participants are required to act rationally when making economic decisions (Inasius, 2019:100). Yulianto et al. (2019:363) affirm that the economic approach regards the taxpayer as an ethical individual, avoids risk and tries to make the best utility of resources. The economic approach postulates that taxpayer compliance is influenced by various elements of the

taxation system. These elements include tax sanctions, tax audits, and tax structure compliance (Yulianto, 2019:363).

On the contrary, the behavioural approach views the taxpayer as agents who maximise utility and social creatures who must deal with several beliefs and interact with social norms (Yulianto, 2019:363). Inasius (2019:100) concurs that the behavioural approach combines sociological and psychological factors. Devos (2014:13–23) identified the behavioural approach factors that influence tax compliance. These include tax mentality, justice, moral values and subjective norms. Almohtaseb *et al.* (2021:1317) adopted the behavioural theory to investigate work personal attributes of the taxpayers, tax understanding and taxpayer education, and ability to pay theory with tax compliance cost and audit system as a connecting variable to VAT compliance. The study found that there is a strong positive relationship between personal characteristics, VAT education and tax compliance under both theoretical grounds and indicate a positive correlation between VAT compliance cost, audit system and VAT compliance.

The current study was grounded on the economic approach and therefore builds on the work of Becker (1968:169), who analysed criminal behaviour under an economic framework. Expanding on the economic approach, Allingham and Sandmo (1972) and Inasius (2019) applied the economic approach model in the context of tax compliance. Several studies (Hanlon, Mills, & Slemrod, 2005; Inasius, 2019; Kirchler & Wahl, 2010) in tax compliance utilise the economic approach model. The economic approach model perceives the non-compliant taxpayer as an individual who chooses to evade taxes whenever the expected compliance gain exceeds the compliance cost. The economic framework postulates that the tax rate, the possibility of being audited, and the penalty rate determine the monetary cost of tax compliance (Fischer et al., 1992). In this regard, compliance cost is considered an economic problem for society (Eichfelder & Hechtner, 2016:2).

In this model, this study operates on the assumption that taxpayers who are SMMEs are rational actors who seek to maximise the utility of their taxable income by weighing the benefits and the cost of compliance with the utility of tax non-compliance (Horodnic, 2018:868). Horodnic, (2018:868) further states that "they [taxpayers] will

be non-compliant when the expected penalty and probability of being caught are rather small compared to the utility gained by non-compliance."

2.8 SUMMARY

This chapter reviewed literature relating to tax compliance burden, regulatory tax burden, strategies and mechanisms to provide a tax-friendly environment for SMMEs in South Africa. The literature demonstrates amply that tax compliance costs are high among SMMEs and recognise this as a global problem facing many countries. These compliance costs are regressive, implying the costs exert a huge impact on SMMEs compared to large businesses. The literature further recognises that in acknowledging the vital roles SMMEs play in economic development, the government need to support SMMEs, especially in the area of regulatory burden and taxation. Adopting the economic approach model, it was assumed that non-compliant taxpayer is an individual who chooses to evade taxes whenever the expected compliance gain exceeds the compliance cost. The next chapter provides an analysis of the measurement of tax compliance costs for SMMEs in South Africa.

CHAPTER 3

MEASURING TAX COMPLIANCE COSTS FOR SMMEs IN SOUTH AFRICA

3.1 INTRODUCTION

The previous chapter reviewed relevant literature relating to the tax compliance burden for SMMEs. In this chapter, the regulatory compliance cost for businesses in South Africa was quantified to determine whether the South African tax legislation can be improved to provide a tax-friendly environment for SMMEs. The chapter commences with the various methods used to calculate tax compliance cost. This is followed by quantifying compliance costs for SMMEs in South Africa and estimates of taxpayer burden and tax rates for SMMEs.

3.2 METHODS TO CALCULATE TAX COMPLIANCE COSTS

Complying with various taxes creates real costs for the taxpayers. However, estimating the compliance burden differs widely depending on the calculation method adopted (York, 2018:1). Each method used for calculating tax compliance cost produces exclusive illustrations of the cost of complying with the tax laws. European Commission (EU; 2013:1) reviewed and evaluated various methodologies which could be used for calculating compliance costs of taxation. The following methodologies were found, namely; the Standard Cost Model; Paying Taxes; the Taxpayer/Business Burden Model; the Total Cost of Regulation to Business; the Scanning Instrument Regulations of Other Compliance Costs; the Regulatory Check-up Model; Guidelines on the Identification and Presentation of Compliance Costs in Legislative Proposals by the Federal Government; the Cost-Driven Approach to Regulatory Burden; the Complexity Index of the UK Office of Tax Simplification; the Total Cost to Serve; the Tax Information and Impact Note and the Bureaucracy Cost Index. Various tax authorities and countries use different methods to calculate the tax compliance costs.

3.3 QUANTIFYING TAX COMPLIANCE COST

Quantifying compliance costs can be complicated and complex as the calculations may include various additional costs such as cost of software and time spent on keeping records and filing tax returns instead of engaging in productive economic activities (York, 2018:1). In South Africa, it is observed that the tax administration costs can only be calculated on an annual basis by SARS with no similar calculations performed in respect of tax compliance costs incurred by SMMEs taxpayers (Stark & Smulders, 2018:286). As stated in the Davis Tax Committee Report (2017:70), the amount of tax compliance costs is not known, and this is vital as various Tax Bills of Rights in other jurisdictions mention that one of the taxpayer's rights is the right to have the cost of compliance taken into account when administering tax legislation (Stark & Smulders, 2018:287). Prior studies have shown that SMMEs are disproportionately affected by tax compliance costs (Coolidge, 2012:256; Matarirano et al., 2019:2). Matarirano et al. (2019:2) argue that while large enterprises usually spend approximately one per cent of their turnover in tax compliance costs, SMMEs often face tax compliance costs of at least 15% of turnover.

The South African Institute of Chartered Accountants' (SAICA, 2016:4) indicate that since the 2008 fiscal year, there has been a significant increase in the reported tax compliance cost. SAICA (2016:4) further highlighted that these increases result from various additional compliance and disclosure procedures required of taxpayers by the South African tax authority. Matarirano (2019:1) argues that tax compliance costs for small businesses were found to be regressive and, imposing a heavier burden on SMMEs compared to larger enterprises. Compared to other countries, the time spent to comply with tax obligation in Brazil and Vietnam decreases by 27% between the year of assessment 2017 and 2018 specifically for SMMEs (PWC, 2020:4).

Some empirical studies (see Ravšelj et al., 2019:70) have shown that tax compliance costs as a percentage of sales are higher for SMMEs. For example, the compliance cost of most SMMEs in the European Union (EU) is about 30.9% of their total sales compared to 1.9% for larger companies. An Australian study by Evans, Lignier and Tran-Nam (2013:6) found that the burden of compliance was proportionally more significant upon small businesses where compliance costs represented A\$16.70 for

every A\$100 of tax revenue for employer's PAYE and A\$42.10 for fringe benefits tax. Annual tax compliance costs for small businesses throughout South Africa is estimated to be R7 030 per annum, which is also the average fee that tax practitioners charge their small business clients to ensure that their tax returns (for three key taxes – VAT, Income tax and employees tax) are prepared, completed and submitted as SARS requires. **Table 3.1** shows the number of hours an average SMME in South Africa spends on tax compliance.

Table 3. 1: Time spent by SMMEs attending to tax compliance matters

Activity	VAT	Income tax	Employees' tax
Recording information	64.78	31.4	35.31
Calculating tax, filing return and paying tax	13.77	11.32	18.50
Dealing with the SARS	6.5	6.2	10.62
Tax planning	2.73	5.0	4.66
Dealing with tax advisors	5.14	8.2	5.48
Learning about tax	6.00	7.6	8.61
Other activities	0.00	0.00	0.00
Total time spent	98.92	69.85	83.18

Source: (Smulders *et al.*, 2012:194)

3.3.1 VAT compliance cost

Value-Added-Tax (VAT) is regarded as the pillar of the tax system, and it operates in almost 160 countries in the world including every Organisation for Economic Cooperation and Development (OECD) member countries, except for the United States (Smulders & Evans, 2016:2). VAT is the most common consumption tax system used worldwide, and it exists in almost 162 countries globally (PriceWater Coopers [PWC], 2017:4). Oxford (2015:1) emphasis that SMMEs face an interesting journey through the rocky landscape of VAT.

In South Africa, VAT is a tax on the supply of goods and services. The relationship between VAT and SMMEs is largely misinterpreted (South African Institute of Professional Accountants [SAIPA], 2014:9). According to the VAT Act, VAT vendors with a turnover not exceeding R1million are not required to register for mandatory VAT. However, SMMEs can be registered voluntarily under the following three circumstances: when the value of taxable supplies exceeded R50 000 in previous months; when it can reasonably be expected that VAT supplies will exceed R50 000 in the next 12-month period, and when the nature of the vendor's activities would only generate VAT supplies from a future date (SAIPA, 2014:9).

SMMEs in South Africa with annual taxable supplies that exceed ZAR1 million must register for VAT. For SMMEs with taxable supplies lower than ZAR1 million, VAT registration is optional. It is estimated that on average VAT is the third-largest (estimated 20 per cent) revenue source in the 34 OECD countries, behind personal income taxes (33 per cent) and social security taxes (26 per cent). A global study conducted by PWC (2017:4) estimates that the annual time spent by SMMEs in complying with VAT ranges from eight (8) hours per year in Switzerland to 1,189 hours in Brazil. This is equivalent to one working day in Switzerland and approximately 30 working weeks in Brazil. In South Africa, findings indicate that it takes an average of 255 hours per year for an SMME to deal with tax compliance matters, and VAT is considered to be the most time-consuming component (SAIPA, 2014:9).

Completing a VAT201 declaration is a primary compliance requirement of any registered VAT vendor. It is even required from certain non-resident suppliers of electronic services to South African residents. The form itself is not very long and does not contain many fields. Akinboade (2015:394) concurs that SMMEs, particularly in South Africa, suffer from high compliance cost, with VAT being perceived as the major problem. However, it is crucial to understand what each field means and be familiar with the VAT201 process. SAIPA (2014:9) argues that SARS helpdesk does not adequately address the SMMEs sector's needs concerning VAT compliance. In the court case between Metcash Trading Ltd vs Commissioner, South African Revenue Service, it was argued that the taxpayer wanted to challenge the VAT Act as incompatible with section 34 of the Bill of Rights.

3.4 TURNOVER TAX COMPLIANCE COST

The turnover tax takes all other tax payments and combines them into a single payment. To qualify for this simplified taxation system, SMMEs need to meet specific qualifying criteria and have an annual turnover of less than ZAR 1 million. Turnover tax is also elective. In other words, SMMEs can choose this payment type if the SMME is a partnership, a Close Corporation (CC), a private company, public company, or co-operative. Otherwise, the SMME is liable to pay the standard small business tax rates, as shown in Table 3.1.

Currently, there is no provision prohibiting SMMEs from registering as a sole proprietorship and being subject to taxation at personal income tax rates (The Davis Tax Committee [DTC], 2016:4). DTC (2016:4) further contends that the taxpayer is free to register a small business corporation in terms of section 12E of the Income Tax Act. Table 3.2 provides a summary of some compliance costs incurred by small businesses.

Table 3. 2: Amount of tax compliance cost per SMME's compliance activity

SERVICE RENDERED	R1-R300 000	R300 001-R1 million	R1 000 001-R6 million	R6 000 001-R14 million
Once-off burdens				
Registration	R 1 414	R 1 488	R 1 568	R 1 629
Objection- interest & penalties	R 892	R 944	R 1 031	R 1 093
Audit/inspections	R 3 084	R 3 164	R 3 297	R 3 483
Written queries	R 1 208	R 1 262	R 1 370	R 1 449
	R 6 598	R 6 858	R 7 266	R 7 654
Recurring burdens				
Prepare tax returns	R 6 604	R 6 959	R 7 372	R 7 118
Prepare IRP5 reconciliation	R 539	R 580	R 645	R 600
	R 7 143	R 7 540	R 8 017	R 7 717
TOTAL TAX COST	R 13 740	R 14 397	R 15 283	R 15 372
percent of turnover- total tax cost over max turnover	4.6%	1.4%	0.3%	0.1%

Source: (FIAS, 2007:40)

3.5 COST OF PREPARING A TAX RETURN

The tax compliance burden is becoming so heavy such that taxpayers are becoming overwhelmed with compliance requirements which are complex and difficult to adhere. Schneider (2017:1) indicates that the burden of the South African taxpayer can be measured in several ways: it can be measured in terms of direct or indirect or total tax contribution (by individuals or corporates). Schneider (2017:1) argues that though South Africa places more dependence on indirect taxes, which accounts for

approximately 35% of gross tax revenue, the primary source of tax revenue is a direct tax. Direct tax contributes approximately 60% to the gross tax revenue. Of the direct taxes, personal income tax is the largest contributor with an estimated amount of ZAR 482 billion (South African Rand Currency) or almost 40% of gross tax revenue (of almost R1.3 trillion), which is more than double the corporate income tax. Corporate income tax contributes approximately ZAR219 billion or 17% of gross tax revenue (of almost R1.3 trillion).

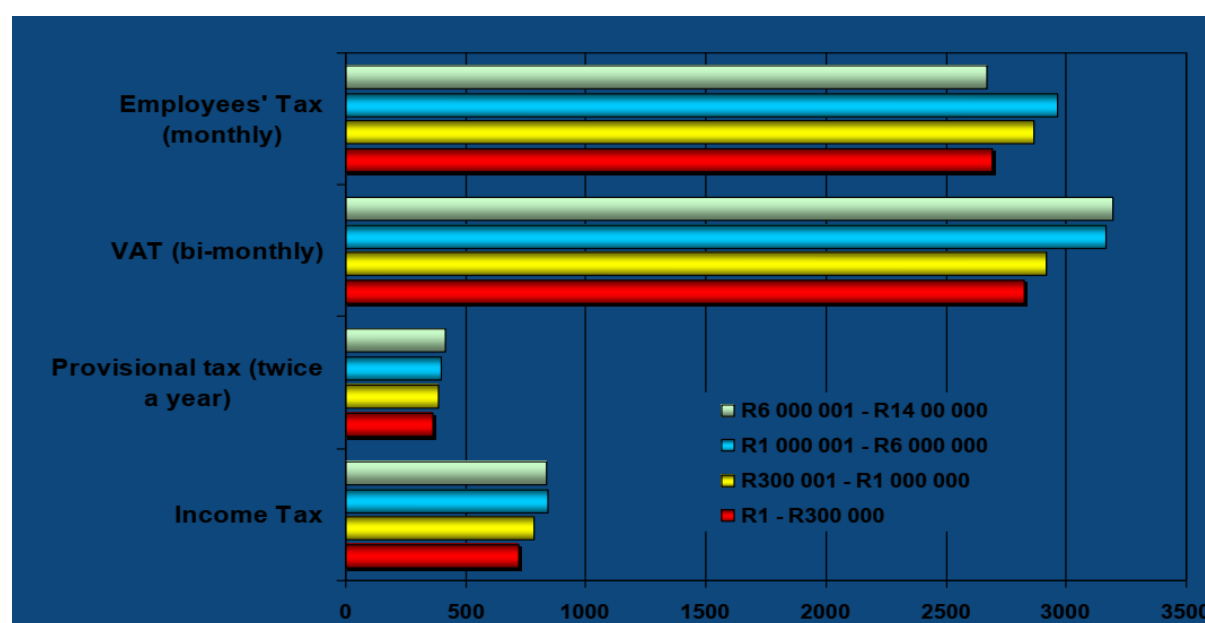


Figure 3. 1: Compliance cost incurred by South Africans in preparing for tax returns (Rand per annum)

Source: (FIAS Tax Compliance Cost Survey South Africa, 2007)

There are several taxes that SMMEs are required to comply with, depending on the nature of their businesses as depicted in Figure 3.1 above. These include VAT, income tax, provisional tax, employee tax, capital gains tax and dividends tax. SMMEs have the option of making payment for income tax, VAT and employee tax semi-annually as from 1 March annually (i.e. 1 March 2020).

Both the time and cost burden averages are gathered from a review of various documents and do not necessarily reflect the absolute case. In the USA, the average time spent required to complete and file a return is 24.2 hours, with an average cost

of \$207 per return submitted. This average includes all associated forms and schedules, across all preparation methods and all taxpayer activities. A study conducted by Akinboade (2015) identified the following seven reasons for the high tax compliance cost among small businesses in South Africa:

- Constant changes in tax laws;
- Tedious registration procedures;
- A complex of tax systems (catered for larger enterprises than SMMEs)
- Various tax administrations (often confuse the small business due to lack of expertise);
- Incomprehensible language of tax laws, including incomprehensible forms;
- A high volume of forms that need to be completed (ambiguous forms, requesting for the same information over and over)
- Stringent, tight, inflexible, short and unreasonable deadlines for tax payments (affecting the cash flow of SMMEs); and
- Exorbitant costs incurred for payment of outsourced tax practitioners, accountants or consultants (due to in-house capacity and lack of specialized tax knowledge).

3.6 TAX RATES FOR SMALL BUSINESS CORPORATION AND MICRO BUSINESS

SMMEs in South Africa are liable to pay corporate income tax, which is calculated based on the total taxable income over the tax period. Under the traditional corporate tax system, the threshold for paying income tax starts at ZAR83 100 for Small Business Corporations (SBC) and ZAR335 000 for micro-businesses for the year of assessment ending on or after 1 April 2020. Higher incomes place businesses in higher tax brackets. Standard small business tax brackets currently range from 7% to 28%, in addition to a lump sum payable. However, tax rates for SMMEs vary depending on several factors, including annual turnover, whether the SMME is based in South Africa or is a foreign company with a branch in South Africa. Table 3.3 and Table 3.4 show the tax rates for SMMEs in 2020.

Table 3. 3: Small business corporations and micro-businesses tax rates

Small Business Corporations ¹	
R 0 – R83 100	0% of taxable income
R83 001 – R365 000	7% of taxable income above R83 100
R365 001 – R550 000	R19 733 plus 21% of taxable income above R365 000
R550 001 and above	R58 583 plus 28% of taxable income above R550 000
Micro Businesses ²	
R 0 – R335 000	0% of taxable turnover
R335 001 – R500 000	1% of taxable turnover above R 335 000
R500 001 – R750 000	R1 650 plus 2% of taxable turnover above R500 000
R750 001 and above	R6 650 plus 3% of taxable turnover above R750 000

Source: (SARS, 2020)

The table above is the Small Business Corporations tax rate for the year of assessment ending between 1 April 2020 and 31 March 2021.

Table 3. 4: Capital gains tax

Type of taxpayer	Inclusion Rate	Statutory Rate	Effective Rate
Other Trusts	80%	45%	36%
Companies (including personal service provider companies and branches of non-resident companies)	80%	28%	22.4%
Small business corporations	80%	0% - 28%	0% - 22.4%

Source: (SARS, 2020)

The table above depicts the capital gains tax rates for the financial year ending on any date between 1 April 2020 and 31 March 2021. Small businesses [SBC] have an inclusion rate of 80%, followed by statutory rate that ranges between 0% and 28%. The effective rate also ranges between 0% and 22.4%.

3.7 SUMMARY

Measuring the compliance burden on South African taxpayers, especially SMMEs are an essential consideration in the South African fiscal policy because a heavy tax burden on taxpayers can have adverse effects such as an increase in tax avoidance mechanisms, or moving capital or income-generating potential to lower tax jurisdictions (Schneider, 2017:1). A survey conducted by the World Bank reveals that in South Africa, compliance cost (cost of preparing, handling, and submitting required forms to the tax authority and related interactions with tax authorities) add a severe burden to their operations and significantly affect bottom lines. Tax compliance costs also prevent many small businesses from registering and joining the 'formal' economy. The next chapter provides a summary of the study's main findings, conclusions and constructive recommendations.

CHAPTER 4

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION

The objectives of the study were designed to assess tax compliance costs among Small Medium and Micro Enterprises in South Africa; gain an insight into the various challenges faced by SMMEs with regards to compliance with tax regulations and laws; establish the reasons why tax compliance costs are highest among SMMEs as compared to larger business enterprises, and generate possible recommendations on how SMMEs could improve compliance in terms of tax filing and tax payments. This chapter summarises the main findings of the study. The chapter begins with a precis of the main findings from the literature review. Next, constructive recommendations based on the main findings from the study are submitted. The chapter further suggests areas for future research. The chapter concludes by identifying the practical implications for the study.

4.2 SUMMARY OF FINDINGS

This study assessed tax compliance costs among SMMEs in South Africa. In recent years, SMMEs have received increasing attention following the launch of a tax awareness campaign by SARS (Gcabo and Robinson, 2007:358). This study found that unlike other developing countries, South Africa has a tax-paying culture. This study clarifies that the main forces of tax compliance cost among SMMEs are non-integration between government departments, tax administration by SARS, current tax legislation, SMME level inefficiencies and tax practitioner costs.

Literature shows that tax compliance costs can be high and regressive, but the relationship between tax compliance and compliance behaviour is not clear. It was found that tax non-compliance among SMMEs can either be attributed to failure to submit a tax return within the stipulated period or non-submission, overstatement of deductions, failure to pay assessed taxes by the due date, or an outright failure to pay levied taxes.

According to Ravšelj *et al.*, (2019:69), SMMEs often face various challenges, whereby tax-related challenges are perceived to be significantly burdensome that affects their business operations and entrepreneurial activities. Peprah *et al.* (2020:2) found that factors such as lack of tax education, non-registration, low incomes, high tax rates, and high consumption are significant impediments to compliance with income tax administration.

In South Africa, SMMEs are treated as the highest priority sector because they play a critical role towards contributing to the country's target rate for economic growth, development and job creation. The 2018 Tax Statistics report in South Africa shows that out of the 768 687 (714 422 in 2017) companies that were assessed for tax, 143 768 (129 867 in 2017) companies assessed were small business corporations who paid tax at the preferential graduated income tax rate, instead of the fixed corporate tax rate of 28% (Deloitte, 2019:1).

These figures indicate that an increasing number of SMMEs use the preferential tax regime available to them. However, despite this progress, taxpayer education and the cost of tax compliance remains a significant challenge for SMMEs, as they often simply do not have the necessary staff, resources and skills to timeously and fully comply with all their tax obligations (Deloitte, 2019). The cost of tax compliance can add significantly to the cost of doing business for SMMEs (e.g. additional resources that have to be employed to comply with tax rules, especially the significant penalties imposed for non-compliance with tax rules).

The taxation for SMMEs faces various significant policy challenges, with compliance cost of taxation standing out as the most burdensome (Weichenrieder, 2007:4). Empirical evidence demonstrates that when scaled by turnover or assets, the compliance cost for SMMEs are higher than those of larger companies.

One of the objectives of the Tax Administration Act No. 28 of 2011 is to provide for the imposition and remittance of administrative non-compliance penalties (Republic of South Africa [RSA], 2012:2). Doran (2009:111) suggests that imposing a penalty promotes tax compliance, a fact that this study endorses.

4.3 RECOMMENDATIONS

This study established and verified that South African tax authority has attempted to address the tax compliance costs and burdens identified and the recommendations made in the tax compliance cost studies reviewed. For the past few years, South Africa has achieved some steady success in broadening its tax base amongst SMMEs. Various legislative measures were enacted to provide preferential tax treatment to SMMEs (Deloitte. 2019:1).

The South African tax authority partially managed to address the following recommendations over the years concerning reducing the tax compliance burden on SMMEs (Smulders & Naidoo, 2013:276):

- The absence of software to aid the SMMEs with their record-keeping. The role of SARS concerning this task is, however, debatable;
- The complexity of the language used in the tax laws to accommodate different business leaders to comprehend the requirements of SARS in their mother tongue with no fewer language barriers – only isiZulu, Sesotho, Afrikaans, Sepedi & Xitsonga are currently used on the SARS desktop which then excludes isiXhosa, isiNdebele, Tshivenda, Setswana and siSwati
- The tax compliance burden associated with the provisional or interim tax filing to reduce the high volume of administration for final tax assessment.

However, based on the literature reviewed, the following recommendations regarding the tax compliance costs and burdens are not yet addressed by the South African tax authority and other tax regulatory bodies.

- Rules or laws that establish a specific threshold value or amount at which SMMEs are not required to submit tax returns;
- The in-depth tax-related matters and rates in the South Africa school syllabus especially those related to SMMEs (particularly in Grade 7 to 12);
- The wavering of penalties for first-time tax compliance offenders; and
- The request for SARS to reduce the interest and penalty rate for SMMEs.

SARS should organise regular tax education and awareness sessions for SMMEs to educate and sensitise SMMEs on tax incentives, tax exemptions, the general importance of paying tax, and tax revenue utilisation.

The study found that there are levels of inefficiency and tax administration challenges by SARS that have called for various measures to address the associated compliance cost constraints. Some of these measures include providing tools explicitly designed for SMMEs and provision of education on tax-related matters.

Considering the tax compliance burden on SMMEs and the contribution SMMEs make to the South African economy, it is recommended that SARS should encourage non-compliant SMMEs to regularise their affairs by encouraging voluntary disclosure applications for a limited timeframe before it imposes non-compliance penalties.

In terms of VAT compliance, this is the most time-consuming component for an SMME to comply. In this regard, this study recommends that tax authorities in South Africa should consider tax reform to reduce tax compliance cost for SMMEs. This study established that SARS helpdesk does not currently address the SMMEs sector's needs concerning VAT compliance (SAIPA, 2014:9). This study recommends that strict time limits be placed on SARS and that a separate helpdesk should be designed to deal with VAT compliance. Furthermore, this study recommends that VAT compliance cost can be addressed in the following ways through the use of differentiated tax policies:

- Reducing the number of VAT returns per year required of SMMEs; and
- Raising the compulsory threshold and providing a small-retailer package.

Literature (e.g. Ramfol 2019) argues that the individual taxpayer's morals influence tax compliance decisions. The South African government should increase its level of commitment to tax incentives that benefit SMMEs. It could include reducing the tax compliance burden for these enterprises, simplified tax laws, granting tax incentives, and easier access to finance.

To create a friendly business environment for SMMEs, the government must ensure clear, transparent, unambiguous and stable tax legislation. The Department of Trade and Industry is in the process of fully implementing the recommendation of South African government's integrated strategy that aims to promote entrepreneurship and small business in the country with less red tape and stringent legal requirements, including tax matters.

Given that SMMEs are usually regarded as an essential catalyst for economic growth, tax compliance cost may slow down the economy. In this regard, this study recommends that government should simplify tax administration for SMMEs.

The literature on cost burden caused by tax compliance was analysed, and the following findings were derived. The initial challenge behind tax compliance cost among SMMEs are non-integration between government departments, ineffective tax administration by South African Revenue Service, current complex and ever-changing tax legislation, SMMEs level of inefficiency and tax practitioner costs.

As a cost driver of compliance cost, tax practitioner costs result from the South African tax legislation's complexity, characterised by many taxes and constant tax legislation changes. On the contrary, SMMEs owners and staff do not have sufficient and adequate skills in terms of tax-related matters, lack of capacity and resources to attend to the tax matters. Hence, they find it convenient to use a tax practitioner's services than to do the tax administration in-house, although it cost the company money that some do not even have.

4.4 RECOMMENDATIONS FOR FURTHER RESEARCH

There are limited studies in South Africa on tax compliance costs on SMMEs and the burdens SMMEs carry on tax compliance matters. Due to the role that SMMEs play in the economic development of the country, the following research areas must be considered for future research:

- Interviews with SMMEs owners, before, during and after-tax season in order to capture and demonstrate their behaviours and practices when preparing for tax filing including VAT, UIF, SDL and corporate tax registration.
- Investigate the ability of SARS officials in guiding SMMEs regarding the adherence to the tax compliance requirements.

Future studies could usefully employ a mixed-method research approach to obtain the SMMEs owners' perceptions regarding tax compliance cost and the quantified tax compliance cost. The outcomes of such future studies' analyses could highlight legitimate compliance concerns, frustrations, and inconveniences in the tax system.

4.5 PRACTICAL IMPLICATIONS

This study contributes to the knowledge that various stakeholders might have regarding tax compliance issues and its significance to the economy. These stakeholders include the tax authority, government, policymakers and SMMEs (Alshira'h et al., 2020:8). The study contributes to the body of knowledge and extends the understanding of tax compliance costs among SMMEs, and provides insight concerning the impact of compliance costs on SMMEs. The study contributes valuable information to formulate clear, practical and convincing tax policies that are designed to promote tax compliance among SMMEs.

In middle-income countries, SMMEs are critical sources of innovation and flexibility as they contribute to the creation of scarce employment opportunities (Tee et al., 2016:119). Hence, the tax system's alignment to a tax-friendly environment for SMMEs is considered an essential agenda for policymakers, given the vital role that SMMEs play in South Africa's economy.

These findings are crucial for SARS and other' tax authorities whose mandate is to increase tax compliance levels and productivity of the SMMEs for them to thrive. Consequently, tax authorities should consider the effect of tax compliance costs when introducing new taxes and law.

This study outlines guidelines for tax authorities such as SARS and CIPC further in their attempts to address the tax compliance cost burden for SMMEs. There is a need to initiate more research in order to assess whether the initiatives that are already introduced by SARS, CIPC through DTI and other regulatory bodies have been successful, efficient and useful or not. It is further recommended that future researches assess each initiative rather than a blanket approach to bring direct and insightful results. This method should help identify any areas requiring remodelling and adjustment. Additionally, more research needs to be conducted on each new SARS initiative before the implementation stage to ensure that it achieves its intended objectives and, most importantly, ensure that it does not result in unintended compliance cost burdens for SMMEs.

4.6 CONCLUSION

Small, Medium and Micro Enterprises (SMMEs) are significant pillars for sustaining the economies of most economies. In South Africa, SMMEs contribute approximately 67% of the employment, 91% of the formal business and over a third of the national GDP. However, compared to large enterprises, SMMEs face a number of challenges ranging from poor performance, low profitability and high failure rate. Most SMMEs perceive the most burdensome problem as directly linked to taxation regime and the cumbersome tax-returns processes. This is because every SMMEs, regardless of its form, size or sector, is lawfully bound to comply with legislation, including taxation. The cost of complying with taxation has been established as a critical impediment to the development, sustainability and longevity of SMMEs. In South Africa, these burdens are heightened due to the subjective evidence that tax compliance costs have prevented most SMMEs from registering their business with the Companies and Intellectual Property Commission (CIPC), the South African Revenue Service (SARS) and other regulatory bodies. The purpose of the study was to assess tax compliance costs among SMMEs in South Africa.

The literature verifies that SMMEs in most developing countries, including South Africa, do not comply with the tax. The majority do not believe in the tax system and perceive the tax rates as too high, affecting their business. Furthermore, SMMEs perceive compliance with tax as burdensome as the process is currently unnecessarily

time-consuming. Complying with tax was identified as very costly since most SMMEs do not have accountants to professionally assist with the tax compliance, and hence they depend heavily on tax practitioners who levy high fees.

Tax authorities and legislation play an important role in every nation because tax exerts a huge impact on the economic activities and business environment of the nation. However, the complexity of tax legislation creates a tax-related burden for SMMEs and consequently hinders business activities.

REFERENCES

- A and Another v The Commissioner for the South African Revenue Service (IT13725, VAT1426, IT13727, VAT1096) [2018] ZATC 10 (8 February 2018).* <http://www.saflii.org/za/cases/ZATC/2018/10.html> [Date of access: 05 January 2021].
- Africa Cash & Carry (Pty) Ltd v The Commissioner for the South African Revenue Service (783/18) [2019] ZASCA 148; [2020] 1 All SA 1 (SCA); 2020 (2) SA 19 (SCA) [21 November 2019].*
- Ahmad, N., Mokhtar, A.S.M., Mahdzor, M.M.F., Hadi, M.F.E.A. & Mad Jeli, N.H.I. 2017. Tax compliance cost among SMEs: evidence from the southern region of Malaysia. IEBMC 2017 8th International Economics and Business Management Conference.
- Akinboade, O.A. 2015. Correlates of Tax Compliance of Small and Medium Size Businesses. *Managing Global Transitions* 13(4):389-413.
- Almohtaseb, S.A.A., Matahen, R.K. & Sahkkour, N.A.S. 2021. Factors influencing the value added tax compliance in small and medium enterprises in Jordan. *Management Science Letters* 11:1317–1330.
- Allingham, M. G., & Sandmo, A., 1972. Income tax evasion: A theoretical analysis. *Journal of Public Economics*, 1(34):323-338.
- Alm, J. 1991. A perspective on the experimental analysis of taxpayer reporting. *The Accounting Review*, 66(3):577-593.
- Alshira'h, A.F., Alsqour, M., Lutfi, A., Alsyouf, A. & Alshirah, M. 2020. A Socio-Economic Model of Sales Tax Compliance. *Economies*, 8(88):1-15.
- Anyadike-Danes, M., Bjuggren, C.M., Gottschalk, S., Hölzl, W., Johansson, D., Maliranta, M., & Myrann, A. 2015. An International Cohort Comparison of Size Effects on Job Growth. *Small Business Economics*, 44(4):821-844.

Atawodi, O. W., & Ojeka, S.A. 2012. Factors that Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management*, 7(12):87-96.

Barbone, L., Bird, R. & Vazques-Caro, J. 2012. *The costs of VAT: A Review of the Literature*. CASE Network Reports No 106/2012, Warsaw.

Bartole, T. 2012. The structure of embodiment and the overcoming of dualism: An analysis of Margaret Lock's paradigm of embodiment. *Dialectical Anthropology*, 36(1–2):89–106.

Batrancea, L.M., Nichita, R.A. & Batrancea, I. 2012. Understanding the determinants of tax compliance behaviour as a prerequisite for increasing public levies. *The Annals of Economics and Public Administration*, 12(1(15)):201-210.

Becker, G. S. 1968. Crime and punishment: An economic approach. *The Journal of Political Economy*, 76(2):169-217.

Berry, A., von Blottnitz, M., Cassim, R., Kesper, A., Rajaratnam, B. & van Seventer, D. E. 2002. The economics of SMMEs in South Africa. Trade and Industrial Policy Strategies (TIPS) Report, Johannesburg.

Bevacqua, J. 2012. Australian business taxpayer rights to compensation for loss caused by tax official wrongs – A call for legislative clarification. *eJournal of Tax Research*, 10(2):227-249.

Bird, R.M. & Gendron, P.P. 2006. *Is VAT the Best Way to Impose a General Consumption Tax in Developing Countries?* International Studies Programme Working Paper 06-18. Andrew Young School of Policy Studies, Georgia State University.

Blaufus, K. Eichfelder, S & Hundsdoerfer, J. 2014. Income Tax Compliance Costs of Working Individuals: Empirical Evidence from Germany. *Public Finance Review*, 42(6): 800-829.

Block, J. 2016. Corporate income taxes and entrepreneurship. *IZA World of Labour*.

Bloom, E. 2017. *Here's what Norway and the other happiest countries in the world have in common*. <https://www.cnn.com/2017/08/09/the-happiest-countries-in-the-world-also-pay-a-lot-in-taxes.html> Date of accessed: 31 May 2020.

Bushe, B. 2019. The causes and impact of business failure among small to micro and medium enterprises in South Africa. *Africa's Public Service Delivery & Performance Review*, 7(1):1-24.

Chamberlain, D. & Smith, A. 2006. Recent Findings on Tax-Related Regulatory Burden on SMMEs in South Africa: Literature Review and Policy Options. Development Policy Research, Working Paper 06/105.

Charron, L., Chow, G. & Halbesma, J. 2008. The hidden tax burden – A business perspective on the cost of complying with taxes. Canadian Federation of Independent Business. Toronto: Royal Canadian Mint

Coolidge, J. 2012. Findings of tax compliance cost surveys in developing countries. *eJournal of Tax Research*, 10(2):250-287.

Coolidge, J., Ilic, D. & Kisunko, G. 2009. Small Businesses in South Africa: Who outsources tax compliance work and why? Policy Research Working Paper 4873, World Bank, Investment Climate Department, Regulatory Simplification Division. Available: doi:10.1596/1813-9450-4873 [Date of access: 13 October 2020].

Cropley, A. J. 2019. *Qualitative research methods: A practice-oriented introduction for students of psychology and education*. 2nd edition. Riga, Latvia: Zinātne.

Delalande, N. & Huret, N. 2013. Tax Resistance: A Global History? *The Journal of Policy History*, 25(3):301-307.

Deloitte. 2019. The tax compliance burden for small and medium-term enterprises (SMEs). Deloitte Touche Tohmatsu Limited.

Devos, K. 2014. Tax Compliance Theory and the Literature. In *Factors Influencing Individual Taxpayer Compliance Behaviour* (pp. 13–23). Dordrecht, The Netherlands: Springer Science + Business Media B.V.

Doran, M. 2009. Tax Penalties and Tax Compliance. *Harvard Journal on Legislation*, 46:111-161.

Eichfelder, S. & Hechtner, F. 2016. Tax compliance costs: Cost burden and cost reliability. Discussion Paper, No. 212, Arbeitskreis Quantitative Steuerlehre (arqus), Berlin.

Eichfelder, S. & Schorn, M. 2009. Tax compliance costs: A business administration perspective. Diskussionsbeiträge des Fachbereichs Wirtschaftswissenschaft der Freien Universität Berlin, 2009(3). Available: <http://hdl.net/10419/28090> [Date of access: 10 Oct. 2020].

Eichfelder, S. & Vaillancourt, F. 2014. Tax Compliance Costs: A review of cost burdens and cost structures. *Review of Public Economics*, 210-(3/2014): 111-148.

Eichfelder, S. & Vaillancourt, F. 2014. Tax compliance costs: A review of cost burdens and cost structures. Discussion Paper, No. 178, Arbeitskreis Quantitative Steuerlehre (arqus), Berlin

European Commission. 2013. A review and evaluation of methodologies to calculate tax compliance costs. WORKING PAPER N.40 – 2013. Luxembourg: Office for Official Publications of the European Communities.

European Commission. 2018. *Interactive SME database 2016*. Brussels: European Commission.

Evans, B., Tran-Nam, B. & Lignier, P. 2014. Tangled up in tape: The continuing tax compliance plight of the small and medium business sector. *Australian Tax Forum*, 29, 217-247.

Evans, C. 2006. Counting the costs of taxation: An exploration of recent developments. Sydney: University of New South Wales.

Evans, C. 2008. Taxation compliance and administrative costs: an overview. In: M Lang, J Obermair, J Schuch, C Staringer and P Weninger (eds) *Tax compliance for companies in an enlarged European Community*, Kluwer Law International. 447-468.

Evans, C., Lignier, P. & Tran-Nam, B. 2013. Tax compliance costs for the small and medium enterprise business sector: Recent evidence from Australia. Tax Administration Research Centre Seminar University of Exeter Business.

Falkena, H., Abedian, I., von Blottnitz, M., Coovadia, C., Davel, G., Madungandaba, J., Masilela, E. and Rees, S. 2001. SMEs access to finance in South Africa: A supply side regulatory review.

Fatih, Y. & Jacqueline, C. 2013. Can e-Filing Reduce Tax Compliance Costs in Developing Countries? *Policy Research Working Paper; No. 6647 World Bank, Washington.* World Bank. Retrieved from: <https://openknowledge.worldbank.org/handle/10986/16861> License: CC BY 3.0 IGO. [Date of access: 05 Jan. 2021].

FIAS. 2007. South Africa tax compliance burden for small business: A survey of tax practitioners', [\[https://www.wbginvestmentclimate.org/uploads/FIAS_Tax_Practitioners_-_FINAL_29+Aug.pdf\]](https://www.wbginvestmentclimate.org/uploads/FIAS_Tax_Practitioners_-_FINAL_29+Aug.pdf) [Date of access: 05 Jan. 2021].

FIAS. 2008. Tax compliance costs for small businesses in South Africa: Web survey of tax practitioners' provincial data analysis. [\[http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/SouthAfricaTaxComplianceCosts2008/\\$FILE/South+Africa+Tax+Compliance+Costs1.pdf\]](http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/SouthAfricaTaxComplianceCosts2008/$FILE/South+Africa+Tax+Compliance+Costs1.pdf) [Date of access: 17 May 2020].

Fischer, C. M., Wartick, M., & Mark, M. M. 1992. Detection probability and taxpayer compliance: A review of the literature. *Journal of Accounting Literature*, 11(1):1-46.

Fjeldstad, O.-H., Schulz-Herzenberg, C. and Sjursen, I. 2012. People's Views of Taxation in Africa: A Review of Research on Determinants of Tax Compliance. ICTD Working Paper 8.

Gcabo, R & Robinson, Z. 2007. Tax compliance and behavioural response in South Africa: an alternative investigation. *South African Journal of Economic and Management Sciences*, 10(3):357-370.

Herrington, M. & Kew, P. 2016. Global entrepreneurship monitor: South African Report 2015/16 – Is South Africa heading for an economic meltdown? Cape Town. Retrieved from [http://ideate.co.za/wp-content/uploads/2016/05/gem-southafrica-2015-2016-report.pdf]. [Date of access: 19 Oct. 2020].

Horodnic, I.A. 2018. Tax morale and institutional theory: A systematic review. *International Journal of Sociology and Social Policy*, 38(9/10):868-886.

Impact Trust. 2012. Interim Discussion Paper. SA Regulatory Framework review and design: Designing an enabling regulatory framework for South African small and medium enterprises and high impact social businesses. [Online]. Retrieved from: <http://impacttrust.org.za/wp-content/uploads/2013/02/Impact-Trust-Corporate-Structures-Research-Interim-Discussion-Paper.pdf>. [Date accessed: 23 October 2020].

Inasius, F. 2015. Tax compliance of small and medium enterprises: Evidence from Indonesia. *Accounting & Taxation*, 7(1):67-73.

Inasius, F. 2019. Voluntary and enforced tax compliance: Evidence from small and medium-sized enterprises in Indonesia. *Advances in Taxation*, 26:99 - 111.

Iswahyudi, H. 2017. Tax reform and noncompliance in Indonesia. *Journal of Indonesian Economy and Business*, 32(2):87–103.

James, S. & Alley, C. 2002. Tax compliance, Self-Assessment and Tax Administration. *Journal of Finance and Management in Public Services*, 2(2):27–42.

James, S. & Alley, C. 2014. Tax compliance, self-assessment and tax administration. *Journal of Financial and Management in Public Services*, 2:27-42.

Jansen, A., Ngoben, W., Sithole, A. & Steyn, W. 2020. The corporate income tax gap in South Africa: A top-down approach. WIDER Working Paper 2020/40.

Junpath, S.V., Kharwa, M.S.E. & Stainbank, L.J. 2016. Taxpayers' attitudes towards tax amnesties and compliance in South Africa: An exploratory study. *South African Journal of Accounting Research*, 30(2):97-119.

Kabir, S.M.S. 2016. *Basic Guidelines for Research: An Introductory Approach for All Disciplines*. Chittagong, Bangladesh: Book Zone Publication.

Kirchler, E. 2007. *The economic psychology of tax behaviour*. Cambridge: Cambridge University Press.

Klins, U. 2014. Small Business Development and the Inclusive Business Concept. Investment Climate and Business Environment Research Fund (ICBE-RF). CBE-RF Research Report N0. 82/14.

Klun, M. & Blazic, H. 2005. Tax compliance costs for companies in Slovenia and Croatia. *Public Finance Analysis*, 61(3):418-437.

KPMG 2019. South Africa – Tax Treatment of Tax Compliance Services Provided to Employees. <https://home.kpmg/xx/en/home/insights/2019/09/flash-alert-2019-146.html> [Date of access: 05 January 2021].

KPMG. 2020. South Africa: Summary of government grants, tax incentives (COVID-19). <https://home.kpmg/xx/en/home/insights/2020/04/south-africa-tax-developments-in-response-to-covid-19.html> [Date of access: 23 Nov. 2020].

Mahadea, D. & Pillay, M.K. 2008. Environmental conditions for SMME development in a South African province. *SAJEMS NS 11* (2008) No 4.

Mahangila, D.N. 2017. The impact of tax compliance costs on tax compliance behaviour. *Journal of Tax Administration*, 3(1):57-81.

Manhire, J.T. 2015. What does voluntary tax compliance mean? A government perspective. *University of Pennsylvania Law Review Online*, 164(11):11-17.

Matarirano, O., Chiloane-Tsoka, G.E., & Makina, D., 2019. Tax compliance costs and small business performance: Evidence from the South African construction industry. *South African Journal of Business Management* 50(1):1-9.

Matarirano, O., Chiloane-Tsoka, G., & Makina, D. 2019. Factors driving tax compliance costs of small businesses in the South African construction industry. *Acta Commercii*, 19(1), 10 pages.

Mathews v Chicory Marketing Board 22 (1938) 60 C.L.R 263, 276.

Mnewa, R. & Maliti, E. 2008. *The role of small business in poverty alleviation: The case of Dar es Salaam, Tanzania*. Research Report.

Mohajan, K.K. 2018. Qualitative Research Methodology in Social Sciences and Related Subjects. *Journal of Economic Development, Environment and People*, 7(01): 23-48.

Mohamad, M. & Deris, M.S. 2018. Determinants of tax noncompliance among Small and Medium Enterprises in Klang Valley, Malaysia. *The Turkish Online Journal of Design, Art and Communication*, 1293-1299.

Naicker, Y. & Rajaram, R. 2018. Factors that Influence Tax Compliance of SMEs in South Africa. *Acta Universitatis Danubius*, 10(2):94-111.

Ndlovu, M. 2015. A comparative study on the tax compliance burden and tax incentives for SMMEs in South Africa. Master's thesis. University of the Witwatersrand, Johannesburg.

Ndlovu, M., Blumenthal, R & Papageorgiou, E. 2015. A comparative study on the tax compliance burden for SMMEs in South Africa. SAAA conference proceedings.

Nyamwanza, T., Mavhiki, S., Mapetere, D. & Nyamwanza, L. 2014. An Analysis of SMEs' Attitudes and Practices toward Tax Compliance in Zimbabwe. *SAGE Open*, 1–6.

Olla, R. 2016. A discussion of the tax burden on SMEs in South Africa. Potchefstroom: North-West University (MA-Thesis).

Organisation for Economic Cooperation and Development (OECD). 2015. *Revenue Statistics 1965-2014*, OECD.

Oxford, T. 2015. The pros and cons of VAT. [Online]. Retrieved from: <http://mg.co.za/article/2015-03-27-00-the-pros-and-cons-of-vat> [Date of accessed: 10 October 2020].

Peprah, C., Abdulai, I. & Agyemang-Duah, W. 2020. Compliance with income tax administration among micro, small and medium enterprises in Ghana. *Cogent Economics & Finance*, 8(1):1-25.

Pope, J. & Abdul-Jabbar, H. 2008. *Tax compliance costs of small and medium enterprises in Malaysia: Policy Implications*. Malaysia: s.n.

PWC. 2017. VAT compliance: The impact on business and how technology can help Paying Taxes.

PWC. 2020. The changing landscape of tax policy and administration across 190 economies. [pwc.com/payingtaxes](https://www.pwc.com/payingtaxes)

Rahi S. 2017. Research Design and Methods: A Systematic Review of Research Paradigms, Sampling Issues and Instruments Development. *International Journal of Economics & Management Sciences*, 6(2):1-5.

Rametse, N. 2010. An international perspective on small business implementation costs of a new tax and managerial benefits derived: Transforming Black Townships into Economic Powerhouses. *Proceedings of the 2010 Soweto International Conference on Entrepreneurship & Development*, South Africa, 27 – 28 January, 2010, 1-24.

Ramfol, R. 2019 The fine line between tax compliance and tax resistance: The case of South Africa. *Conference Proceedings of Accounting & Business in the 4IR Era*.

Ravšelj, D., & Aristovnik, A. 2018. Administrative Barriers for SMEs in the Field of Tax Compliance and Financial and Accounting Reporting: Evidence from Slovenia. *Problemy Zarządzania*, (1/2018 (73), t. 2):75-90.

Ravšelj, D., Kovač, P. & Aristovnik, A. 2019. Tax-Related Burden on SMEs in the European Union: The Case of Slovenia. *Mediterranean Journal of Social Sciences*, 10(2):69-79.

SAICA. 2008. Company rate change from 29% to 28%. [Online]. Retrieved from: <https://www.saica.co.za/News/MediaKit/Publications/ElectronicNewsletters/Community/26June2008/CompanyTaxRateChangeFrom29To28/tabid/1047/language/en-US/Default.aspx> Date accessed: 18 May 2020.

SAIPA (South African Institute of Professional Accountants). 2014. Official Journal of the South African Institute of Professional Accountants. Issue 22:1-30.

Sandford, C., Godwin, M. & Hardwick, P. 1989. *Administrative and compliance costs of taxation*. Bath: Fiscal Publications.

Sapiei, N.S. & Kasipillai, J. 2013. External tax professionals' views on compliance behaviour of corporation. *American Journal of Economics*, 3(2):82-89.

SARS (South African Revenue Service). 2019. SARS wins R1-billion tax evasion case. Retrieved from <https://www.sars.gov.za/Media/MediaReleases/Pages/28-November-2019---R1b-tax-evasion-case.aspx> Date of ccessed: 31 May 2020.

Schneider, F. 2017. The Burden of the South African Taxpayer and Tax Freedom Day. Retrieved from: <https://www.bdo.co.za/en-za/insights/2017/tax/the-burden-of-the-south-african-taxpayer-and-tax-freedom-day> [Date of access: 23 November 2020].

Sieberhagen, H.S. 2008. A qualitative literature review of the differentiated tax policies for small and medium enterprises in South Africa. University of Pretoria (Thesis – MA).

Sitharam, S. 2014. *Factors affecting the performance of small and medium enterprises in South Africa*. University of KwaZulu Natal.

Slemrod, J. & Venkatesh, V. 2002. *The income tax compliance cost of large and mid-size businesses: A report to the IRS LMSB Division*, Working Paper 914, University of Michigan: Ross School of Business

Smulders, S. & Evans, C. 2016. Mitigating vat compliance costs – A developing country perspective. Paper presented at the VAT in Developing Countries: Policy, Law and Practice. Symposium, 19 and 20 October. Pretoria, South Africa.

Smulders, S. Stiglingh, M. Franzsen R. & Fletcher, L. 2012. Tax compliance costs for the small business sector in South Africa - Establishing a baseline. *eJournal of Tax Research*, 10(2):184-226.

Smulders, S., Stiglingh, M., Franzsen, R. & Fletcher, L. 2016. Determinants of internal tax compliance costs: Evidence from South Africa. *Journal of Economic and Financial Sciences*, 9(3):714-729.

South Africa. 1962. Income Tax Act No. 58 of 1962.

South Africa. 1991. Value-added Tax Act No. 89 of 1991.

South Africa. 1996. The National Small Business Act 102 of 1996.

South Africa. 1999. Skills Development Levy Act of 1999.

South Africa. 2003. The National Small Business Amendment Act 26 of 2003.

South Africa. 2011. Tax Administration Act No. 28 of 2011.

South Africa. 2012. National Planning Commission: National Development Plan.

Ssenyonjo, P. 2019. A comparative study of tax incentives for small businesses in South Africa, Australia, India and the United Kingdom. Pretoria: University of South Africa. [MA-Thesis].

Stark, K. & Smulders, S. 2018. Compliance costs matter – The case of South African individual taxpayers. *eJournal of Tax Research*, xx(xx):285-304.

Storm, A. & Coetzee, K. 2018. Towards Improving South Africa's Legislation on Tax Evasion: A Comparison of Legislation on Tax Evasion of The USA, UK, Australia and South Africa. *The Journal of Applied Business Research*, 34(1):151-168.

Susila, B. & Pope, J. 2012. The magnitude and the features of tax compliance costs of large companies in Indonesia. *Australian Tax Forum*, 27(4):719-772.

Tee, E., Boadi, L.A. & Opoku, R.K. 2016. The Effect of Tax Payment on the Performance of SMEs: The Case of Selected SMEs in Ga West Municipal Assembly. *European Journal of Business and Management*, 8(20):119-125.

The Davis Tax Committee. 2016. Second and final report on small and medium enterprises for the Minister of Finance.

The Republic of South Africa. 2012. Tax Administration Act No. 28 of 2011. Pretoria: Government Gazette. 4 JULY 2012. No. 35491.

Timm, S. 2015. How good are SA's recent tax grants for small business really? [Online]. Retrieved from: <http://ventureburn.com/2015/03/good-sas-recent-tax-grants-small-business/>. [Accessed: 31 July 2020].

United Kingdom. (1970). *The Taxes Management Act*. Retrieved from: <http://www.legislation.gov.uk/ukpga/1970/9/contents/enacted> [Accessed 31 May 2020].

United States of America. *The Internal Revenue Code: Title 26*. Retrieved from: <https://www.gpo.gov/fdsys/pkg/USCODE-2011-title26/pdf/USCODE-2011-title26.pdf> [Accessed 31 May 2020].

United States of America. *The United States Code: Title 18*. Retrieved from: <https://www.law.cornell.edu/uscode/text/18> [Accessed 31 May 2020].

US v Pomponio. (1976). *United States Supreme Court: UNITED STATES v. POMPONIO, (1976), No. 75-1667*. Retrieved from: <http://caselaw.findlaw.com/us-supreme-court/429/10.html> [Accessed 31 May 2020].

US v Williams. (2001). *Taxcrime! Obstructing the Due Administration of the Tax Code: The Orwellian Implications of 26 U.S.C. § 7212(a)*. Retrieved from: <http://www.swansonmcnamara.com/wp-content/uploads/2012/03/7212-Article.pdf> [Accessed 31 May 2020].

Van der Vorm, A., Vernooij-Dassen, M., Kehoe, P., Rikkert, M., Van Leeuwen, E., & Dekkers, W. 2009. Ethical aspects of research into Alzheimer disease. A European Delphi study focused on genetic and non-genetic research. *Journal of Medical Ethics*, 35(2):140–144.

Ventresca, M.J. & and John W. Mohr. 2001 Archival Research Methods. In: Joel A. C. Baum. *Companion to Organizations*. Blackwell Publishers.

Wadesango, N., Mutema A., Mhaka, C. & Wadesango, V.O. 2018. Tax compliance of small and medium enterprises through the self-assessment system: Issues and challenges. *Academy of Accounting and Financial Studies Journal*, 22(3):1-15.

Weichenrieder, A.J. 2007. Survey on the taxation of small and medium-sized enterprises draft report on responses to the questionnaire. Organisation for Economic Cooperation and Development.

White, M.D., & Marsh, E.E. 2006. Content analysis: A flexible methodology. *Library Trends*, 55(1), 22-45.

Williams, C.C. & Horodnic, A.V. 2017. Rethinking informal payments by patients in Europe: An institutional approach. *Health Policy*, 121(10):1053-1062.

Wilson, V. 2011. Research Methods: Content Analysis. *Evidence Based Library and Information Practice*, 6(4):177-179.

York, E. 2018. Reviewing Different Methods of Calculating Tax Compliance Costs. Tax Foundation. Fiscal Fact No. 608, Aug 2018.

Yulianto, Y., Rosalia, F., Atika, D.W., & Alamsyah, A. 2019. Determinants of personal tax compliance in Indonesia. *Humanities & Social Sciences Reviews*, 7(6):362-372.

APPENDIX A: ETHICAL CLEARANCE



Private Bag X6001, Potchefstroom
South Africa 2520

Tel: 018 299-1111/2222
Web: <http://www.nwu.ac.za>

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

9 December 2020

Prof W Musvoto
Per e-mail
Dear Prof Musvoto

EMS-REC FEEDBACK: 20112020

Student: Lesejane, LA (24048739)(NWU-00938-20-A4)

Applicant: Prof W Musvoto - MBA

Your ethics application on, *An assessment of tax compliance costs amongst small medium and medium entities in South Africa*, which served on the EMS-REC meeting of 20 November 2020, refers.

Outcome:

Approved as a minimal risk study. A number **NWU-00938-20-A4** is given for one year of ethics clearance.

Due to the Covid-19 lock down ethics clearance for applications that involve data collection or any form of contact with participants are subject to the restrictions imposed by the South African government.

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: 2020.12.11 07:04:37 +02'00'

Prof Mark Rathbone

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

APPENDIX B: LANGUAGE EDITING CERTIFICATE



Office: 0183892451

FACULTY OF EDUCATION

Cell: 0729116600

Date: 19th February, 2021

TO WHOM IT MAY CONCERN

CERTIFICATE OF EDITING

I, **Muchativugwa Liberty Hove**, confirm and certify that I have read and edited the entire mini-dissertation, **AN ASSESSMENT OF TAX COMPLIANCE COSTS AMONG SMALL MEDIUM AND MICRO ENTITIES IN SOUTH AFRICA** by **LESEGO AUDREY LESEJANE**, [ORCID.ORG/0000-0002-3912-5930](https://orcid.org/0000-0002-3912-5930), submitted in partial fulfilment of the requirements for the degree *Master of Business Administration* at the North-West University, South Africa.

Lesego Audrey Lesejane was supervised by **Professor Wedzerai Musvoto**.

I hold a PhD in English Language and Literature in English and am qualified to edit such a thesis for cohesion and coherence. The views expressed herein, however, remain those of the researcher/s.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Liberty Hove', is written over a light blue horizontal line.

Professor M.L. Hove (PhD, MA, PGDE, PGCE, BA Honours – English)



APPENDIX C: TURNITIN REPORT

22838082:Lesego_Lesejane_24048739__Mini-dissertation_submission._14.02.2020_Final.docx

ORIGINALITY REPORT

19%

SIMILARITY INDEX

15%

INTERNET SOURCES

6%

PUBLICATIONS

8%

STUDENT PAPERS

MATCH ALL SOURCES (ONLY SELECTED SOURCE PRINTED)

2%

★ Submitted to Mancosa

Student Paper

Exclude quotes On

Exclude bibliography On

Exclude matches < 6 words