

# The role of fringe benefits on the tax planning of employees in Rustenburg's metropolitan area

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## ABSTRACT

Rustenburg is one of the smaller towns in South Africa that are experiencing the highest development rate due to an increased growth in economic activities. Furthermore, Rustenburg is also one of the fastest growing metropolitan areas in South Africa. The yearly metropolitan growth rate experienced in Rustenburg from the year 2007 to the year 2012 is 5.1%. The high metropolitan growth rate in Rustenburg is due to the economic influence of the three biggest platinum mines in South Africa. Job opportunities stemming from mining activities in the area attract individuals from various parts of South Africa as well as immigrants from Southern Africa. Given its enormous mineral resources, employers in Rustenburg are at the same time competing for human resources with employers in neighbouring established cities. Fringe benefits, especially when utilized in tax planning, can play an important role in attracting more employees to the town. Therefore, it is against this background that the study seeks to evaluate the role of fringe benefits on the tax planning of employees in Rustenburg's metropolitan area. Most employees underestimate the real value of fringe benefits. Although fringe benefits have a host of benefits, some employees still underestimate the real value thereof. Moreover, most taxpayers are generally not familiar with the complex system of taxation. For the purpose of this study, a mixed method research design was used in order to understand research problems. A self-administered questionnaire consisting of close ended questions in the form of a Likert scale as well as an interview was utilized as data collection instruments. The results established that indeed most employees greatly underestimate fringe benefits, in many cases it is due to the lack of knowledge of the complex system of taxation and how to take advantage of fringe benefits in their tax planning. The recommendations are that employers should go the extra mile to educate employees about tax planning and utilising fringe benefits in tax planning.

**KEY WORDS:** fringe benefits, tax planning, Rustenburg, Income Tax Act No. 58 of 1962, gross income

## ABBREVIATIONS AND MEANINGS

Income Tax Act:	Income Tax Act No. 58 of 1962
TAA:	Tax Administration Act
SARS:	South African Revenue Service
IRP5:	Employee Tax certificate
IRC:	Internal Revenue Code
MTC:	Medical Tax credit
SPSS:	Statistical Packaging for Social Science
TPE:	Taxpayer Education

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## Chapter 1 – INTRODUCTION AND BACKGROUND

### 1.1 Introduction

The purpose of the study is to evaluate the role of fringe benefits on the tax planning of employees in Rustenburg's metropolitan area. According to Ghaffari, Shah, Burgoyne, Nor, Bin, Salleh (2017:92), fringe benefits are significant motivational factors for job performance of employees. Moreover, Ghaffari *et al.* (2017:93) also note that fringe benefits are one of the monetary incentives that could be utilised to motivate employees and increase their performance. Therefore, fringe benefits motivate employees to perform at their best.

For some employees, fringe benefits influence their job satisfaction (Nazir *et al.*, 2015:358). According to Kamau (2013:01), the purpose of offering fringe benefits to employees is to attract the finest employees and retain them. Fringe benefits are an attractive tool that employers utilise to entice employees to join their companies or to continue working for them.

However, fringe benefits, just like other forms of compensation, are subject to taxation. Givati (2015:276) concurs that fringe benefits are taxed because they are part of compensation packages and the fact that they are provided for the benefit of the employee. Also, compensation packages are used to attract highly competent employees (Osibanjo *et al.*, 2014:65). The provision of fringe benefits substantially benefits employees. According to Stiglingh (2015:362), fringe benefits are taxable as it forms part of the gross income of employees in terms of the Seventh Schedule to the Income Tax Act.

This chapter begins by highlighting the background to the study in Section 1.2, followed by a concise formulation and presentation of the problem statement in Section 1.3. Subsequently, the conceptualization of research questions and objectives are outlined in Sections 1.4 and 1.5 respectively. Thereafter, the significance of the study is discussed in Section 1.6 and that is followed by the literature review in Section 1.7, followed by the Research methodology in section 1.8 and then the chapter outline in section 1.9.

## 1.2 Background to the study

Rustenburg is a metropolitan city at the foot of the Magaliesberg mountain range situated in the North West Province of South Africa. Furthermore, it is in the Rustenburg Local Municipality under the Bojanala District Municipality. Rustenburg is one of the fastest growing towns in South Africa and it is on its way to becoming South Africa's most vibrant economic growth centre. Also, Rustenburg is at the centre of the platinum mining boom (Ololade & Annegarn, 2015:01) and has a large concentration of platinum mines. The town now competes with major cities like Johannesburg and Pretoria to attract the best human resources.

According to Mudau *et al.* (2014:188), job opportunities which stem from mining activities in the area attract individuals from various parts of South Africa as well as immigrants from Southern Africa. Therefore, due to the fact that Rustenburg is one of the fastest growing cities in South Africa given its substantial mineral resources, employers in Rustenburg are at the same time competing for human resources with employers in neighbouring established cities like Johannesburg and Pretoria, especially due to the ease of access of Rustenburg from Gauteng (Mudau *et al.*, 2014:188).

According to Dirks *et al.* (2010:01), development, competitive differentiation and the value of the economy of cities are likely to progressively result from individuals and their abilities, creativity, level of knowledge as well as the capacity of the economy to generate and absorb innovations. Nowadays, the competitive differentiation (what distinguishes a company / city from competitors) is based on the capability of the employees to be creative and to absorb new skills (Dirks *et al.*, 2010:01). Therefore, fringe benefits, especially when utilized in tax planning, may play an important role in attracting more and qualified employees to the city.

Wilson *et al.* (1985), Weathington and Reddock (2011:34) articulated that while employees are for the most part not aware of their fringe benefits, a few late patterns (plausibly patterns such as employees wanting to be valued and appreciated by the company) might make employees exude more enthusiasm for fringe benefits. Perhaps fringe benefits could ensure that employees are healthy, joyful and engaged and maybe the provision of fun perks may make work less of a burden for employees.

Fringe benefits strive to keep up the personal satisfaction for employees and giving a level of assurance and monetary security for employees and for their families (Kamau, 2013:01).

According to Weathington and Reddock (2011) *cited* in Lewis (2013:39), most workers did not know the dollar value of their fringe benefits and the employee's evaluated value of the benefits were altogether lower than their genuine value. Most employees plausibly underestimate the true value of fringe benefits and do not utilize them in their tax planning because they are often not aware of their real value.

In South Africa most fringe benefits are taxable and they are included in the gross income of the taxpayer (employee) and therefore incorporated into their Personal Income Tax according to the Seventh Schedule to the Income Tax Act. However, in other countries such as Australia, Fringe Benefits tax exists separately (Eichfelder & Vaillancourt, 2014:16). Furthermore, they note that the value of fringe benefits may be difficult to figure out. In view of the tax implications attached to fringe benefits in South Africa, this study seeks to establish what this means for the employer and the employee.

### 1.3 Research Problem

According to Mudau *et al.* (2014:186), Rustenburg is one of the smaller cities in South Africa that are experiencing the highest growth rate due to an exponential increase in economic activities. Furthermore, Rustenburg is also one of the quickest growing metropolitan areas in South Africa (Ndebele, 2013). The yearly metropolitan growth rate experienced in Rustenburg from the year 2007 to the year 2012 was 5.1% (Mudau *et al.*, 2014:191). The high metropolitan growth rate in Rustenburg is due to the economic influence of the three largest platinum mines in South Africa (Impala Platinum Mine, Lonmin Platinum Mine, and Anglo American Platinum Mine) which are situated around Rustenburg. Anglo American Platinum Mine (*Amplat*) located in the area of Rustenburg produces more platinum than any other company in the world (Alexander, 2013:609). The platinum mining sector's share of the market capitalisation analysed has marginally increased to 34% (PWC, 2017:07).

Fringe benefits, especially when utilised in tax planning, could play an important role in attracting more employees to the town. According to Cooper (2017:42), most taxpayers, who are also employees, are generally not familiar with the complex system of taxation.

Therefore, some employees underestimate the value of fringe benefits on their tax planning because they are not aware of how they affect their taxes. As argued above, fringe benefits can be used by employers to enhance job satisfaction and thereby improve productivity.

According to Artz (2010:01), fringe benefits signify a desirable form of reimbursement and they have been recognised as important positive factors contributing to overall job satisfaction. Fringe benefits can stimulate (probably encourage employees to work harder) the employees and increase the productivity of employees (Jali, 2016:15). Companies that utilize fringe benefits to attract employees can get the best out of their employees as a properly managed benefit structure can lead to more productivity for companies. Moreover, fringe benefits are deemed to form part of gross income in terms of the Income Tax Act, but some fringe benefits also have allowable deductions which may reduce the tax payable by employees (Stiglingh et al., 2017). It is therefore important for employees to understand the value that fringe benefits have on their taxes so they can utilise them for their tax planning. Therefore, good tax planning may lead to happy employees as utilising fringe benefits in tax planning is a great way of sheltering the income of employees from the taxman by reducing taxes payable by employees. However, the reality is that fringe benefits are greatly underutilized in tax planning.

One cannot plausibly value something that they do not understand or are not aware of hence employees in some instances do not value fringe benefits and, consequently do not conduct their tax planning around fringe benefits because they are not aware of those benefits. In addition, (Dey, 2015:01) found that some salary earners (employees) did not have a complete understanding of the different provisions of the income tax.

According to Schnake (2016:185), lately there have been numerous developments (probably the development of new and unique fringe benefits) that have made

employees pay more attention to fringe benefits and in some instances some employers may not want to bear the cost of the benefits by transferring it to employees.

Although some employees underestimate the value of fringe benefits on their tax planning, when changes are made to the provisions of the taxation on fringe benefits, they are usually the ones who get affected negatively. According to Braverman *et al.* (2015:02), at the point when negative changes are made to the taxation of fringe benefits, employees are usually the ones who lose out. This was witnessed when the Australian Federal Government decided to eradicate the \$ 1000 concession for in-house fringe benefits when utilised in a salary packaging arrangement. Consequently, that resulted in employers stopping to provide those benefits to employees as part of salary packaging arrangements (Braverman *et al.*, 2015:04).

Some employees do not fully comprehend the tax implications of fringe benefits on their tax planning resulting in them not adhering to all the tax rules that may ensure that they are not taxed heavily on the fringe benefits. Often, employees do not know the codes used for fringe benefits on their IRP5 certificates and Ferreira (2012:01) notes that the South African Revenue Service (SARS) requires employers to use correct codes on IRP5 certificates of employees.

Due to the tax benefits that accrue from fringe benefits, employees who receive fringe benefits often get selected for audits by SARS. Loftie-Eaton (2018:01) advised that employees should ensure that when they get selected for audits to verify compliance and to verify whether all the fringe benefits have been correctly declared, they should ensure that they understand all the codes on their IRP5 certificates. That understanding enables them to submit the correct supporting documentation to SARS and avoid possible penalties.

SARS often adds back all the tax deductions if employees fail to submit the correct supporting documentation or fail to submit the documentation altogether, because the onus of proof that any amount is deductible for tax purposes rests on the employee.

Jones (2008:01) highlighted that all the IRP5 codes mean something to SARS and if employees get them wrong, it would cost them dearly from a tax point of view. Apple *et al.* (2018:116) asserted that if employees are not aware of the new tax rules or fail to interpret them correctly, they may unintentionally fail to comply. In addition, Apple

*et al.* (2018:116) emphasise that most employees do not observe changes in tax codes and that, except if employees are made aware of new tax rules, it is likely that they would declare gross income with incorrect amounts.

Therefore, it is against this background that the study seeks to evaluate the role of fringe benefits on the tax planning of employees in Rustenburg's metropolitan area.

## 1.4 Research question

The following is the research question of the study:

- What is the knowledge of employees in Rustenburg's metropolitan area about fringe benefits?

### 1.4.1 Sub-questions

The following are the research sub-questions of the study:

- What factors influence fringe benefits on tax planning of employees in Rustenburg's metropolitan area?
- How do employees in Rustenburg's metropolitan area plan their taxes?
- Do employees in Rustenburg's metropolitan area place any value on fringe benefits?
- Are employees in Rustenburg's metropolitan area aware of the tax implications of fringe benefits on their tax planning?

## 1.5 Research objective

This study seeks to:

- establish the knowledge that employees in Rustenburg's metropolitan area have about fringe benefits;

### 1.5.1 Sub-objectives

The other ancillary objectives of this study are set to:

- assess what factors influence fringe benefits on the tax planning of employees in Rustenburg’s metropolitan area;
- identify how employees in Rustenburg’s metropolitan area plan their taxes;
- confirm whether employees in Rustenburg’s metropolitan area place any value on fringe benefits; and
- determine whether employees in Rustenburg’s metropolitan area are aware of the tax implications of fringe benefits on their tax planning.

## 1.6 Significance of the study

In spite of the fact that fringe benefits have been the subject of a developing body of knowledge, only a few studies have examined the impact of the favourable taxation treatment of these benefits (Woodbury & Huang, 1991:02). According to the researcher, there have not been sufficient studies done that examine the role of fringe benefits on tax planning. Fringe benefits have risen tremendously over the years and their scope has broadened considerably (Bloom & Trahan, 2016:01)

According to Wilson *et al.* (1985:01), employees lack knowledge of employer costs associated with fringe benefits and they significantly undervalue fringe benefits and further research on the matter has become necessary. Current research that examines the role of fringe benefits on tax planning are required. Clement, Olsson, Katti, Prateek, Esther. (2016:163) emphasise that research studies exploring fringe benefits extensively are expected to add value, specifically in enhancing understanding of the tax implications.

## 1.7 Definition of Key terms

### **Fringe Benefits:**

Fringe benefits are indirect payments given to employees for being part of an company (Kamau, 2013:01)

## **Tax planning:**

Tax planning is a legal and ethical way of decreasing the tax payable (Dey, 2015:01).

## **Rustenburg:**

Rustenburg is a city in the Bojanala District Municipality of the North West Province in South Africa (Chingono & Mbohwa, 2016:01).

## **Income Tax Act No. 58 of 1962:**

The Act which governs income tax in South Africa (Thiart, 2017:01).

## **Gross Income:**

According to the Income Tax Act No. 58 of 1962 (IT Act), gross income is the total amount, in cash or otherwise that is received or accrued.

## **1.8 Chapter Outline**

### **CHAPTER 1: Introduction**

The introduction provides an overview of the research. This chapter formulated the aim of the study, the research problem statement, research question and research objectives.

### **CHAPTER 2: Literature review**

In this chapter, a detailed literature review is provided; it provides a background to fringe benefits, details the various types of fringe benefits, provides a concise description of fringe benefits, then the explanation of the role of fringe benefits on fringe benefits is provided, followed by the tax implications of fringe benefits on tax planning, then the extent of knowledge employees have regarding the usage of fringe benefits on tax planning is detailed and lastly, the value employees place on fringe benefits is detailed.

### **CHAPTER 3: Research methodology**

Chapter 3 explains and justifies the research methods utilized in the study and also details how those research methods were utilised in the study.

### **CHAPTER 4: Results Presentation, Data Analysis, and Discussions**

The chapter presents and analyses the research results and interprets data as it responds to the main research question and the objectives set out in Chapter 1.

### **CHAPTER 5: Summary of findings, recommendations, and conclusion**

In this chapter, the summary of research findings is discussed, and recommendations are provided. Lastly, a brief conclusion sums the study, specifically through examining how the research method facilitated the process of answering the research questions.

#### **1.9 Summary**

The chapter outlined the background to the study, followed by the research problem, the research questions and the research objectives. Furthermore, it detailed the significance of the study and definition of key terms. Lastly, it detailed the structure of the research paper in the chapters outline. In the next chapter, a detailed literature review is provided.

## CHAPTER 2 – LITERATURE REVIEW

### 2.1 Introduction

The provision of fringe benefits to employees has grown significantly over time due to the competitive nature of companies and the scarcity of productive skilled personnel over the years. Winkler and Hughen (2012:253) acknowledge that there has been a rapid growth of fringe benefits provided by employers to employees in the past five decades.

Fringe benefits come at a cost not only for the employer, but for employees as well because the income tax system may tax just about anything that has a monetary value. According to Schnake (2016:185), lately there have been numerous developments which may make employees pay more attention to fringe benefits and in some instances some employers may not want to bear the cost of the benefits by transferring it to employees.

Therefore, this chapter discusses the literature related to the background to fringe benefits by highlighting where fringe benefits emanate from, what they signify, the importance of providing fringe benefits to employees and the valuation of fringe benefits for tax purposes. The chapter further discusses the various types of fringe benefits. Subsequently, a detailed discussion of the role of fringe benefits on tax planning becomes a focal point of this study. Lastly, this chapter discusses the extent of knowledge that employees have with regard to the utilization of fringe benefits in their tax planning. This chapter concludes with a summary.

#### 2.1.1 Background to fringe benefits

Since the commencement of the income tax in 1913, receiving fringe benefits has been the most important part of the country's economic setting (Soled & Thomas, 2016:766). Additionally, Rodgers (2016:89) states that certain fringe benefits are required by law to be provided by employers and some are offered voluntarily. Perhaps the provision of fringe benefits to employees may be necessitated by law in some instances.

Moreover, Winkler and Hughen (2012:257) submit that larger companies have cost advantages in offering fringe benefits to employees due to their economies of scale and there is a relationship that is of a positive nature between the size of the company and the provision of the fringe benefits. Larger companies probably offer bigger and better fringe benefits to employees due to their affordability. In South Africa most fringe benefits are taxable, and they are included in the gross income of the taxpayer (employee) and therefore incorporated in their Personal Income Tax according to the Schedule.

### **2.1.1.1 Description of fringe benefits**

Lewis (2013:39) articulates that fringe benefits comprise of allowances not in monetary terms that were not included in the employee's salary and were offered to employees by employers. Sutherland and Figari (2013:16 - 17) concur that fringe benefits are indeed given by employers to their employees.

Kamau (2013:01); and Ahmad and Scott (2015:13) describe fringe benefits as methods of indirect payments provided to an employee as part of being a member of a company and they form part of the entire incentive bundle offered to employees on top of their usual salary. Fringe benefits are offered in addition to salaries and they are mostly included in the total cost to company offered to employees. Haider *et al.* (2015:349) highlights that fringe benefits are among the important financial rewards. Today's employees go to great lengths for their companies and often get rewarded with excellent non-monetary employee benefits.

Fringe benefits are usually offered by large companies and to permanent employees in South Africa. Winkler and Hughen (2012:257) affirm that employees in large companies more often than not receive fringe benefits unlike employees in smaller companies due to their economies of scale.

### **2.1.1.2 The importance of the provision of fringe benefits**

Fringe benefits can motivate employees and increase their productivity (Jali, 2016:15). When employees are motivated at work, they are mostly determined to go beyond the call of duty and excel in their duties.

Furthermore, Winkler and Hughen (2012:255) assert that employers provide fringe benefits in order to entice the finest employees as well as to retain them. These days most competent employees want to join companies that offer substantial benefits. Kamau (2013:01) concurs that the purpose of offering fringe benefits by most s is to entice, keep and inspire employees that qualify for the job and are competent. Additionally, fringe benefits centre on improving the worth of employees as well as offering safety and financial stability for employees and members of their families (Kamau, 2013:01). Fringe benefits cultivate higher levels of satisfaction for employees (Pan, 2015:89). Therefore, fringe benefits do not only better the lives of employees, but they also improve the lives of those employees' loved ones. Satisfied employees perform at their utmost best and produce brilliant outcomes for their employers. According to Kamau (2013:02), the output of employees may reflect on job satisfaction.

Globalisation has resulted in extreme competition to attract the most outstanding employees, hence the development of new kinds of fringe benefits (Soled & Thomas, 2016:772). Business professionals who often work in multinational companies due to globalisation are the most sought after employees and most companies go to great lengths to employ these individuals by offering substantial salary packages with benefits.

Finally, it has been suggested that fringe benefits have conventionally been used by employers as a valuable instrument to enhance the overall returns of their employees and fringe benefits have constantly been endorsed as adding more value to employees than increases in their salaries (Galanaki, 2013:03). These days more and more employees value the benefits that are offered by companies, unlike the actual salaries that they receive in their bank accounts.

### **2.1.1.3 The valuation of fringe benefits for tax purposes: Gross income**

It is not always easy to establish the value of fringe benefits for tax purposes. Eichfelder and Vaillancourt (2014:27) note that the value of fringe benefits may be difficult to measure.

Spearman (2012:1) affirms that in order for an amount to be subject to normal tax in the Republic of South Africa, it should firstly meet the provisions of the definition of “gross income” in terms of Section 1 of the Income Tax Act No. 58 of 1962 (hereinafter referred to as the Income Tax Act) and the definition provides as follows:

*“In relation to any year or period of assessment, in the case of any resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such resident, or, in the case of any person other than a resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such person from a source within or deemed to be within the Republic, during such year or period of assessment, excluding receipts or accruals of a capital nature.”*

As the definition states, the amount need not be in cash in order to be included in gross income. Van Zyl (2015:103) highlights that the value of each and every property that the taxpayer obtained and that includes even rights of action or debts are included in gross income. Preston (2014:21) affirms that it does not matter whether the property is tangible or intangible, as long as it has an ascertainable money value.

Brink (2017:06) emphasises that benefits provided at no cost to employees by their employers have a monetary value according to paragraph (i) of the definition of Gross income in Section 1 of the Income Tax Act. Moreover, when the employer provides benefits for the employee’s personal use, such benefits are taxable in terms of paragraph 2(e) or 2(h) of the Seventh Schedule to the IT Act and The test to be applied to establish whether such a benefit has a monetary value is an objective one as noted in the Brummeria case (Brink, 2017:07).

Therefore, fringe benefits have an ascertainable money value and that value is what is included in the taxable income of employees. In the following paragraphs, the various types of fringe benefits that are commonly offered to employees are discussed.

## **2.2 Types of Fringe Benefits**

There are diverse kinds of fringe benefits and they differ significantly between employees (Rodgers, 2016:92). Below are the most popular fringe benefits offered to employees:

### 2.2.1 Medical contributions / Health Insurance

A taxable (fringe) benefit occurs when an employer makes direct or indirect payments to benefit funds to the advantage of his employee or the dependents of the employee and a benefit fund comprises of medical schemes (Stiglingh *et al.*, 2017:389). Most individuals prefer private healthcare over public healthcare for better treatment and quality standards, however, private healthcare is expensive hence more and more employers offer the benefit to their employees. Stiglingh *et al.* (2017:389) further specified that the cash equivalent of such contributions is the amount that the employer pays. The employer's contributions to medical schemes are governed by Paragraph 2(i) of the Seventh Schedule to the IT Act.

Collins *et al.* (2016:01) affirms that more and more Americans obtain health cover from their employers as over 57% of the population of the United States below the age of 65 years old have health insurance either through their own jobs or through a member of their family's job. Gonzales (2014:01) echoes that sentiment when he highlights that approximately 55% of Americans had health insurance from their employer.

Additionally, Long *et al.* (2016:01) affirms that people who are younger than 65 years of age obtain cover for health from their employers. Due to a rise of many fatal diseases lately, offering healthcare benefits to employees has become vital. In some instances the employer contributes solely to the medical aid/health insurance of the employee and in some instances both the employer and the employee contribute as noted by Claxton *et al.* (2015:01). The yearly Kaiser Family Foundation/Health Research and Educational Trust discovered that in the year 2015, the normal yearly contribution for both the employee and the employer were \$ 6 251.00 for one cover and \$ 17 545.00 for cover for the whole family (Claxton *et al.*, 2015:01).

Furthermore, Claxton *et al.* (2015:01) also highlights that the total percentages of companies providing health insurance and of employees receiving health covers from their employers stayed the same since the year 2014. Most companies spend a substantial part of their budget on medical costs provision for their employees. Anker and Anker (2017:04) indicate that medical care is one of the benefits in kind (fringe benefits) that employers all over the world offer their employees.

In some instances, employers who have more than 50 permanent employees are required to provide health cover for their permanent employees and their dependants or else they will be charged a financial penalty (Long *et al.*, 2016:01). Long *et al.* (2016:01) articulated that the mentioned provision will increase the number of employees who are offered health insurance by their employers.

Paragraph 2(i) read with Paragraph 12A of the Seventh schedule to the IT Act verifies that the immediate or indirect payments by an employer to a medical scheme to the advantage of an employee constitutes fringe benefits (van Wyk & Terblanche, 2017:184). However, although medical aid contributions paid by an employer to an employee are added to the taxable income of the employee as a taxable fringe benefit, the normal tax payable can be reduced monthly with *Medical tax credits* according to Section 6A of the Income Tax Act.

Previously, medical tax deductions had limits from R720.00 for main members and first dependants and from R 410 for every extra dependant (Lloyd, 2015:18), and that was a deduction directly against the gross income. Presently, the tax liability is reduced by the medical tax credits and for the current year of assessment (2017/2018), they are R 303 for the principal member of the medical aid (the employee), R 303 for the first dependent of the employee and R 204 for every extra dependent of the employee (Cooper, 2017:44).

Finally, the medical contributions paid by the employer for a person who has retired due to old age or being sick or for any other reason, or the children / spouse of an employee who has passed away and was working for the employer when he passed on, or the children/ spouse of a previous employee who retired due to old age, being sick or for any other reason shall have a zero value in terms of paragraph 12A(5)(a, b, c) of the Schedule (Stiglingh *et al.*, 2017:390).

### **2.2.1.1 Medical services**

A taxable benefit arises when the employer pays medical expenses for the employee and their dependants and the cash equivalent is the amount that was paid by the employer (Stiglingh *et al.*, 2017:391).

Paragraph 12B(3) of the Seventh Schedule to the Income Tax lists the following benefits as having a zero value (Stiglingh *et al.*, 2017:391):

- Medical care paid for employees (and/or their dependants) of medical schemes;
- Benefits paid for people who left the employ of the employer through retirement due to being sick, old age or other frailty.
- When the benefits were paid for the dependants of the employee who passed away.
- When the benefits were for all employees in general such as flu vaccinations for all employees or free HIV tests at the workplace or any other medical service that ensure employees perform better at their jobs.

### 2.2.2 Retirement Funds

Stiglingh *et al.* (2017:393) articulates that taxable fringe benefits in respect of retirement funds are contributions made by an employer to any Pension Fund or Retirement fund or any other fund for the advantage of the employee. From 01 March 2015, the new arrangement of the Income Tax enactment affecting Retirement funds will treat all contributions paid by employers to Pension, Provident and Retirement annuity funds as a fringe benefit taxable in the employee's hands (Foster, 2014:07).

Furthermore, Foster (2014:07) affirms that those taxable contributions paid by the employer will be considered to have been made by the employee for her/his income tax deduction purposes. In essence, the amount of the employer's contribution will be added to the employee's taxable income as a taxable fringe benefit.

Accordingly, despite the fact that contributions made by employers to such Retirement funds are taxed in the employee's hands, such employer's contributions are permitted to be deducted from taxable income even though they were not paid by the employees but were instead paid by their employers (Foster, 2014:07). Consequently, employees are able to deduct retirement contributions made by their employers from their taxable income resulting in employees paying less taxation.

Stiglingh *et al.* (2017:395) further states that the cash equivalent for the taxable benefit of the employer's retirement contributions, shall be the whole amount that is

contributed by the employer on behalf of the employee who is a member of that fund where the fund is a defined contribution. A defined contribution is basically a contribution fund whereby the benefits on retirement as well as the amounts for contributions are related.

For Defined Benefit funds i.e. funds in which contributions are centred on the benefits and retirement funding income at retirement are derived using a particular formula, the cash equivalent of the taxable fringe benefit shall be the amount that is determined by the use of a formula in terms of Paragraph 12D(2) of the Schedule (Stiglingh *et al.*, 2017:395).

Lastly, no value shall be placed on the taxable fringe benefit resulting from any contributions done by an employer on behalf of a member of the fund who has retired from the fund or for children/spouse or any other dependant of members who have passed away as per Paragraph 12D(6) of the Income Tax Act (Stiglingh *et al.*, 2017:395).

### **2.2.3 Income Protection Insurance Policies**

Benefits in terms of insurance policies are governed by Paragraph 2(k) and Paragraph 12C of the Income Tax Act (Stiglingh *et al.*, 2017:392). Perhaps due to many uncertainties in life; today one might be having a job, the next day that might not be the case hence some employers offer the incredible benefit of paying insurance on behalf of their employees.

Stiglingh *et al.* (2017:392) explains that the payments that employers pay to insurance policies for the advantage of the employee/his spouse/children or any other dependant either directly or indirectly constitute a taxable fringe benefit. The cash equivalent for such payments shall be the total premiums paid by the employer for such policies (Stiglingh *et al.*, 2017:393).

Premiums paid to insurance policies for Income Protection with regards death, disability, injuries that are serious or joblessness will be a fringe benefit that is taxable and will not be allowed as a deduction against income tax from 01 March 2015, but upon the occurrence of any of the abovementioned occasions, then they shall be free from tax (Foster, 2014:07).

The above depicts that even though fringe benefits are taxable in the hands of the employee for such policies, when the policies are paid out during those unforeseen circumstances, they shall be free from tax and employees (or their dependents/beneficiaries) will receive the money in full, tax free.

## 2.2.4 Meals and Lodging

According to Campbell and Mitchell (2015:01), gross income normally incorporates the fair market value of meals and lodging that an employee acquires from their employer. Lomax (2014:2082 - 2083) concludes that the fringe benefit in the form of free meals provided by employers is definitely subject to taxation unless the employees can prove that an exclusion which permits them to not include the free meals in their gross income exists. The taxman has made it a solid aim to collect taxes on almost anything that has a monetary value, even food.

The meals provided for free basically constitute gross income in terms of Section 61(a)(1) of the Internal Revenue Code (IRC) by way of a fringe benefit (Lomax, 2014:2085). Moreover, (Zhao, 2012:430) affirms that the employee's own costs for meals and residence are private expenses and are therefore not deductible from gross income.

Nonetheless, Section 119 of the I.R.C enables an employee to exclude the value of such meals and lodging from their employer in their taxable income in specific situations (Campbell & Mitchell, 2015:01).

### 2.2.4.1 Conditions for Exclusion from gross income

In terms of Section 132(a) of the IRC, any fringe benefit that meets the requirements of "*de minimis*" will not be included in gross income (Suckno, 2017:222).

*De minimis* fringe benefits relate to any service or goods whose value is so minimal especially considering the regularity with which same fringe benefits are offered by the employer to their employees in such a way that taking account for such would be practically impossible or difficult to account for (Lomax, 2014:2088). Examples for *de minimis* fringe benefits is anything from use of photocopy machines at workplaces for

own use, work parties, gifts for holidays, small chocolates given as a token of appreciation and beverages.

Lomax (2014:2088) further notes that for the benefit to be *de minimis*, it all depends on how frequent the employee gets the benefit. The measurement of the frequency is dependent on how much one employee enjoys the specific benefit instead of how much all the employees obtain the specific benefit, and when there are difficulties in establishing how often one employee obtained the benefit, then the employee must establish how frequent the employer offers the benefit to all the employees (Lomax, 2014:2089).

Furthermore, Campbell and Mitchell (2015:02) affirm that the meals should actually benefit the employer and not the employee when receiving them, and they must be provided strictly for business purposes. Essentially, even though the meals were offered to employees, they should actually benefit the employer in a way that should the meals not be provided, perhaps the employee would not have had the energy or strength to continue working overtime or at remote places where there are no shops or restaurants.

In order for an employee to not include the worth of the meals they acquired from their employer in their gross income under the general avoidance in Section 119(a) of the IRC, the employer should provide the meals on the premises where the employer conducts their business (Campbell & Mitchell, 2015:01).

Zhao (2012:433 - 434) affirmed that the value of lodging should be excluded from gross income as long as it was provided at the workplace and the worker was mandated to agree to take the accommodation as an employment condition

Additionally, according to Section 119 of IRC, the value of food and accommodation is excluded from gross income provided residence is offered for the ease of the company, the employee should be expected to accept that residence as part of their employment and the residence should be on the locations of the employer's business (Zhao, 2012:434).

Campbell and Mitchell (2015:02) also note that an employee may not include the worth of insignificant foodstuffs like cold drinks and meals that an employer provides infrequently when the employee works overtime.

The tax free arrangement of the exclusions are normally applicable to employees such as a hospital employee who has to be available at all times for emergencies, or a ranger of a park who has to be available each time or a construction employee who works on a project at an isolated location or a military officer etc. (Zhao, 2012:429).

Finally, the value for meals offered just before work resumes will be included in gross income except for restaurant employees (Campbell & Mitchell, 2015:02).

#### **2.2.4.2 Residential accommodation**

Stiglingh *et al.* (2017:381) indicate that the fringe benefit for residential accommodation is governed by the provisions of Paragraph 2(d) of the Schedule and the cash equivalent for such, shall be the value of the lease minus any payments made by the employee for the use of the accommodation and less any item that is provided with the accommodation.

Paragraph 9(7) of the Schedule highlights that a zero value shall apply on any accommodation offered to employees whether it is in the Republic of South Africa or out of the country who have to be away from their primary residences for work purposes (Stiglingh *et al.*, 2017:382). Some employers book their employees in hotels or guest houses when such employees go on training for work purposes or travel for any other business on behalf of their employers.

Moreover, Stiglingh *et al.* (2017:382) also specify that the cash equivalent shall be nil for non-residents who are employees and have been offered accommodation by their employers in South Africa for being away from their primary residence for over two years after arriving in South Africa, and for less than 90 days in the year of assessment.

#### **2.2.4.3 Holiday Accommodation**

A taxable fringe benefit arises in terms of paragraph 2(d) of the Schedule to the when the employer pays for or offers employees free vacation accommodation or for a consideration that is below the cash price for such accommodation (Stiglingh *et al.*, 2017:383).

Stiglingh *et al.* (2017:383) affirms that the cash equivalent for such a fringe benefit shall be the total lease value of the holiday accommodation and if the employer is not the owner of such accommodation then the cash equivalent shall be the total lease amount and other charges that the employer pays on behalf of the employee for the accommodation.

The cash equivalent, in all other cases aside from the above-mentioned ones, shall be the market value of such holiday accommodation in terms of Paragraph 9(4)(b) of the Schedule.

### 2.2.5 Subsistence allowance

Another fringe benefit that can be used in tax planning is a subsistence allowance. A subsistence allowance is an allowance that an employer pays to the employee for being away from their home for a minimum period of one night for work purposes (Cooper, 2017:44).

Stiglingh *et al.* (2017:368) defines a subsistence allowance as an amount given to the employee by the employer for private maintenance and supplementary costs on occasions where the employee is expected to be away from their home for at least one night. When an employee is required by an employer to spend more than one night away from their usual place of residence, that is often an inconvenience for the employee so a subsistence allowance makes up for that inconvenience.

It is required by SARS that such allowances for work travel in South Africa should not exceed R 122 (2018 tax year) per day for incidental costs and R 397 per day for food and inconvenience costs (Cooper, 2017:44). If an employer pays more than what SARS recommends then those amounts will be included in the taxable income of the employee unless the employee can prove that they indeed travelled for work purposes so that their taxable income can be reduced accordingly (Cooper, 2017:44). Stiglingh *et al.* (2017:368) concurs that only the part of the allowance that is more than the deemed rates mentioned above should be included in the employee's taxable income.

A subsistence allowance, unlike other types of fringe benefits is not subject to Employees Tax as it is explicitly excluded from the definition of "remuneration" in terms of paragraph bA(ii) of the Fourth Schedule to the Income Tax (Stiglingh *et al.*,

2017:369). Nevertheless, the whole amount should still be shown on the Employee Tax certificate/IRP5 certificate (ordinarily as not being taxable) (Stiglingh *et al.*, 2017:369).

Additionally, Stiglingh *et al.* (2017:369) highlighted that should there be any portion of the allowance not utilized then it shall be subject to normal tax during assessment time.

Stiglingh *et al.* (2017:369) points out that in instances where the employee received the subsistence allowance but then did not spend a night away from home for work purposes by the last day of the month after the payment was received and did not pay back the employer then such an amount will no longer be seen as a subsistence allowance.

The above amount will be included in the employee's taxable income. Furthermore, the proviso to the subparagraph (ii) of paragraph (bA) of the definition "*remuneration*" in the Fourth Schedule deems such amounts to be payment for services rendered by the employee and they should be included in the gross income of the employee in terms of paragraph (c) of the definition of "gross income" in the Income Tax Act and employee's tax should deducted thereon (Stiglingh *et al.*, 2017:369).

Finally, Stiglingh *et al.* (2017:369) asserted that the whole amount must then be reflected as being part of the salary of the employee on their Employee Tax certificate / IRP5.

### 2.2.6 Travel allowance

A travel allowance is an allowance that an employer pays monthly to an employee for using their own private car for work purposes (Cooper, 2017:43). There are two kinds of travel allowances that an employer can pay i.e. a fixed travel allowance which denotes that an employee obtains the same amount of the allowance every month regardless of how many times the employee travelled for work purposes. The second one is the reimbursive travel allowance which is an advance paid whereby the employee first travels for work purposes then claims the actual kilometres after traveling for business purposes (Stiglingh *et al.*, 2017:364).

A travel allowance is also a fringe benefit and it must be included in the taxable income of the employee. Cooper (2017:43) affirms that 80% of the travel allowance must be included in the taxable income of the employee (taxpayer) unless the employee can prove that they used the car mostly for work purposes. Moreover, only 20% of the travel allowance is incorporated in the remuneration of the employee according to par (cA) of the description of remuneration in the Fourth Schedule to the Income Tax Act.

The above inclusion can be offset by a travel expense deduction and a travel logbook is required to prove the actual business kilometres travelled as required by SARS (Cooper, 2017:43). For fixed travel allowances, the part of the allowance that was spent on business travel is efficiently free from taxation. In addition to the travel logbook, SARS also requires that a purchase contract of the motor vehicle be submitted for all travel expense claims.

When an employee travels between his home and his workplace, it is not viewed as traveling for business purposes in terms of Section 8(1)(b)(i) of the Income Tax Act. The Income Tax Act clearly states that traveling between work and home is a private expense and is accordingly not deductible for tax purposes.

### **2.2.7 Personal use of company cars**

Motor vehicles that are offered by companies to employees are either vehicles managed or financed by employers or rented cars that are owned by car rental companies (Nijland & Dijst, 2015:359). Harding (2014:10) notes that private use of a company motor vehicle is when the employee utilizes the car that has been provided by their employer for private purposes.

The benefit that the employee receives has an ascertainable monetary value hence it is included in the taxable income of the employee. According to paragraph 7(4) of the Seventh Schedule to the Income Tax Act, the value for the private use of the motor vehicle to be included in taxable income for the above fringe benefit is 3.5% or 3.25% (*for vehicles with maintenance plans*) multiplied by the determined value i.e. retail market value calculated monthly (Stiglingh *et al.*, 2017:373 - 374).

For accurate tax planning on the above, the employee should keep proper documentation when they paid any costs for petrol or maintenance or when they paid

anything towards the utilization of the motor vehicle so that the taxable benefit may be reduced accordingly (Harding, 2014:17). The employee should also keep accurate records (such as travel logbooks) indicating actual distance travelled for business and private so that the taxable benefit can be reduced by the kilometres travelled for business.

## 2.3 Other types of fringe benefits

In the following subsections other types of fringe benefits are discussed:

### 2.3.1 Customer Loyalty Programs

Loyalty programmes are when employees earn points through client loyalty packages such as aeroplane *frequent-flier* programmes (Soled & Thomas, 2016:772). In workplaces, such rewards are usually received when an employee incurs travel expenses related to their work which are paid or compensated by the employer (Soled & Thomas, 2016:773).

They state that even though the employer is the one who pays for the costs that produce those rewards, it is the employees (and not the employer) who enjoy the benefit of those rewards. Examples of such is when an employee normally sleeps at a particular hotel, say Protea Hotel, when traveling for work then Protea Hotel offers him/her a free night in the hotel for her/his loyalty on his next stay at the hotel.

The customer loyalty rewards programmes are similar to the ones that supermarkets usually offer to their customers to appreciate their loyalty such as the loyalty programme of Pick 'n Pay stores in the form of Smart shopper loyalty cards or Dischem Pharmacies with their Dischem Rewards cards or Clicks with their Clicks cash back cards and even some petrol stations have such reward programs.; the reward programs are mostly redeemable for cash or for free purchases.

Customer loyalty programmes have grown very popular over the years and the United States of America clients had over three (3) billion client loyalty memberships in the year 2014 and from that figure, more than 900 million was related to the travel and hospitality sectors (Soled & Thomas, 2016:775).

### 2.3.1.1 Tax implications of Customer Loyalty Programs

Theoretically, accounting for tax on fringe benefits ought to be basic (Soled & Thomas, 2016:780); but that is not always the case. At first glance, employees who receive such benefits should include them in their taxable income and then determine whether the fringe benefit qualifies for the exclusions (Soled & Thomas, 2016:780).

These benefit programmes are not taxable when employees are required to utilize them to reduce upcoming expenses related to work purposes (Soled & Thomas, 2016:782). In the preceding example of Protea Hotel, when the employee receives the customer loyalty programme for free overnight hotel accommodation and the employee utilizes those rewards for a business trip then such will not constitute taxable income for the employee.

However, Soled and Thomas (2016:782) emphasise that when employees utilise those rewards for their own use then the market value of such benefits should be included in the employee's gross income as no exclusion applies in terms of Section 132 of the IRC (Soled & Thomas, 2016:782).

The benefits are also not related to the condition of employment as should the employee have paid for them out of his/her own pocket, they would not have been allowed to be deducted as an essential business expense. In those instances, the benefits would not be deductible in terms of Section 11(a) of the Income Tax Act as they were not incurred in the production of income. Brink (2015:151) note that expenses may only be claimed as deductions from Income tax when they were incurred in the production of income as per Section 11(a) of the Income Tax Act.

Section 11 of the Income Tax Act reads as follows:-

*“For the purpose of determining the taxable income derived by any person from carrying on a trade, there shall be allowed as deductions from the income of such person so derived-*

*(a) Expenditure and losses actually incurred in the production of income provided such expenditure and losses are not of a capital nature.”*

Brink (2015:151,155) asserts that a deduction will only be allowed when the above requirements are all met; and Section 23(g) of the Income Tax Act prohibits the deductibility of expenses not laid out for the purpose of trade.

### **2.3.2 Mixed-Use Goods and Services**

These are the goods and services provided by employers to employees and they are used partly for business use and/or partly for private use. Soled and Thomas (2016:783) discuss circumstances in which the employee obtained a sophisticated cell phone and internet services to be used at home from their employer. From the employer's viewpoint, that sometimes makes indisputable business sense because employees can be reached by the employer almost all the time.

On the contrary, employees may easily be able to acquaint their employers and/or customers of any relevant business matter anytime (Soled & Thomas, 2016:783). The costs of cell phone and internet services are usually fixed, employers will normally not be concerned when employees utilise such services for their private use (Soled & Thomas, 2016:783).

#### **2.3.2.1 Tax implications of Mixed-Use Goods and Services**

Due to the fact that the employer is the one who bears the full cost of the cell phone and the home internet service, there is a probability of taxable income. When determining the tax implications of receiving such benefits, the private and business use must be measured independently (Soled & Thomas, 2016:783).

The part of the phone expenditure that is related to business use (for example 60% of the total yearly cost) is not taxable as it is a working condition fringe benefit under Section 132 of the IRC.

Moreover, Soled and Thomas (2016:783) assert that the above is due to the fact that should the employee have paid for the business use directly, it would be deductible as a business expense. The expense would be allowable as a deduction because it was incurred in the production of income in terms of Section 11(a) of the Income Tax Act. Regarding the private use of the cell phone or the internet, there are two probable methods i.e. the pro-taxpayer method and the pro-government method.

Soled and Thomas (2016:784) conveys that under the pro-taxpayer method, the private use of the internet and the phone would constitute a “*de minimis fringe benefit*” as the personal use is infrequent. However, Soled and Thomas (2016:784) disclose that the Internal Revenue Service (IRS) implemented the pro-taxpayer method for some cell phones provided by employers but not for services of the internet .

Moreover, the IRS has given guidance noting that the business use of the cell phone will be treated as a “working condition fringe” which is defined as services and goods offered to employees by employers and if the employee had paid for such goods and services, the payment would be allowed as a deduction against the employee’s gross income (Soled & Thomas, 2016:780, 784).

Additionally, the private use will be seen as a *de minimis fringe* for as long as the phone was offered for making sure that the employer or the clients are able to reach the employee when it is not normal working hours.

The second method, the pro-government approach contends that although the business use of the cell phone as well as the internet service constitute a working condition fringe benefit, their recurrent private use together with their substantial market value prohibits them from constituting *de minimis fringe benefits* (Soled & Thomas, 2016:784).

### 2.3.3 Lifestyle Enhancements

Lifestyle enhancements relate to luxuries and entertaining activities enjoyed by employees whilst on duty (Soled & Thomas, 2016:784). Some of those activities include caretaker services, massages by masseurs, having access to dance lessons, bowling and so forth (Soled & Thomas, 2016:784).

These days employees spend longer hours at work and due to great advancements in technologies and globalisation, employees can get immediate access to their social media accounts such as Facebook, private emails, twitter etc. and be able to communicate with anyone whilst at work utilizing computers or smartphones provided by their employers.

### 2.3.3.1 Tax implications of Lifestyle Enhancements

If the employee had been the ones who incurred costs for such activities, they would not be claimable as a business expense incurred in the production of income and would also not be classified as working condition fringe benefits (Soled & Thomas, 2016:785).

Soled and Thomas (2016:785) deduce that if a company frequently provides employees particular benefits such as hair salon services and dance lessons that add value, are regularly used by specific employees or regularly used by a substantial section of the employees of the employer, then those benefits shall not qualify to be *de minimis fringe benefits* which is exempt from taxation.

### 2.3.4 Allowances to Public Officers

Sometimes, holders of Public Office are required to incur specific expenses such as secretary services, stationery, traveling and pay for such out of their salaries, and then a particular portion of their salary is inevitably considered to be an allowance of a Public officer and they can claim the qualifying expenses in terms of Section 8(1)(f) of the Income Tax Act (Stiglingh *et al.*, 2017:370).

They submit that it is the practice of SARS to deduct employees tax (Pay-As-You-Earn/PAYE) from 50% of the allowance, however, the employee should disclose the whole amount on their IRP5 (Employee certificate) in terms of Paragraph (c) of the definition "*remuneration*" in the Fourth Schedule to the Income Tax Act.

### 2.3.5 Assets obtained below their real value

A taxable benefit arises when an employee acquires an asset from their employer for free or for an amount that is below the market value of that asset (Stiglingh *et al.*, 2017:372). Additionally, Stiglingh *et al.* (2017:372) articulates that the cash equivalent for this fringe benefit is the value of the asset minus the amount that was paid by the employee (if any). Examples are when an employer acquires a laptop for R 15,000, sells it to the employer for R 5,000; the cash equivalent of the fringe benefit will be the R 15,000 less the R 5,000 paid by the employee.

### **2.3.6 Free or cheap services**

A fringe benefit arises when an employee uses free or cheap services offered by their employer for his personal use in terms of paragraph 2(e) of the Schedule (Stiglingh *et al.*, 2017:384). Moreover, Stiglingh *et al.* (2017:384) notes that in the case of travel facilities offered by an employer who runs the business of transporting passengers by sea or flight to allow his employees or their loved ones to travel to any place out of South Africa, the cash equivalent shall be the lowest tariff minus how much the employee or his loved one pay.

In addition, Stiglingh *et al.* (2017:384) further notes that the cash equivalent in any other case, shall be the cost that the employer incurred in providing that service minus any amount paid by the employee.

### **2.3.7 Low Interest debts**

Paragraph 2(f) of the Schedule states that debts owed to employers by their employees with no interest or at an interest that is lower than the official rate of interest are taxable benefits (Stiglingh *et al.*, 2017:385).

The cash equivalent shall be the interest on the balance that is due at the official interest rate minus the actual interest that the employee paid according to paragraph 5(1) of the Schedule.

### **2.3.8 Discharge or payment of obligation**

A taxable benefit also arises when an employer releases an employee from a duty to pay the debt that the employee owes the employer according to Paragraph 2(h) of the Seventh Schedule to the Income Tax (Stiglingh *et al.*, 2017:388). The cash equivalent shall be the amount that the employer discharged or paid for the employee in terms of Paragraph 13(1) of the Schedule.

## **2.4 The role of fringe benefits on tax planning**

Tax is a required obligation and significant source of income for the state and citizens have a constitutional duty to pay taxes (Dey, 2015:01). However, paying tax is

constantly an agonizing task as it openly impacts on the remaining income of the employees (Dey, 2015:01). The tax payable may be decreased either by tax evasion which is illegal and is not advised or by tax avoidance which is not a crime, or by tax planning which is legal and ethical (Dey, 2015:01). Tax planning results in obtaining some tax benefits (Blouin, 2014:875).

Tax planning is very vital for every taxpayer to decrease their tax payable and to comply freely with the income tax laws (Dey, 2015:01). For taxpayers who earn a salary, i.e. employees to fully enjoy the advantages of tax planning, such an employee must be aware of the various requirements of tax planning that exists in the laws (Dey, 2015:01).

Tax planning has become very important for employees as well as employers especially since the marginal rate of tax is now 45%, now people are always looking for creative ways to save on their taxes (Jones, 2015:06). It has become very pertinent for employees to structure their salary packages in a tax-efficient manner, especially since the move from the “cost-plus-benefits” packages to the “cost-to-company” packages (Jones, 2015:07).

Jones (2015:07) emphasized that the rise of the cost of benefits such as the rise in medical aid costs is borne by the employee and not the employer under the “cost-to-company” package. That may place a substantial knock on the salaries of employees hence the importance of taking advantage of tax planning opportunities in the salary packages (particularly the fringe benefits offered).

#### **2.4.1 The tax implications of fringe benefits on tax planning**

Fringe benefits are deemed to form part of gross income in terms of the Income Tax Act, but some fringe benefits also have allowable deductions which may reduce the tax payable of employees hence it is important for employees to understand the value that fringe benefits have on their taxes so they can be able to utilise them on their tax planning. Interestingly, fringe benefits are also known as “*taxable benefits*” in terms of paragraph 1 of the Schedule and the fringe benefit value that is subject to tax is called the cash equivalent (Stiglingh et al., 2017:362). In Australia, fringe benefits tax is payable by employees on the value of the fringe benefits provided to employees with

regards to employment (Braverman *et al.*, 2015:06). For fringe benefits to form part of taxable income, they must meet all the requirements of gross income in terms of the Income Tax Act No, 58 of 1962.

van Wyk and Terblanche (2017:185) noted that the following components should be present in order for an amount to be incorporated into gross income as a fringe benefit in terms of paragraph 2 of the Seventh Schedule of the Act:

- An advantage was given by an employer to an employee
- Regarding an employee's work with the employer
- As a reward for work performed or to be performed by the employee to the employer

The component of fringe benefits that is equal to cash will be included in gross income (Stiglingh, 2015) cited in van Wyk and Terblanche (2017:185).

Fringe benefits therefore increase the taxable income of employees but in most instances, there are allowable deductions or exclusions that may reduce the tax burden.

#### **2.4.2 The extent of knowledge employees have regarding the usage of fringe benefits on tax planning**

Generally, one cannot value something that they do not understand or are not aware of hence employees in some instances do not value fringe benefits and, consequently do not conduct their tax planning around fringe benefits because they are not aware of those benefits. In addition, (Dey, 2015:01) found that some salary earners (employees) did not have a complete understanding of the different provisions of the income tax. According to Cooper (2017:42), most taxpayers (employees) are generally not familiar with the complex system of taxation.

Some employees do not fully comprehend the tax implications of fringe benefits on their tax planning resulting in them not adhering to all the tax rules that may ensure that they are not taxed heavily on the fringe benefits. Oftentimes, employees do not know the codes used for fringe benefits on their IRP5 certificates and Ferreira

(2012:01) noted that the South African Revenue Service (SARS) requires employers to use correct codes on IRP5 certificates of employees.

## 2.5 The value employees place on fringe benefits

Most people greatly underestimate the real value of fringe benefits according to Weathington and Reddock (2011:44). Even though fringe benefits have a host of benefits, some employees still underestimate their real value thereof.

Some employees highly value fringe benefits and cannot imagine life without items such as their medical aid, pension fund, and employer provided motor vehicle. Consequently, when certain changes are proposed by government resulting in some employers not providing some fringe benefits, it may negatively affect some employees. At the point when negative changes are made to the taxation of fringe benefits, employees are usually the ones who lose out as it was witnessed when the Australian Federal Government decided to eradicate the \$ 1000 concession for in house fringe benefits when utilized in salary packaging arrangements (Braverman *et al.*, 2015:02). Consequently, that resulted in employers stopping to provide those benefits to employees as part of salary packaging arrangements (Braverman *et al.*, 2015:04).

Fringe benefits add value to employees because they enhance their wellbeing and sometimes even the wellbeing of their family members. Kristal (2017:31) affirmed that benefits that are provided by employers to employees are a necessary element of the total pay of employees and contribute to the welfare of employees as well as their economic and social security.

Kristal (2017:31) noted that employees in some places of work were more likely to obtain rewards that are valuable in the form of fringe benefits offered by employers. Furthermore, Kristal (2017:58) established that there was inequality of fringe benefits offered in places of work in that employees that are more powerful were most probable to receive fringe benefits and at a greater volume than employees who are less powerful. Kristal (2017:58) articulated that companies in public sectors provide fringe benefits that are valuable in exchange for salaries.

## 2.6 Summary

Fringe benefits offer a variety of benefits to employees such as the option of using a medical aid for medical care or the provision of a cellphone by one's employer or even the use of a company car. However, because fringe benefits are taxable, they may sometimes prove burdensome to employees who are already being taxed heavily on their normal salary.

Therefore, it's imperative for employees to understand the implications of fringe benefits on their tax planning so they may be able to structure their tax planning in such a way that the fringe benefits would work in their favour where tax is concerned. Finally, the burden of proof that such fringe benefits should not be taxable or that there should be allowable deductions rests with the taxpayer in terms of Section 102 of the Tax Administration Act of 2012 (TAA). In the next chapter, a detailed research methodology which was utilised in the study is provided.

## CHAPTER 3: RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter provides a detailed account of the research design used to conduct the research. Bryman (2014:100) noted that a research design provides a basis for collecting and analysing data. De Vaus and de Vaus (2001:09) articulate that the purpose of a research design is to make sure that the evidence acquired allows the researcher to answer the research questions as clearly as they can.

Research methodology is a methodical process that assists to answer research questions and achieve research objectives. A Likert scale questionnaire and interview questions were designed as data collection instruments and administered to employees of the Rustenburg Local Municipality, South African Revenue Service, Department of Health (Job Shimankana Tabane Hospital) and audit firms in the city of Rustenburg in the North West Province. The questionnaire and interviews assisted in answering research questions because the data collected was processed utilising statistical test analyses and interpreted in a way that responded to the initial research questions set out in Chapter 1.

#### 3.1.1 Chapter Outline

The chapter is outlined in the following way:

- Research Methodology
- Research philosophy
- Research design
- Population
- Sampling
- Data Collection
- Pilot study
- Data analysis
- Validity and Reliability
- Ethical considerations
- Summary

### 3.2 Research methodology

According to Kothari (2004:01), research refers to the quest for knowledge. Research implies searching for information and probing into what is not known. Marczyk *et al.* (2017:01) holds the view that research is the basis of scientific progress. Furthermore, they articulated that the purpose of research is to respond to questions and obtain new knowledge.

Research is about searching for answers to research questions in order to attain new knowledge, to critique previous conceptions of a phenomenon, or alternatively confirm what previous studies have established about a specific problem. By conducting research, complexities of problems are reduced, a relationship between events that are not related is discovered and thereby improving the way we live (Marczyk *et al.*, 2017:01). Research is a methodical and systematic quest for relevant information on a specific topic and it also entails planned investigation (Kothari, 2004:01).

According to Marczyk *et al.* (2017:23), research methodology entails practices, procedures and principles that direct research. Moreover, research methodology should be seen as incorporating the whole process of conducting the investigation, making conclusions and disseminating the findings (Marczyk *et al.*, 2017:23).

Research methods, on the other hand, refer to a technique utilized for data collection and it can include various instruments such as structured interview schedules, self-administered questionnaires, observation, surveys and others (Bryman, 2014:383). For this study, the mixed method was utilised. The former was utilized because the objective of the research focused on the design to produce statistically reliable data to ascertain how many employees are aware of the value of fringe benefits on their tax planning and the latter was used to understand the importance of fringe benefits on employees.

### 3.3 Research philosophy

The study utilized the pragmatism research philosophy which combines the positivism and interpretivism philosophies as it is appropriate for mixed method research to test the theory and data of the fringe benefits study paid to employees. Positivism assumes

a flawless quantitative method to examining occurrences, unlike the post-positivist methods, which aim to explain and discover comprehensive occurrences from a qualitative view (Crossan, 2003:46). The doctrines of interpretivism suggest that the social world is constructed and its meaning is given subjectively by humans and research is driven by interest (Krogh, 2016:10).

According to Shusterman (2016:05), pragmatism is: "a new name for old ways of thinking". Moreover, Shusterman (2016:12) also notes that pragmatism offers better power to art as well as philosophy and revisits the idea of philosophy as an art of living. Gava and Stern (2015:01) highlight that pragmatism is mainly about how ideas should be valuable for future practices. Shusterman (2016:06) articulated that pragmatism includes the applied and cognitive together with social and somatic as elements that contribute to aesthetic (artistic) experience and it was useful in establishing what the role of fringe benefits is on the tax planning of employees in Rustenburg's metropolitan area.

### **3.4 Research Design**

The study utilised the mixed methods research design in gathering both qualitative and quantitative data and combining the two forms of data in order to provide a more thorough understanding of the research problem to gather an understanding of the knowledge that employees have regarding fringe benefits on their tax planning (Creswell, 2013:04). The data for both the quantitative and the qualitative methodology was gathered sequentially as it was collected concurrently. The procedure of merging the methods articulates the significance of selecting the applicable method for the research questions and the theory (McCusker & Gunaydin, 2015:01).

Creswell (2014:03) pointed out that mixed methods involves gathering, analysing and integrating the quantitative as well as the qualitative data resulting in the two methods adding value and enhancing the comprehension of the research problem. A mixed method research is a method to conduct research in the social, behavioural and health sciences in which the researcher assembles both quantitative (close-ended) and qualitative (open-ended) data (Creswell, 2014:01).

Subsequently, the researcher coordinated the two methods and interprets them based on the joint strengths of the two methods of data in order to comprehend research problems (Creswell, 2014:01). The main hypothesis of this method is that when a researcher joins measurable patterns (quantitative data) with stories and individual encounters (qualitative data), this joint strength gives an enhanced comprehension of the research problem than either form of data alone (Creswell, 2014:01).

Flick (2014:27) established that the qualitative and quantitative method complement one another and should be viewed as such and should not be seen to be in opposing camps as that is the basis of how mixed methods came about.

### 3.4.1 Qualitative Research

The qualitative research design was used to establish the role of fringe benefits on the tax planning of employees in Rustenburg's metropolitan area. The qualitative research method used meant in the more extensive sense to research that produces data that is descriptive in nature - individuals' own composed or talked words and noticeable conduct - it is more than a set data gathering procedure in order to determine the level of knowledge that employees in Rustenburg's metropolitan area have regarding fringe benefits and whether they utilize them in tax planning (Taylor *et al.*, 2015:07). Furthermore, Taylor *et al.* (2015:07) affirms that it is a method for moving towards the observational world. Taylor *et al.* (2015:07) articulated that a qualitative method is concerned with the importance individuals connect to things in their lives so it was used to determine whether employees place any value of fringe benefits provided by their employers.

Corbin *et al.* (2014:04) concur that it indeed entails understanding individuals from their own particular settings of reference and encountering reality as they encounter it. Taylor *et al.* (2015:04) alluded that the expression 'qualitative' referred to the manner in which problems were approached and how answers were sought to those problems.

In qualitative research, the researcher takes a glimpse at settings and individuals comprehensively; individuals, settings or gatherings are not decreased to factors but rather are seen all in all (Taylor *et al.*, 2015:09). The qualitative researcher examines

individuals with regards to their pasts and the circumstances in which they get themselves (Marshall & Rossman , 2011, Tracy, 2013, Yin, 2011 cited in Taylor et al. (2015:09). Moreover, qualitative research is concerned about how individuals think and act in their regular day to day existences (Taylor *et al.*, 2015:09).

### 3.4.2 Quantitative method

A quantitative method will be conducted on the employees from various companies in the metropolitan area of Rustenburg. Moreover, a further descriptive method will be utilised to express views of employees of various companies in Rustenburg's metropolitan area.

Additionally, a method called the test-retest will be utilised in interviews and questionnaires to measure the stability of the research instrument, as well as the Cronbach's alpha will be used to establish internal consistency for questionnaires.

The quantitative Researcher segregates and characterizes factors and variable classes in order to establish the role of fringe benefits of the tax planning of employees in Rustenburg's metropolitan area (Brannen, 2017:02). Moreover, these factors are connected together to outline theories regularly before the information was gathered, and are then tried upon the information (Brannen, 2017:02). Additionally, Brannen (2017:02) also points out that the quantitative researcher looks through a thin focal point at a predefined set of factors.

Brannen (2017:03) asserts that quantitative research is normally connected with the procedure of enumerative orientation. One of its principle purposes is to find what number of and what sorts of individuals all in all or parent population have a specific personality which has been found to exist in the sampled population (Brannen, 2017:03).

McCusker and Gunaydin (2015:538) affirm that the objective of the quantitative research is to categorize features, sum them up and create statistical models in trying to describe what is perceived. Prior to conducting the study, the Researcher clearly knows what he / she is looking for and the data is in the format of statistics and numbers (McCusker & Gunaydin, 2015:538).

Furthermore, McCusker and Gunaydin (2015:538) point out that utilizing the quantitative research needs the extracting of the data in greater volume, utilizing methods that are standardized which include samples that are generalized whereby emphasis is placed on statistical data instead of people's views.

Hoy and Adams (2015:01) affirms that quantitative researchers develop and test hypotheses, producing theories that describe conduct and produce their outcomes across numerous samples. Hoy and Adams (2015:20) further explain that quantitative research is a scientific investigation that incorporates investigations and other methodical strategies that underline control and evaluate measures of execution.

Great research offers noteworthy questions that can be examined in an empirical manner. It joins experimental research to pertinent theory, utilizes strategies that allow straight investigation of the research questions and it gives a lucid, unequivocal and rational chain of thinking (Hoy & Adams, 2015:02).

### 3.5 Population

According to Bryman (2014:381), a research population is the universe of units where a sample is chosen. It refers to a total number from where research participants are selected. Denscombe (2014:21) asserted that a population refers to all the objects in the category of items that are being researched.

According to Tax Statistics 2017 for Personal Income Tax, there was a total number of 81 536 taxpayers in Rustenburg's Local Municipality as at 2017. The total number of respondents from the population was distributed as follows:

- Public sector employees were sourced from:
  - SARS → employees in junior positions as well as employees' in Middle management
  - Department of Health → employees in Entry level positions and junior management, the employees were from the local public hospital in Rustenburg called Job Shimankana Tabane Hospital which falls under the Department of Health
  - Rustenburg Local Municipality → employees in Middle management

- Private sector employees were sourced from different Audit / Accounting firms in Rustenburg.

### 3.6 Sampling

Sampling is the practice of choosing a number of individuals for a study in a manner that the individuals chosen symbolize a very big group from which they were selected (Mugenda, 2003 cited in Kamau (2013:33). In addition, Etikan et al. (2016:01) notes that a sample is a share of the population or the earth. The most appropriate sampling technique was the convenience sampling as respondents did not have an equal chance of being chosen and they were easily accessible.

Etikan *et al.* (2016:02) defined a Convenience sampling as a sort of non-probability or non-random sampling where individuals from the object population that meet a particular applied criteria, for example, easy accessibility, geographic vicinity, accessibility at a given time, or the eagerness to partake are incorporated for the purpose of the study. The total sample size in this study was sixty (60).

#### 3.6.1 Inclusion criteria

The study included employees in junior, entry level, intermediate positions as well as employees in middle management who are all permanently employed and receive fringe benefits from their employers. Fringe benefits are mostly provided to employees who are employed permanently as employers offer fringe benefits in order to entice the finest employees as well as to keep them (Winkler & Hughen, 2012:255).

#### 3.6.2 Exclusion criteria

The study excluded employees employed temporarily or employees under contracts such as Graduate Trainees, Interns, and Temps etc. as fringe benefits are rarely ever provided to personnel employed temporarily because fringe benefits are offered in order to keep employees in the employ of companies (Winkler & Hughen, 2012:255).

### 3.6.3 Recruitment of participants

The employees were found in the city of Rustenburg situated in the North West Province in the Republic of South Africa. The unit of analysis was found after interactions with Managers from the different companies regarding employees with fringe benefits.

## 3.7 Data Collection

In the following subsections data collection is discussed:

### 3.7.1 Qualitative data:

The researcher utilized interviews to collect data. Oltmann (2016:01) asserted that interviews are a basic technique used in qualitative research.

There are two main types of qualitative interviews, namely:

- Semi-structured interview → these are conducted on the centre of a loose structure which comprises of open-ended questions that explain the area to be researched and from which the person interviewing and the person being interviewed may deviate in order to follow an idea in more detail (Britten, 1995:251).
- Unstructured interviews → they often begin with a comprehensive open-ended question regarding the area of research study, with the next questions depending on the participant's response (Holloway and Galvin (2010) cited in Doody and Noonan (2013:02). Although the interview is not structured/directive, the researcher still has to follow an interview guideline consisting of themes instead of only containing specific questions (Doody & Noonan, 2013:02).
- For the purpose of this study, the semi-structured interview was used in order to obtain a general understanding of whether employees fully comprehend the implications of fringe benefits on their tax planning. Primary data was collected straight from the research participants through the usage of interviews. The interviews were conducted at the initial stage of the research to ensure that the

information obtained from the interviewees was examined in the next step of the research project.

### 3.7.2 Quantitative data (Questionnaires):

The researcher designed the questionnaires specifically for the employees of the different companies to obtain reasons and develop an understanding of why they undervalue fringe benefits. To ascertain the value that employees place on fringe benefits has to be more than just speculation and the measurement tool to determine their value will be a research survey. The researcher studied several similar questionnaires for background information to assist in constructing the questions in the questionnaires and the questionnaires were self-administered. A Likert scale was used.

Barua (2013:35) defines a Likert scale as:

*“a psychometric scale commonly involved in research based on survey questionnaires. Here, the respondents specify their level of agreement or disagreement on a symmetric agree-disagree scale for a series of statements while responding to a particular Likert questionnaire item.”*

Questionnaires in the form of Likert scales are frequently used to facilitate factors and barriers in research and in a Likert scale additional quality control is provided by an analysis of items (Barua, 2013:35).

### 3.8 Pilot study

The study utilised a pilot study before the main study in order to ascertain the feasibility of conducting the study, the appropriateness of the sample structure, the suitability of the self-completion questionnaires and to measure any unforeseen problems that may arise with the methods chosen. According to Bryman (2014:209), where possible, it is always necessary to conduct a pilot study before administering self-completion questionnaires or structured interviews to the sample and pilot studies permit the researcher to ascertain the adequacy of instructions. The pilot study was conducted

by administering questionnaires to seven employees of the Rustenburg Local Municipality.

### 3.9 Data analysis

The data from the respondents' interviews was analysed by first coding and editing it to ensure that everything was as planned and expected. Coding denotes that the coded data will not be presented in the same way but will be interpreted and presented again by the Researcher (Bryman, 2014:336). Data saturation was reached after interviewing 15 people therefore there was no point in asking more questions.

#### 3.9.1 Qualitative Data analysis

Since the data collection was in the form of interviews, a vital aspect of the editing process is that spoken words were recorded and written exactly as they were said by the interviewees (Flick, 2014:294). The data was documented and edited before it was analysed (*ibid.*).

The researcher utilized content analysis to analyse the primary data obtained from the interviews. Moreover, field notes, a research diary and documentation sheets were used to record the data.

The data was processed and analysed using the Atlas.ti software which may be useful in supporting own conversations and documents decisions in a clear, spontaneous, arduous and systematic way (Paulus & Lester, 2016:01).

#### 3.9.2 Quantitative Data Analysis

Bryman (2014:313) noted that the questions in the questionnaires could draw different kinds of variables such as:

- Nominal variable → consists of groups that cannot be ordered according to rank and that is expressed in the Personal details section of the questionnaire
- Ordinal variable → consists of categories that can be done on a magnitude of order in which the data collected is related to variables that are able to be

categorised and rank ordered or assessed incrementally as expressed by the five sections of the questionnaire.

The questionnaires were analysed according to the above and then sent to the respondents with cover letters showing that permission was obtained from the Employees 'employers to conduct Research on them.

Finally, when there was missing data in the questionnaires for one reason or the other, the Researcher coded it as "999" or left it empty and notified the computer software (Bryman, 2014).

### **3.10 Validity and reliability**

In the following subsections, validity and reliability are discussed:

#### **3.10.1 Validity**

According to (Joppe, 2000:01), validity establishes whether the research study truthfully measures what it was proposed to measure or by what means are research results truthful, Researchers normally ascertain validity through asking a sequence of questions and will frequently search for answers in research studies of other people.

Kamau (2013:36) highlights that Validity alludes to how much the study precisely reflects or surveys the particular idea that the Researcher is endeavouring to quantify.

#### **Content validity (CV)**

According to Rossiter (2011:13), content validity is the only crucial form of validity and it is needed to authenticate (validate) a measure. To validate signifies to ascertain the truth of something and it is only a measure that could be validated (Rossiter, 2011:13 - 14). Furthermore, validity is the most essential consideration when assessing measures as well as the processes and apparatus utilized to acquire them (Guion, 2002:58).

A validity measurement can be proof utilized in the creation of judgments of validity and the viability and valuation of the said measurement is dependent on how adequate

the research sample is as well as the accessibility and validity of an applicable standard of measuring and the difference in the variables (Guion, 2002:63).

To enhance the validity of the research, the researcher sought expert advice from the Supervisor with regard to the validity of the content. The questionnaire was developed to cover all the research questions because it is divided into sections as per the research questions, this would provide the satisfaction that the instrument will collect data that is valid, accurate and truthful and will measure what is intended to be measured.

### 3.10.2 Reliability

Reliability can be defined as the degree in which outcomes are constant over a period of time, it is also a precise depiction of the entire population which is under study and if the outcomes of a research can be replicated using the same methodology then the instrument of the research is regarded as being reliable (Joppe, 2000:01).

Reliability is normally utilised to check whether the measures that are contrived for ideas are predictable and it is also used to determine whether the outcome of the study are repeatable (Kamau, 2013:35). Reliability is closely associated with stability; a great degree of stability denotes that there is a great degree of reliability therefore signifying that the outcomes can be repeated (Golafshani, 2003:599). Reliability is a compulsory but inadequate state for Validity in a research study and it is an essential condition of validity (Cohen *et al.*, 2013:01).

Cronbach's alpha ( $\alpha$ ) reliability coefficient, whose numerical value ranges from 0 to 1, measures the reliability (internal consistency) of a questionnaire (survey) consisting of Likert-type scales and items. A high value (close to 1) for Cronbach's alpha reliability coefficient indicates good internal consistency of the items in the scale. The reliability analysis is presented in the following table:

### Reliability analysis (Fringe benefits on the tax planning)

Subscale	Cronbach's Alpha ( $\alpha$ )	N of Items	Mean	Standard Deviation	Internal Consistency
Section B	0.945	5	2.82	0.41	Excellent
Section C	0.905	6	3.39	0.27	Excellent
Section D	0.845	6	3.23	0.45	Good
Section E	0.871	4	3.31	0.38	Good
Section F	0.776	5	3.08	0.78	Acceptable
<b>TOTAL</b>	<b>0.954</b>	<b>26</b>	<b>3.18</b>	<b>0.51</b>	<b>Excellent</b>

The Cronbach's alpha coefficients in Table 4.1 above are closer to 1, and this implies that the participants have responded consistently to the survey items.

### 3.11 Ethical considerations

In the following subsections, ethical considerations are discussed:

#### 3.11.1 Permission and informed consent

The study entailed approaching managers of employees to inform them of the intention to conduct research on the employees. The research topic was discussed with the participants. The participants were informed that their participation is voluntary and that should they wish to withdraw for any reason whatsoever then they were free to do so anytime during the process of the research.

### **3.11.2 Anonymity**

The researcher informed the participants that their names or other identification mechanisms were not required, and it would not be possible to identify any individual on the basis of the results included in the final report.

### **3.11.3 Confidentiality**

The researcher informed the participants that the information obtained from them would be treated with all the confidentiality and trust that it deserved.

## **3.12 Summary**

This chapter explained in detail the research methodology that was utilised in the research and it also detailed that a self-administered questionnaire as well as interviews were used as research instruments for data collection. The chapter also highlighted reliability and validity issues about the quantitative instrument. The self-administered questionnaire was user friendly and clear as the researcher had used simple language that is easily understood but the researcher was always available to assist respondents when they needed any clarity while completing the questionnaires. The questions asked during the interview were also straightforward, but the researcher provided further explanations in instances where the respondents did not understand some of the questions.

The following chapter deals with the analysis of the data as well as interpreting results into meaningful findings and results.

## **CHAPTER 4 - PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA**

### **4.1 Introduction**

This chapter presents data which was obtained from questionnaires administered to employees in the Rustenburg Local Municipality, SARS, Job Shimankana Tabane Hospital and two Audit firms in Rustenburg in the North West Province. The data obtained from the questionnaires is presented and analysed according to the research objectives which were presented in Chapter 1. The questionnaire was divided into the following sections: Section A: Presentation and analysis of Personal Details, Sections B: Presentation and analysis of the knowledge employees have regarding fringe benefits, Section C: Presentation and analysis of factors that influence the role of fringe benefits on the tax planning of employees in Rustenburg's metropolitan area, Section D: Presentation and analysis of the manner in which employees in Rustenburg's metropolitan area plan their taxes, Section E: Presentation and analysis of the value employees in Rustenburg's metropolitan area place on fringe benefits and Section F: Presentation and analysis of the extent of knowledge that employees in Rustenburg's metropolitan area have regarding tax implications of fringe benefits on tax planning. Furthermore, the aforementioned sections also included the interpretation of the data.

### **4.2 Response Rate**

A total of 60 questionnaires were distributed to respondents. The questionnaires were administered at various workplaces of participants in Rustenburg. From the 60 questionnaires that were dispersed, 60 questionnaires were completed and returned and that indicates a 100% response rate.

### **4.3 Personal Data Details**

This section depicts the personal data of respondents.

## Section A: Personal Details

Figure 4.1

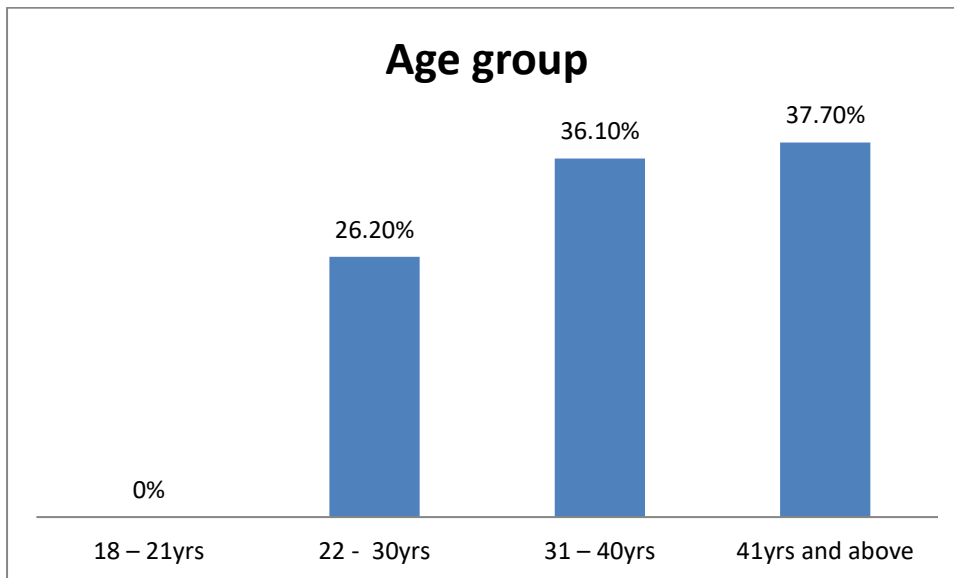


Figure 4.1 depicts that there was a greater representation of respondents with ranges of 41 years and above being 37.70% and 31 – 40 years being 36.10%, while there was a minimum percentage (26.20%) of respondents aged 22 – 30 years and there was no representation (0%) for 18 – 21 year olds. This means that there is a probability that respondents had more years of being employed and were therefore familiar with the concept of taxation.

Table 4.2: Gender

Gender	Frequency	%
Male	25	41
Female	36	59
<b>Total</b>	<b>61</b>	<b>100</b>

## Gender

Table 4.2 displays the splitting of the total number of respondents. 59% is the representative for females and 41% is the representative for males. The results indicate that the difference in the frequency of genders is only 18% and that is insignificant as fringe benefits are provided to all genders whether males or females.

**Table 4.3: Race**

<b>Race</b>	<b>Frequency</b>	<b>%</b>
African	56	91.8
Asian	0	0
White	3	4.9
Coloured	2	3.3
<b>Total</b>	<b>61</b>	<b>100</b>

The table shows that Black people constituted the majority of the population with a total of 91.8%. White people were at 4.90%, Coloured people at 3.30% and no Asians (0%). That is insignificant as fringe benefits are offered to everyone regardless of their race.

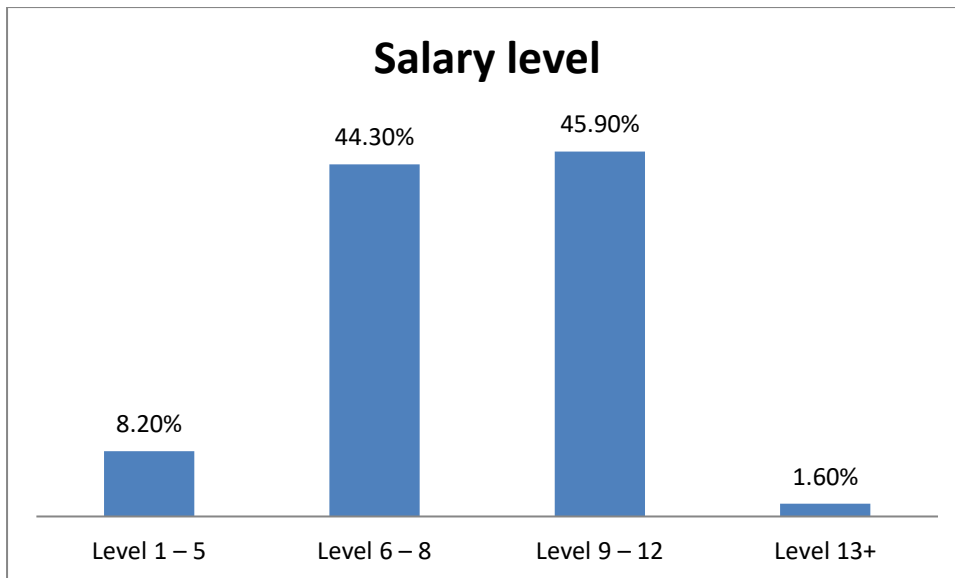
**Table 4.4: Residential area**

<b>Residential area</b>	<b>Frequency</b>	<b>%</b>
Rural	6	9.8
Semi-rural	5	8.2
Township	22	36.1
Suburb	28	45.9
<b>Total</b>	<b>61</b>	<b>100</b>

Respondents from suburbs were the highest number represented at 46%, followed by respondents from townships at 36%, while 10% stay in rural areas and 8% in rural

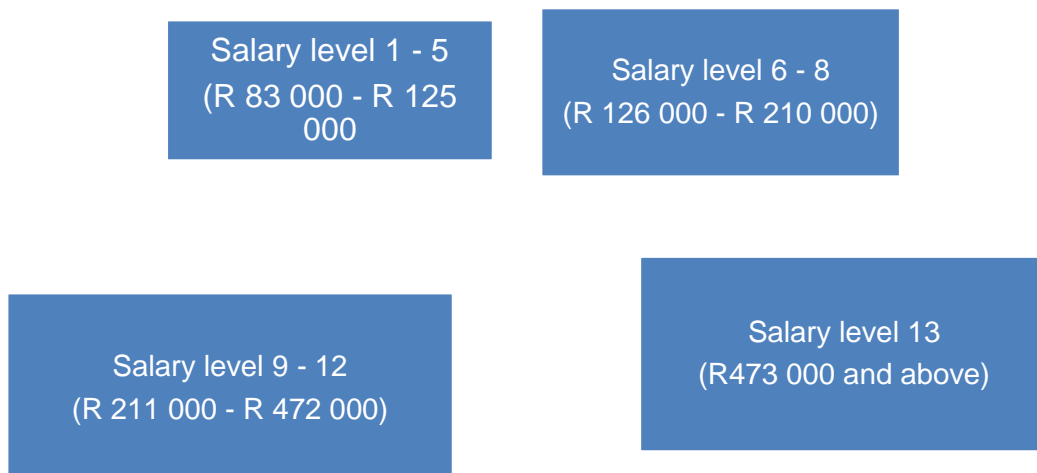
areas. It was important to determine whether fringe benefits are provided fairly and equally regardless of where employees stay.

**Figure 4.5: Salary level**



The respondents were working for different companies which have different salary scales but for the purpose of the study, the salary levels herein referred to the following annual gross salaries:

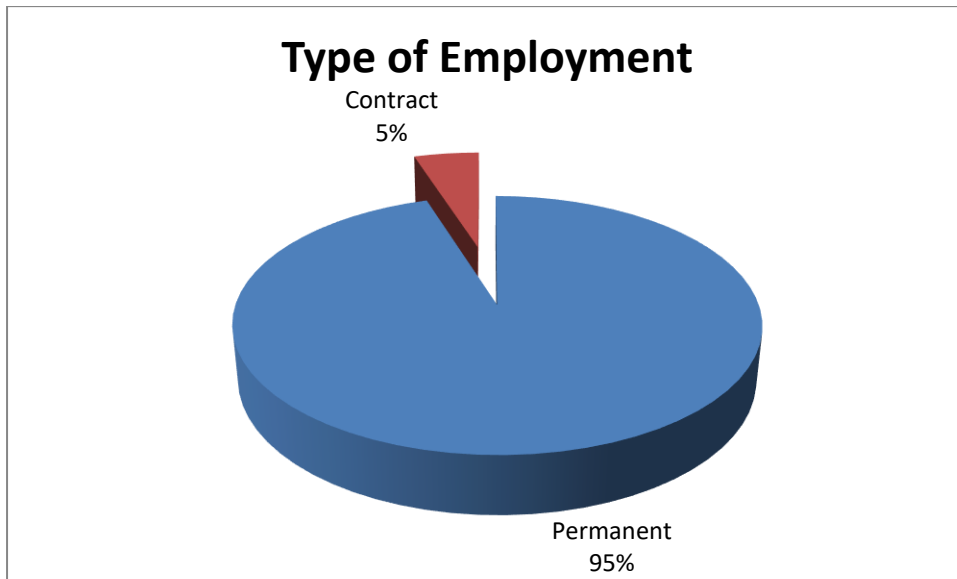
**Figure 4.5.1 Salary scales**



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Figure 4.5 shows that a higher number of respondents interviewed were on Salary Level 9-12 at 45.90%, 44.30 were on Salary level 6-8, 8.2% were on Salary level 1-5 and 1.6% on Salary Level 13+. It was important for the study in order to determine whether better fringe benefits are offered to high earners.

**Figure 4.6: Type of Employment**



95% of respondents were permanent employees and only 5% were contract workers. This means that there is a high probability that a vast number of respondents receive fringe benefits from their employers as fringe benefits are usually provided to permanent employees.

**Table 4.7: How many years in the department?**

Job experience	Frequency	%
1 – 2yrs	2	3.3
3 – 5yrs	14	23
6 – 10yrs	18	29.5
11yrs and above	27	44.3
<b>Total</b>	<b>61</b>	<b>100</b>

Results relating to the job experience of respondents are as follows:

- 44.3% have 11 years and above experience;
- 29.5% have 6 – 10 years' experience;
- 23% have 3 – 5 years' experience, and
- 3.3% have 1 – 2 years 'experience

The results clearly indicate that the majority of respondents had more than 5 years of job experience within their respective companies. That indicates that employees are fairly familiar with the concept of taxation as they have been working for quite a number of years and are likely to have been subjected to taxation throughout their duration of employment. This also means that more employees are accustomed to the concept of fringe benefits.

**Table 4.8: Highest qualification attained**

Highest qualification attained	Frequency	%
Grade 12	18	29.5
National Diploma	12	19.7
Degree	13	21.3
Honours+	18	29.5
<b>Total</b>	<b>61</b>	<b>100</b>

Table 4.8 shows that a high number of respondents had Honours' degrees and Grade 12, the percentage was at 29.50%, while 21.30% had Bachelors' degrees and 19.70% had National Diplomas.

The results indicate that more respondents have formal qualifications as that forms part of minimum requirements to be considered for a job in the formal sector and employees who are educated are more likely to understand the concept of taxation and possibly the provision of fringe benefits.

#### 4.4 Responses from the questionnaires

The sections below illustrate general responses of the respondents to the five (5) sections in the questionnaires.

#### Section B: The knowledge employees have about fringe benefits

##### Percentages

**Key :** SA = strongly agree, A = agree, U = unsure, D = disagree,

SD = strongly disagree

**Table 4.10 (a)**

	Item	SA(%)	A(%)	U	D(%)	SD(%)
1.	I understand the value that fringe benefits has on my taxes	13.1	42.6	13.1	31.1	0
2.	I am aware that fringe benefits have allowable deductions for tax purposes	16.7	38.3	16.7	25	3.3
3.	I know that fringe benefits are taxable benefits	23	49.2	3.3	21.3	3.3
4.	I understand what is meant by gross income	8.2	32.8	16.4	29.5	13.1
5.	I am aware that the component of fringe benefits that has a monetary value is included in my gross	8.3	25	13.3	31.7	21.7

	income for tax purposes					
	<b>AVERAGE RESPONSE(%)</b>	<b>13.86</b>	<b>37.58</b>	<b>12.56</b>	<b>27.72</b>	<b>8.28</b>

### Descriptive Statistics

**Key :** 1 = strongly agree, 2 = agree, 3 = unsure, 4 = disagree,

5 = strongly disagree

The majority of the respondents (55.7%) agreed that they understood the value that fringe benefits has on their taxes, 31.1% disagreed and 13.1% were unsure. Furthermore, 55% of respondents indicated that they were aware that fringe benefits have allowable deductions for tax purposes, 28.3% disagreed while 16.7% were unsure. The two results indicate that employees understood the value that fringe benefits have on their taxes and they are also aware that fringe benefits have allowable deductions for tax purposes. According to Braverman *et al.* (2015:06), tax on fringe benefit is payable by employees on the value of the fringe benefits provided to employees with regards to employment. Previous research by Wilson, Northcraft, & Neale (1985) found that most employees do not know the real fiscal value of their benefits and every so often greatly underrate them.

A significant number of respondents (72.2%) agreed that fringe benefits are taxable benefits, 24.6% disagreed while 3.3% were unsure. Moreover, 41% agreed that they understood what gross income means while 42.6% disagreed and 16.4% were unsure. The results indicate that most employees are aware that fringe benefits are taxable benefits as indicated by Stiglingh *et al.* (2017:362). Additionally, the results also indicate that more employees understood that in order for an amount to be subjected to taxation, it must first form part of gross income of a taxpayer. According to Spearman (2012:1), an amount should first meet the provisions of the definition of “*gross income*” in terms of Section 1 of the Income Tax Act in order to be subjected to normal tax in the Republic of South Africa.

However, a large number of respondents (53.4%) indicated that they were not aware that the component of fringe benefit that had a monetary value was included in gross income for tax purposes; only 33.3% indicated that they were aware and 13.3% were unsure. According to van Wyk and Terblanche (2017:185), the component of fringe benefits that is equal to cash will be included in gross income for tax purposes

**Table 4.10 (B) Data analysis**

	<b>Item</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Skewnes s</b>
1.	I understand the value that fringe benefits have on my taxes	2.62	1.08	.136
2.	I am aware that fringe benefits have allowable deductions for tax purposes	2.60	1.14	.280
3.	I know that fringe benefits are taxable benefits	2.33	1.15	.743
4.	I understand what is meant by gross income	3.07	1.22	.041
5.	I am aware that the component of fringe benefits that has a monetary value is included in my gross income for tax purposes	3.33	1.30	-.269
	<b>Overall mean, standard deviation and skewness</b>	<b>2.79</b>	<b>1.18</b>	<b>0.19</b>

Positive skewness values show that the respondents tend to agree with the items listed in Table 4.10(b), whereas negative skewness values imply that the respondents tend to disagree with the listed items. The overall mean response, standard deviation and skewness values in Table 4.10(b) above are 2.79, 1.18 and 0.19, respectively.

Therefore, the negative skewness of -.269 indicates that more employees are not aware that the component of fringe benefit that is equivalent to monetary value is included in fringe benefits for tax purposes (Wilson, Northcraft, & Neale, 1985).

### **Qualitative analysis**

1. **Interview Question 01:** What is your understanding of the value that fringe benefits have on your taxes?

**Responses:** Most respondents indicated that fringe benefits are benefits that are obtained for holding an office and they increase the tax bracket. Also, most respondents stated that more fringe benefits lead to more increase in gross income, which leads to a higher tax liability. Moreover, most respondents also alluded that fringe benefits increase taxable income. This was depicted by 55.7% of respondents who indicated that they understand that fringe benefits are taxable.

**Interpretation:** The response indicate that most employees have an understanding of the value that fringe benefits have on their taxes. Tax on fringe benefits is payable by employees on the value of fringe benefits given to employees by their employers (Braverman *et al.* (2015:06).

2. **Interview Question 02:** What is your knowledge of allowable deductions of fringe benefits?

**Responses:** Most respondents indicated that some fringe benefits have a deductible portion which relates either to exemption or business purpose and allowable deductions are benefits that may provide tax rebates when submitting tax returns as they reduce taxable income. However, some respondents indicated that they have a poor understanding of allowable deductions and they have no idea how they affect fringe benefits. This was depicted by 55% of respondents who indicated that they are aware that allowable deductions

reduce taxes while 28.3% of respondents were not aware of what allowable deductions are.

**Interpretation:** The responses indicated that while most employees were aware that allowable deductions reduce taxes, there were some that did not know what allowable deductions are and that they reduce taxes. Allowable deductions are made against income which reduce taxable income and thus reduce the tax payable.

3. **Interview Question 03:** What is your understanding of taxable benefits?

**Responses:** Most respondents indicated that “taxable benefits” just like the name stipulates are benefits which are subject to taxation. They indicated that taxable benefits are amounts which are taxed; they also stated that taxable benefits are benefits that are taxed and are also benefits which are not exempt from taxation. This was depicted by 72.2% of respondents who indicated that they understand what taxable benefits are.

**Interpretation:** The responses showed that most employees are aware that taxable benefits are benefits which are taxed and it was affirmed by Stiglingh *et al.* (2017:362) that fringe benefits are taxable benefits. Taxable benefits are those benefits which are offered to employees in addition to salaries and they are included in taxable income.

4. **Interview Question 04:** To what extent do you understand what gross income signifies?

**Responses:** More respondents indicated that they know that gross income is the total income that one receives that is subject to taxation. They also stated that gross income is the total income that is liable to taxation, and that it is an amount received or accrued to a taxpayer in a year of assessment excluding receipt or accrual of capital nature. This was depicted by 41% of respondents who indicated that they understand what gross income signifies. However, a slightly higher percentage of respondents (42.6%) indicated that they have no

idea what gross income signifies and some confused gross income with gross salaries / total cost to company.

**Interpretation:** The responses indicated that while most employees are aware that gross income is the total income received or accrued during the year of assessment and it is subject to taxation, there are some respondents who are not aware of what gross income means. Spearman (2012:1) emphasises that an amount should first meet the provisions of the definition of “*gross income*” in terms of Section 1 of the Income Tax Act in order to be subjected to normal tax in the Republic of South Africa.

**Interview Question 05:** What is your understanding of how the cash value of fringe benefits is calculated?

**Responses:** The majority of respondents (53.4%) indicated that they do not understand how the cash value of fringe benefits is calculated and that they find the calculations to be complex.

**Interpretation:** The responses indicated that most respondents did not know that the component of fringe benefit that had a monetary value was included in gross income for tax purposes, most respondents were not aware of how the cash value of fringe benefits is calculated. The component of fringe benefits that is equal to cash is included in gross income for tax purposes (van Wyk and Terblanche (2017:185).

## Section C: Factors that influence the role of fringe benefits on tax planning

### Percentages

**Key :** SA = strongly agree, A = agree, U = unsure, D = disagree,

SD = strongly disagree

**Table 4.11 (A) Data analysis**

Item	SA(%)	A(%)	U	D(%)	SD(%)
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1.	I am aware of various requirements of tax planning that exists in the laws (N=61)	4.9	24.6	23	44.3	3.3
2.	I am always looking for creative ways to save on my taxes (N=61)	4.9	18	14.8	59	3.3
3.	I structure my salary in a tax-efficient manner (N=59)	0	15.3	6.8	67.8	10.2
4.	I take advantage of tax planning opportunities in my salary package (N=55)	1.8	25.5	10.9	54.5	7.3
5.	I understand the fringe benefits codes that appear on my Employee Tax certificate / IRP5 certificate (N=61)	4.9	16.4	16.4	26.2	36.1
6.	I know that fringe benefits have tax advantageous benefits (N=61)	4.9	31.1	11.5	44.3	8.2
	<b>AVERAGE RESPONSE(%)</b>	<b>3.57</b>	<b>21.2</b>	<b>13.9</b>	<b>49.35</b>	<b>11.4</b>

The majority of respondents (47.6%) indicated that they are not aware of various tax planning opportunities that exist in tax laws and 63.2% of Respondents also indicated

that they never look for creative ways to save on their taxes. This indicates that most employees are not aware of what tax planning is and they therefore do not find creative ways to save on their taxes. According to Dey (2015:01), some salary earners (employees) did not have a complete understanding of the different provisions of the income tax.

Furthermore, the majority of employees do not structure their salaries in a tax efficient manner (78%) and 61.8% of respondents do not take advantage of tax planning opportunities in their salary packages. This means that most employees do not have knowledge of how to structure their salaries in a tax efficient manner as well as how to take advantage of tax planning opportunities in their salary packages. Moreover, a large number of respondents (62.3%) indicated that they do not know the fringe benefits codes that appear on their Employee Tax certificates and only 21.3% agreed that they knew the codes. This was reiterated by Apple *et al.* (2018:116) that most employees do not observe changes in tax codes and all the IRP5 codes mean something to SARS as highlighted by Jones (2008:01).

Also, only 36% of respondents indicated that they agreed that fringe benefits have tax advantageous benefits and 52.5% indicated that they did not know that fringe benefits had tax advantages while 11.5% were unsure. It should be noted that it is very important for employees to utilize fringe benefits in their tax planning to reduce their taxes as Jones (2015:07) emphasized that the rise of the cost of benefits is borne by the employee and not the employer.

### Descriptive Statistics

**Key :** 1 = strongly agree, 2 = agree, 3 = unsure, 4 = disagree,

5 = strongly disagree

**Table 4.11 (b)**

	Item	Mean	Standard Deviation	Skewness
1.	I am aware of various requirements of tax	3.16	1.00	-.443

	planning that exists in the laws (N=61)			
2.	I am always looking for creative ways to save on my taxes (N=61)	3.38	.99	-.939
3.	I structure my salary in a tax-efficient manner (N=59)	3.73	.85	-1.024
4.	I take advantage of tax planning opportunities in my salary package (N=55)	3.40	1.01	-.553
5.	I understand the fringe benefits codes that appear on my Employee Tax certificate / IRP5 certificate (N=61)	3.72	1.25	-.603
6.	I know that fringe benefits have tax advantageous benefits (N=61)	3.20	1.12	-.257
	<b>Overall mean, standard deviation and skewness</b>	<b>3.43</b>	<b>1.04</b>	<b>-0.64</b>

Positive skewness values show that the respondents tend to agree with the items listed in Table 4.11(b), whereas negative skewness values imply that the respondents

tend to disagree with the listed items. The overall mean response, standard deviation and skewness values in Table 4.11(b) above are 3.43, 1.04 and -0.64, respectively.

### **Qualitative analysis**

1. **Interview Question 06:** How is your knowledge of the various requirements of tax planning that exist in the laws?

**Responses:** Most respondents indicated that they had a limited understanding of various requirements that exist in tax laws, other respondents indicated that they had a very poor understanding of what tax planning is as they did not even know that there is such a thing called tax planning. Also, some respondents also stated that they do not know what tax planning entails and they need to be educated on that aspect. This was depicted by 47.6% of respondents who indicated that they have no knowledge of the various requirements of tax planning that exist in the laws.

**Interpretation:** The responses indicated that most employees are not aware of what tax planning is. It was emphasized by Dey (2015:01) that some salary earners (employees) did not have a complete understanding of the different provisions of the income tax. Furthermore, tax planning is very vital for every taxpayer to decrease their tax payable and be able to comply freely with the income tax laws (Dey, 2015:01).

- Interview Question 07:** How do you save on your taxes?

**Responses:** Most respondents indicated that they do not save on their taxes or find creative ways to save on taxes and that since the tax they pay is so high, they were not even aware that it is possible to save on their taxes. Some respondents also pointed out that taxes in South Africa are exorbitant and rank high among other countries and they do not believe that they can make any savings from taxes. This was depicted by 62.3% of respondents who stated that they do not save on their taxes.

**Interpretation:** The responses indicated that most employees do not find creative ways to save on their taxes and only a few utilise all possible means available to save on their taxes. While tax is inevitable, there are some ways

that the burden of paying tax can be lessened and taking advantage of fringe benefits deductions is another way of saving on taxes.

**Interview Question 08:** How do you structure your salary where tax is concerned?

**Responses:** Most respondents indicated that they do not structure their salary in a tax efficient manner and that salaries are normally structured by their respective Human Resource departments. Some respondents indicated that they do not structure their salary in line with tax while some indicated that they receive their salaries already taxed and therefore they have less control on how to structure their salaries and they only have control when it comes to negotiating gross package. This was depicted by 78% of respondents who indicated that they do not structure their salaries in a tax efficient manner.

**Interpretation:** Employees should be able to structure their salaries to suit their needs especially when they are paid on a cost-to-company basis. It has become very pertinent for employees to structure their salary packages in a tax-efficient manner especially since the move from the “cost-plus-benefits” packages to the “cost-to-company” packages (Jones, 2015:07) which plausibly means that now benefits provided by employers are taxed in the hands of employees and no longer on employers.

2. **Interview Question 09:** To what extent do you take advantage of tax planning opportunities in your salary package?

**Responses:** Most respondents indicated that they do not take advantage of tax planning opportunities in their salary packages and most respondents did not understand what tax planning entails. Some respondents indicated that there is limited tax planning opportunities in salary packages while some indicated that they need training regarding tax planning opportunities. This was depicted by 61.8% of respondents who indicated that they do not take advantage of tax planning opportunities in their salary packages.

**Interpretation:** The responses indicated that most employees did not take advantage of tax planning opportunities in their salary packages as they were

not aware that tax planning opportunities existed in their salary packages or what tax planning entails.

3. **Interview Question 10:** What is your understanding of fringe benefits codes that appear on your IRP5?

**Responses:** Many respondents indicated that they did not know what the codes that appear on their Employee Tax certificates / IRP5 certificates mean and they also did not even know that those codes also included fringe benefits codes. Furthermore, most respondents indicated that they find those codes to be very confusing. This was depicted by 62.3% of respondents who do not understand the fringe benefits codes that appear on their IRP5s.

**Interpretation:** The results indicated that most employees are not aware of what the fringe benefits codes on their IRP5 certificates mean. It was echoed by Apple *et al.* (2018:116) that most employees do not observe changes in tax codes. IRP5 codes are source codes that SARS uses to capture information on employee's income tax returns.

4. **Interview Question 11:** To what extent do you know that fringe benefits have tax advantageous benefits?

**Responses:** Most respondents indicated that they were not aware that fringe benefits have any tax advantages. Some respondents indicated that they are yet to experience the tax advantages of fringe benefits and some stated that fringe benefits have tax advantages to a less extent medical expenses are way too high as compared to the medical tax credit allowed as a deduction. This was depicted by 52.5% of respondents who indicated that they did not know that fringe benefits had tax advantages.

**Interpretation:** The responses showed that most employees do not know that fringe benefits have advantages where tax is concerned. It is very important for employees to utilize fringe benefits in tax planning to reduce their taxes as Jones (2015:07) highlighted that the rise of the cost of benefits is borne by the employee and not the employer.

## Section D: The manner in which employees plan the taxes

### Percentages

**Key :** SA = strongly agree, A = agree, U = unsure, D = disagree,

SD = strongly disagree

**Table 4.12 (a) Data analysis**

	Item	SA(%)	A(%)	U	D(%)	SD(%)
1.	I am aware that having more dependants on my medical aid ensures that I obtain higher medical tax credits (N=61)	19.7	39.3	19.7	19.7	1.6
2.	In addition to the retirement fund provided by my employer, I also have another retirement fund that I pay for so I can obtain a bigger tax deduction (N=61)	24.6	14.8	6.6	45.9	8.2
3.	I have documentary evidence of all my work travels which have zero tax values (N=61)	14.8	9.8	3.3	65.6	6.6
4.	I keep a travel logbook for all my business travels (N=61)	14.8	11.5	0	67.2	6.6

5.	I have a purchase contract of the motor vehicle I utilize for work travels (N=61)	14.8	9.8	0	67.2	8.2
6.	I keep proper supporting documentation for costs I incurred when using a company car (N=61)	8.2	6.6	0	77	8.2
	<b>AVERAGE RESPONSE(%)</b>	<b>16.15</b>	<b>15.3</b>	<b>4.93</b>	<b>57.1</b>	<b>6.57</b>

The majority of respondents were aware that having more dependents on their medical aids ensured that they obtained higher tax credits (59% respondents agreed). On the contrary, the majority of respondents (45.9%) indicated that in addition to the retirement fund provided by their employer, they did not have a retirement annuity fund that they pay for so that they can obtain a higher tax deduction. According to Cooper (2017:44), the tax liability is reduced by the Medical tax credits and Foster (2014:07) affirms that retirement fund contributions are allowable deductions for tax purposes.

Additionally, a substantial number of respondents (72.2%) indicated that they did not have documentary evidence for all their work travels and 73.8% respondents indicated that they did not keep a travel logbook for all business travels, 75.4% of respondents did not have purchase contracts of motor vehicles utilised for business travels and 85.2% did not keep proper supporting documentation for costs incurred when using company cars. According to Cooper (2017:43), 80% of the travel allowance must be included in the taxable income of the employee (taxpayer) unless the employee can prove that they used the car mostly for work purposes. It is clear that the respondents are not aware of this fact hence they did not keep proper record of their work travels. It was asserted by Harding (2014:17) that employees should keep proper

documentation when they paid any costs for petrol or maintenance on employer provided vehicles.

### Descriptive Statistics

**Key :** 1 = strongly agree, 2 = agree, 3 = unsure, 4 = disagree,

5 = strongly disagree

**Table 4.12 (b)**

	Item	Mean	Standard Deviation	Skewnes s
4 5. 9 4 9 1.	I am aware that having more dependants on my medical aid ensures that I obtain higher medical tax credits (N=61)	2.44	1.07	.363
2.	In addition to the retirement fund provided by my employer, I also have another retirement fund that I pay for so I can obtain a bigger tax deduction (N=61)	2.98	1.40	-.350
3.	I have documentary evidence of all my work travels which have zero tax values (N=61)	3.39	1.21	-1.098

4.	I keep a travel logbook for all my business travels (N=61)	3.39	1.23	-1.084
5.	I have a purchase contract of the motor vehicle I utilize for work travels (N=61)	3.44	1.23	-1.136
6.	I keep proper supporting documentation for costs I incurred when using a company car (N=61)	3.70	1.01	-1.808
	<b>Overall mean, standard deviation and skewness</b>	<b>3.22</b>	<b>1.19</b>	<b>-0.85</b>

Positive skewness values show that the respondents tend to agree with the items listed in Table 4.12(b), whereas negative skewness values imply that the respondents tend to disagree with the listed items. The overall mean response, standard deviation and skewness values in Table 4.12(b) above are 3.22, 1.19 and -0.85, respectively.

Therefore, a huge number of respondents did not keep proper supporting documentation for work travels.

### **Qualitative analysis**

#### **1. Interview question 12: What is your understanding of medical tax credits?**

**Responses:** Most respondents indicated that medical tax credits are predetermined monthly amounts that can be deducted from normal tax for anyone who has a medical aid. Others indicated that they are tax credits that reduce taxes when you have a medical aid while other respondents stated that

they decrease taxes payable. This was depicted by 59% of respondents who indicated that they have an understanding of what medical tax credits are.

**Interpretation:** The results indicated that most employees are aware that medical tax credits may reduce tax payable. According to Cooper (2017:44), the tax liability is reduced by the Medical tax credits. Medical tax credits are rebates that are deducted from normal tax to reduce taxable income. Therefore, there was no contradiction with the quantitative analysis.

**2. Interview Question 13:** To what extent do you understand the effect of Retirement funds on tax deductions?

**Responses:** Most respondents indicated that they do not know what the effect of retirement funds on their tax deductions is, but some did state that they had provident funds provided by their employers. Some respondents indicated that they have heard that they decrease taxes but they are not sure if they really reduce taxes. This was depicted by 45.9% of respondents who indicated they did not understand what the effect of retirement funds is on tax deductions.

**Interpretation:** The results indicated that most respondents did not understand the effect that a retirement fund has on their taxes. Retirement fund contributions are allowable deductions for tax purposes (Foster (2014:07).

**3. Interview Question 14:** What is your understanding of the importance of keeping relevant supporting documentation for tax purposes?

**Responses:** The study revealed that most respondents have a limited understanding regarding the importance of keeping relevant supporting documentation for tax purposes and some indicated that it is only important to keep supporting documentation if a rebate is guaranteed but if there is no guarantee of a rebate then it is not necessary to keep relevant supporting documentation for tax purposes. This was depicted by 72.2% of respondents who indicated that they did not keep any supporting documentation for work travels, 73.8% of respondents also indicated that they did not keep any travel

logbooks to prove travel claims when submitting tax returns and 75.4% of respondents indicated that they did not keep purchase contracts when utilising their motor vehicles for work purposes.

**Interpretation:** The responses indicated that most respondents did not understand what the importance of keeping relevant supporting documentation is. Employees should keep relevant supporting documentation for tax purposes documentation as (Harding: 2014:17).

**4. Interview Question 15:** What do you understand about costs incurred while using company cars?

**Responses:** Most respondents indicated that they have no idea what costs incurred when using a company car denote, others indicated that they were not sure whether that included fuel costs or toll fees and some indicated that they need clarity regarding that while others indicated that they do not use company cars therefore they do not know what those costs entail. This was depicted by 85.2% of respondents who indicated that they did not understand what the costs incurred when using company cars denote.

**Interpretation:** The responses indicate most respondents have a limited understanding of what costs incurred when using a company car relate to. Harding (2014:17) asserted that employees should keep proper documentation when they paid any costs for petrol or maintenance on employer provided vehicles.

## **Section E: The value placed by employees on fringe benefits**

### **Percentages**

**Key :** SA = strongly agree, A = agree, U = unsure, D = disagree,

SD = strongly disagree

### **Table 4.13 (a)**

	<b>Item</b>	<b>SA(%)</b>	<b>A(%)</b>	<b>U</b>	<b>D(%)</b>	<b>SD(%)</b>
1.	I highly value fringe benefits (N=61)	6.6	37.7	4.9	47.5	3.3
2.	Should government propose certain changes to fringe benefits, I will be negatively affected because I value fringe benefits (N=61)	1.6	32.8	13.1	47.5	4.9
3.	Fringe benefits enhance me and my family's social and economic welfare (N=61)	3.3	41	4.9	47.5	3.3
4.	My employer rewards me by offering valuable fringe benefits (N=60)	1.7	13.3	1.7	63.3	20
	<b>AVERAGE RESPONSE(%)</b>	<b>3.3</b>	<b>31.2</b>	<b>6.15</b>	<b>51.45</b>	<b>7.88</b>

The majority of respondents (50.8% and 50.8% respectively) indicated that they did not find fringe benefits valuable and fringe benefits did not enhance their social and economic welfare. Also, a large number of respondents (52.4%) indicated that should government propose certain changes to fringe benefits, they would not be adversely affected because they do not value fringe benefits. Moreover, a substantial number of respondents (83.3%) indicated that their employers did not offer valuable fringe benefits for reward purposes.

According to Weathington and Reddock (2011:44), a large number of employees greatly underestimated the real value of fringe benefits. It was articulated by Galanaki

(2013:03) that fringe benefits have conventionally been used by employers as a valuable instrument to enhance the overall returns of their employees and fringe benefits have constantly been endorsed as adding more value to employees than increases in their salaries. It is clear that in reality that is not always the case as indicated by the huge number of respondents that did not value fringe benefits.

### Descriptive Statistics

**Key :** 1 = strongly agree, 2 = agree, 3 = unsure, 4 = disagree,

5 = strongly disagree

**Table 4.13 (b)**

	<b>Item</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Skewnes s</b>
1.	I highly value fringe benefits (N=61)	3.03	1.12	-.211
2.	Should government propose certain changes to fringe benefits, I will be negatively affected because I value fringe benefits (N=61)	3.21	1.02	-.251
3.	Fringe benefits enhance me and my family's social and economic welfare (N=61)	3.07	1.08	-.134
4.	My employer rewards me by offering valuable fringe benefits (N=60)	3.87	.95	-1.211

<b>Overall mean, standard deviation and skewness</b>	<b>3.30</b>	<b>1.04</b>	<b>-0.45</b>
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Positive skewness values show that the respondents tend to agree with the items listed in Table 4.13(b), whereas negative skewness values imply that the respondents tend to disagree with the listed items. The overall mean response, standard deviation and skewness values in Table 4.13(b) above are 3.30, 1.04 and -0.45, respectively.

Therefore, the negative skewness depicts that most employees did not value fringe benefits.

### **Qualitative analysis**

#### **1. Interview Question 16:** To what extent do you value fringe benefits?

**Responses:** Most respondents indicated that they do not value fringe benefits at all, some stated that they value fringe benefits to a small extent and some stated that fringe benefits should rather be provided to them in monetary value as they do not find them valuable. This was depicted by 50.8% of respondents who indicated that they do not find fringe benefits valuable.

**Interpretation:** The study revealed that most respondents did not value fringe benefits and only a small number of respondents value some fringe benefits provided by their employer. According to Weathington and Reddock (2011:44), a large number of employees greatly underestimate the real value of fringe benefits.

**Interview Question 17:** What effect do changes proposed by government on fringe benefits have on you?

**Responses:** Most respondents indicated that changes proposed by government on fringe benefits have no effect on them because they do not value fringe benefits, some also stated that they were not aware of any changes proposed by government but should they happen then they will not have any substantial effect on them because it does not matter whether they receive

fringe benefits or not. This was depicted by 52.4% of respondents who indicated that changes proposed by government would have no adverse effect on them as they do not value fringe benefits.

**Interpretation:** The study revealed that changes proposed by government on fringe benefits have no adverse effect on most employees because they do not value fringe benefits.

2. **Interview Question 18:** What impact does the provision of fringe benefits have on you?

**Responses:** Most respondents indicated that the provision of fringe benefits had no impact on them as it did not matter whether they were there or not. Some respondents also stated that the impact of the provision of fringe benefits is that it puts them at a disadvantage because there is no option to reject the fringe benefits and opt for cash instead. Other respondents stated that fringe benefits have no impact on them as they have medical aids but those medical aids never cover everything as they always have to top up and sometimes they don't even have money to top up. This was depicted by 50.8% of respondents who indicated that the provision of fringe benefits do not have any impact on them.

**Interpretation:** The study revealed that fringe benefits did not positively impact most employees. Galanaki (2013:03) accentuated that fringe benefits have conventionally been used by employers as a valuable instrument to enhance the overall returns of their employees and fringe benefits have constantly been endorsed as adding more value to employees than increases in their salaries.

**Interview Question 19:** To what extent does your employer utilize fringe benefits for rewarding purposes?

**Responses:** Most respondents indicated that their employer did not provide fringe benefits for rewarding purposes. Other respondents indicated that their employer did not provide rewards in fringe benefits but rather in monetary value in order to lessen the tax liability from their side. This was depicted by 83.3% of

respondents indicated that their employers did not offer fringe benefits for reward purposes.

**Interpretation:** The responses indicated that most employees did not receive fringe benefits from their employers for rewarding purposes. Fringe benefits are usually used to attract and entice the best employees and not for rewarding purposes and some fringe benefits are required by law to be provided to employees.

**3. Interview Question 20:** What is your view of the equality of the provision of fringe benefits in your workplace?

**Responses:** Most respondents indicated that the provision of fringe benefits in their workplaces was not done fairly and equally as employees who earned more or are in Management received higher and better benefits.

**Interpretation:** The study revealed that most respondents indicated that there was no equality in the provision of fringe benefits to employees. Additionally, Kristal (2017:58) established that there was inequality of fringe benefits offered in places of work in that employees that are more powerful were most probable to receive fringe benefits and at a greater volume than employees who are less powerful.

**Section F: The extent of knowledge employees have regarding tax implications of fringe benefits on tax planning**

**Percentages**

**Key :** SA = strongly agree, A = agree, U = unsure, D = disagree,

SD = strongly disagree

**Table 4.14 (a)**

	<b>Item</b>	<b>SA(%)</b>	<b>A(%)</b>	<b>U</b>	<b>D(%)</b>	<b>SD(%)</b>
1.	I conduct my tax planning around fringe benefits (N=61)	0	19.7	11.5	60.7	8.2
2.	I have an understanding of the different provisions of the income tax (N=61)	3.3	32.8	6.6	42.6	14.8
3.	I understand the tax implications of fringe benefits on my tax planning (N=61)	4.9	27.9	6.6	49.2	11.5
4.	My income tax submissions have been selected for audits by SARS (N=61)	13.1	14.8	0	57.4	14.8
5.	I intentionally comply to new tax rules because I am always aware of them (N=61)	65.6	13.1	11.5	6.6	3.3
	<b>AVERAGE RESPONSE (%)</b>	<b>17.38</b>	<b>21.66</b>	<b>7.24</b>	<b>43.3</b>	<b>10.52</b>

A substantial number of respondents (68.9%) indicated that they did not conduct their tax planning around fringe benefits, while 57.4% indicated that they did not have an understanding of the various provisions of the Income Tax and 60.7% of respondents indicated that they did not understand the role of fringe benefits on their tax planning.

Dey (2015:01) found that most employees did not have a complete understanding of the different provisions of the income tax.

A large number of respondents (72.2%) indicated that their tax assessments have not been selected for audits by SARS while a substantial number of respondents (78.7%) indicated that they intentionally comply to tax rules. Most employees do not want to get in trouble with SARS hence they always adhere to the call of submitting tax returns when they are due.

### Descriptive Statistics

**Key :** 1 = strongly agree, 2 = agree, 3 = unsure, 4 = disagree,

5 = strongly disagree

**Table 4.14 (b)**

	<b>Item</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Skewnes s</b>
1.	I conduct my tax planning around fringe benefits (N=61)	3.57	.90	-.719
2.	I have an understanding of the different provisions of the income tax (N=61)	3.33	1.18	-.234
3.	I understand the tax implications of fringe benefits on my tax planning (N=61)	3.34	1.15	-.448
4.	My income tax submissions have	3.46	1.29	-.880

	been selected for audits by SARS (N=61)			
5.	I intentionally comply to new tax rules because I am always aware of them (N=61)	1.69	1.12	1.539
	<b>Overall mean, standard deviation and skewness</b>	<b>3.08</b>	<b>1.13</b>	<b>-0.15</b>

Positive skewness values show that the respondents tend to agree with the items listed in Table 4.14(b), whereas negative skewness values imply that the respondents tend to disagree with the listed items. The overall mean response, standard deviation and skewness values in Table 4.10(b) above are 3.08, 1.13 and -0.15, respectively.

Therefore, the mostly negative skewness depicts that most respondents do not conduct their tax planning around fringe benefits and the positive skewness denotes that most respondents always try to comply with tax laws.

### Qualitative analysis

- 1. Interview Question 21:** To what extent do you conduct your tax planning around fringe benefits?

**Responses:** Most respondents stated that their employer conducts their tax planning and they tax planning is immaterial to them if there is no option to reject the benefits. Others stated that they do not do tax planning while others indicated that they do not know what tax planning entails. This was depicted by 68.9% of respondents who indicated that they do not conduct tax planning around fringe benefits.

**Interpretation:** The study revealed that most respondents do not conduct their tax planning around fringe benefits as they do not know even know what tax planning denotes. Paying tax is often an unpleasant experience as it openly

impacts on the remaining income of the employees (Dey, 2015:01). The tax payable may be decreased either by tax evasion which is illegal or by tax avoidance, or by tax planning which is legal and ethical (Dey, 2015:01). Tax planning results in obtaining some tax benefits (Blouin, 2014:875).

**2. Interview question 22:** What is your understanding of the different provisions of the income tax?

**Responses:** Most respondents indicated that they have a poor understanding of the different provisions of the income tax, others stated that for them tax is a very confusing subject while others indicated that their knowledge regarding personal income tax is very limited but they are more interested in tax brackets. This was depicted by 57.4% of respondents who indicated that they have a limited understanding of the different provisions of the income tax.

**Interpretation:** The study revealed that most people did not understand the different provisions of the income tax. It was found by Dey (2015:01) that most employees did not have a complete understanding of the different provisions of the income tax..

**3. Interview Question 23:** How do you comprehend the tax implications of fringe benefits?

**Responses:** Most respondents indicated that they do not understand what the tax implications of fringe benefits are, and a few respondents indicated that they only know that fringe benefits are taxable. This was depicted by 60.7% of respondents who indicated that they do not comprehend what the implications of fringe benefits on tax planning are.

**Interpretation:** The study indicated that most employees did not know what the role of fringe benefits is on taxes. Fringe benefits are taxable benefits and they are included in gross income for tax purposes.

**4. Interview Question 24:** To what extent do you intentionally comply with tax laws?

**Response:** Most respondents indicated that they always try to comply with tax laws as they do not want to get in trouble with the tax man and others indicated that they always comply with tax laws because they do not want a criminal record while others indicated that they comply because they do not have any other choice but to comply. This was depicted by 78.7% of respondents who indicated that they always intentionally comply with tax laws.

**Interpretation:** The study revealed that a huge number of respondents always try to comply with tax laws as they do not want to get in trouble with SARS. SARS is one institution that is very much feared because owing tax can have disastrous consequences so it is important to always try to be tax compliant.

## Section G: Correlation Analysis

### Spearman's rank rho test

This test is concerned with the correlation between two ranked variables (X and Y). The correlation is statistically significant if the p-value is less than 0.05 level of significance. The coefficient of Spearman's rank correlation is given by

$$r = 1 - \frac{6\sum D^2}{N(N^2 - 1)}$$

where

D = differences of ranks of corresponding values of X and Y

N = number of paired values in the data

$$-1 \leq r \leq 1$$

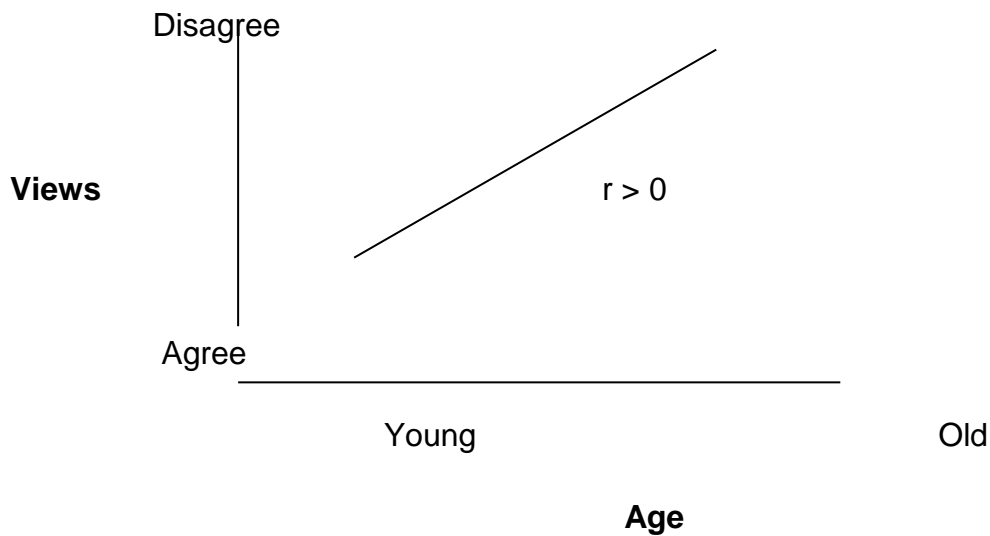
**Table 4.15: Spearman's rank correlation between age group and views (perceptions) of respondents about the fringe benefits on tax planning.**

Items		
The knowledge employees have about fringe benefits (N=61) <b>(Section B)</b>	Correlation coefficient(r )	0.314
	p – value	0.014*
Factors that influence the role of fringe benefits on tax planning (N=61) <b>(Section C)</b>	Correlation coefficient(r )	0.271
	p – value	0.035*
The manner in which employees plan the taxes (N=61) <b>(Section D)</b>	Correlation coefficient(r )	0.212
	p – value	0.101
The value placed by employees on fringe benefits (N=61) <b>(Section E)</b>	Correlation coefficient(r )	0.225
	p – value	0.081
The extent of knowledge employees have regarding tax implications of fringe benefits on tax planning (N=61) <b>(Section F)</b>	Correlation coefficient(r )	0.129
	p – value	0.323

\*Correlation is significant at the 0.05 level

SPSS Ver. 25 software package was used to perform the correlation analysis and the results are shown in Table 4.15. Since the p-values for sections B and C are less than 0.05 level of significance, then the correlation between age group and views of respondents about the items listed under these two sections is significant. The correlation coefficients for the two sections are both positive ( $r > 0$ ). It means that older respondents tend to disagree with the items under these two sections, whereas younger respondents tend to agree with them. See Figure 4.9 which justifies this research finding.

**Figure 4.9: Views of respondents versus age ( $r > 0$ )**



The following table represents Spearman’s rank correlation between educational level and views (perceptions) of respondents about the fringe benefits on tax planning:

**Table 4.16:** Spearman’s rank correlation between educational level and views (perceptions) of respondents about the fringe benefits on tax planning:

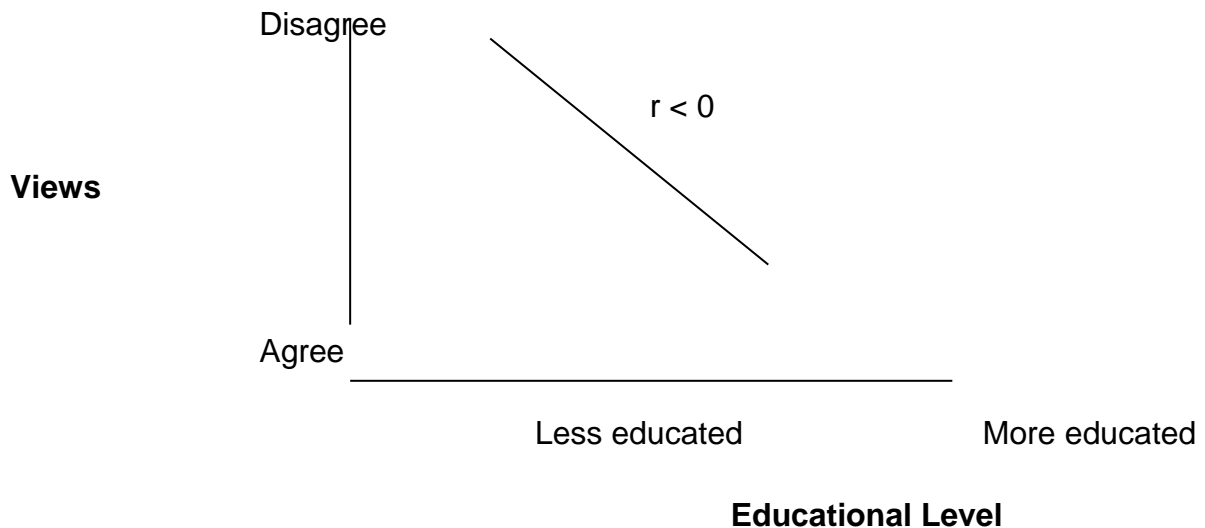
Items		
The role of fringe benefits on the tax planning of employees in Rustenburg’s metropolitan area (N=61) <b>(Section B)</b>	Correlation coefficient(r )	-0.682
	p – value	0.000*
Factors that influence the role of fringe benefits on tax planning (N=61) <b>(Section C)</b>	Correlation coefficient(r )	-0.532
	p – value	0.000*
The manner in which employees plan the taxes (N=61) <b>(Section D)</b>	Correlation coefficient(r )	-0.421
	p – value	0.001*

The value placed by employees on fringe benefits (N=61) <b>(Section E)</b>	Correlation coefficient(r )	-0.399
	p – value	0.001*
The extent of knowledge employees have regarding tax implications of fringe benefits on tax planning (N=61) <b>(Section F)</b>	Correlation coefficient(r )	-0.410
	p – value	0.001*

\*Correlation is significant at the 0.05 level

Since all the p-values in Table 4.16 for sections B - F are less than 0.05 level of significance, the correlation between the educational level and views of respondents about the items listed under sections B - F is significant. All the correlation coefficients are negative ( $r < 0$ ). This means that more educated respondents tend to agree with the items under those sections, whereas less educated respondents tend to disagree with them. See Figure 4.10 to justify this research finding.

**Figure 4.10: Views of respondents versus educational level ( $r < 0$ )**



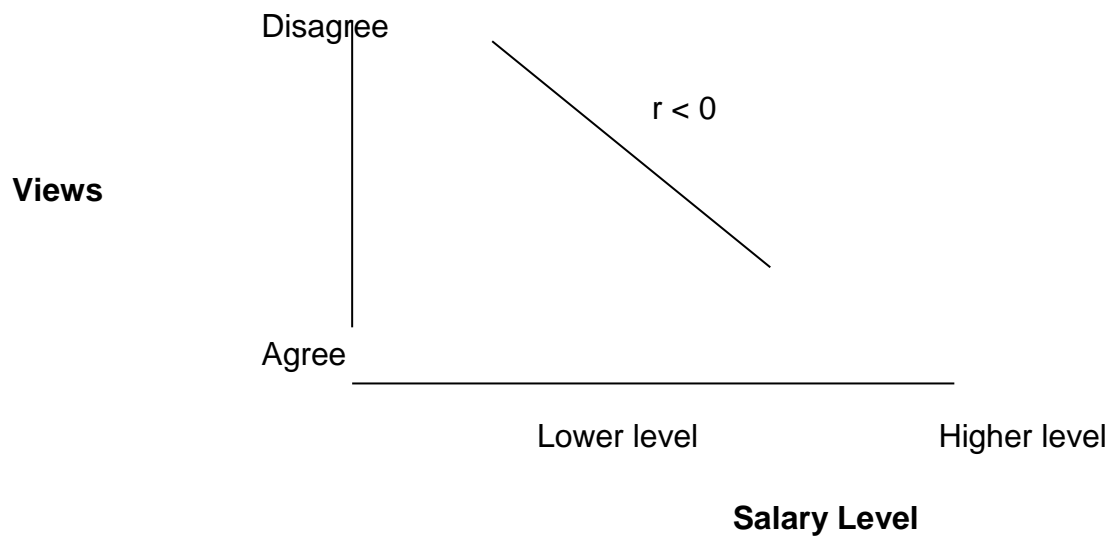
**Table 4.17: Spearman’s rank correlation between salary level and views (perceptions) of respondents about the fringe benefits on tax planning**

Items		
The role of fringe benefits on the tax planning of employees in Rustenburg's metropolitan area (N=61)  <b>(Section B)</b>	Correlation coefficient(r )	-0.471
	p – value	0.000*
Factors that influence the role of fringe benefits on tax planning (N=61)  <b>(Section C)</b>	Correlation coefficient(r )	-0.419
	p – value	0.001*
The manner in which employees plan the taxes (N=61)  <b>(Section D)</b>	Correlation coefficient(r )	-0.628
	p – value	0.000*
The value placed by employees on fringe benefits (N=61)  <b>(Section E)</b>	Correlation coefficient(r )	-0.218
	p – value	0.091
The extent of knowledge employees have regarding tax implications of fringe benefits on tax planning (N=61)  <b>(Section F)</b>	Correlation coefficient(r )	-0.623
	p – value	0.000*

\*Correlation is significant at the 0.05 level

Since all the p-values in Table 4.17 (except for section E) are less than 0.05 level of significance, then the correlation between the salary level and views of respondents about the items listed under those sections is significant. All the correlation coefficients are negative ( $r < 0$ ). It means that the respondents who are in the higher salary level tend to agree with the items under those sections, whereas respondents who are in the lower salary level tend to disagree with them. See Figure 4.11 which justifies this research finding.

**Figure 4.11: Views of respondents versus salary level ( $r < 0$ )**



**Table 4.18: Spearman’s rank correlation between work experience and views (perceptions) of respondents about the fringe benefits on tax planning**

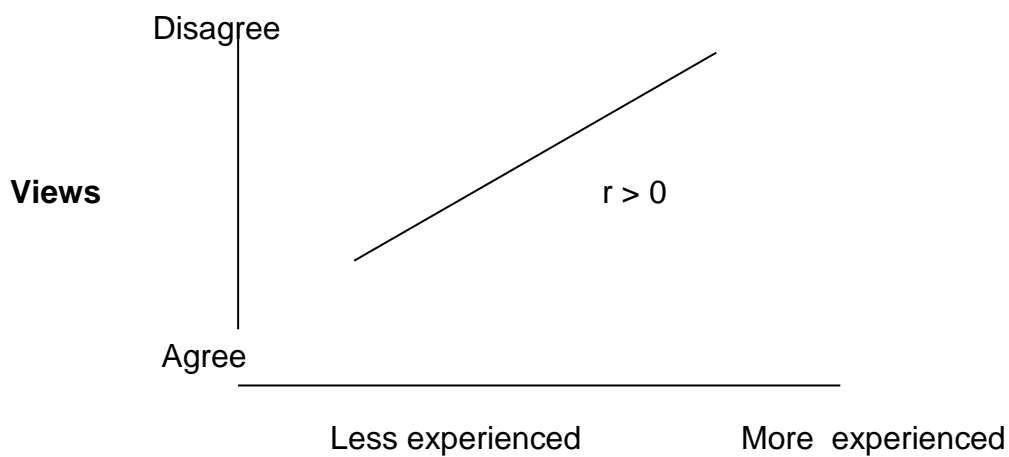
Items		
The role of fringe benefits on the tax planning of employees in Rustenburg’s metropolitan area (N=61) <b>(Section B)</b>	Correlation coefficient(r )	0.425
	p – value	0.001*
Factors that influence the role of fringe benefits on tax planning (N=61) <b>(Section C)</b>	Correlation coefficient(r )	0.212
	p – value	0.100
The manner in which employees plan the taxes (N=61) <b>(Section D)</b>	Correlation coefficient(r )	0.022
	p – value	0.867
The value placed by employees on fringe benefits (N=61) <b>(Section E)</b>	Correlation coefficient(r )	0.073
	p – value	0.574
	Correlation coefficient(r )	0.148

The extent of knowledge employees have regarding tax implications of fringe benefits on tax planning (N=61)  <b>(Section F)</b>	p – value	0.255
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\*Correlation is significant at the 0.05 level

Since the p-value ( $p = 0.001$ ) in Table 4.18 for section B is less than 0.05 level of significance, then the correlation between the work experience and views of respondents about the items listed under section B is significant. The correlation coefficient ( $r = 0.425$ ) is positive. It means that more experienced respondents in the department tend to disagree with the items under section B, whereas less experienced respondents tend to agree with them. See Figure 4.12 below to justify this research finding.

**Figure 4.12: Views of respondents versus work experience in the department ( $r > 0$ )**



***Work Experience***

## 4.5 Discussion of the results

### **Section B: The knowledge employees have about fringe benefits**

The quantitative and qualitative findings were in agreement in that they both indicated that the majority of the respondents agreed that they understood the value that fringe benefits has on their taxes and that fringe benefits have allowable deductions for tax purposes. This alluded with Braverman *et al.* (2015:06) that tax on fringe benefit is payable by employees on the value of the fringe benefits provided to employees with regards to employment.

Moreover, a large number of respondents agreed that fringe benefits are taxable benefits and there was a slight difference between respondents who understand what gross income signifies and those who do not. According to Spearman (2012:1), an amount should first meet the provisions of the definition of “*gross income*” in terms of Section 1 of the Income Tax Act in order to be subjected to normal tax in the Republic of South Africa.

However, a large number of respondents indicated that they were not aware that the component of fringe benefit that had a monetary value was included in gross income for tax purposes. According to van Wyk and Terblanche (2017:185), the component of fringe benefits that is equal to cash will be included in gross income for tax purposes. Therefore, there was no contradiction between the findings of the quantitative data as well as qualitative data analysis.

### **Section C: Factors that influence the role of fringe benefits on tax planning**

The quantitative and qualitative findings were in agreement in most respondents indicated that they are not aware of various tax planning opportunities that exist in tax laws and a large number of. It was found by Dey (2015:01) that some salary employees did not have a complete understanding of the different provisions of the income tax.

Furthermore, the findings reflected that the majority of employees do not structure their salaries in a tax efficient manner and also that a lot of respondents do not take advantage of tax planning opportunities in their salary packages. Moreover, a large number of respondents indicated that they do not know the fringe benefits codes that

appear on their Employee Tax certificates. It was found by Apple *et al.* (2018:116) that most employees do not observe changes in tax codes and all the IRP5 codes mean something to SARS as highlighted by Jones (2008:01).

Also, most respondents only indicated that they did not know that fringe benefits had tax advantages. It should be noted that it is very important for employees to utilize fringe benefits in their tax planning to reduce their taxes as Jones (2015:07) emphasized that the rise of the cost of benefits is borne by the employee and not the employer. Therefore, there was no contradiction between the findings of the quantitative data as well as qualitative data analysis.

#### **Section D: The manner in which employees plan the taxes**

The quantitative and qualitative findings were in agreement in that most respondents were aware that having more dependents on their medical aids ensured that they obtained higher tax credits. Also, on the contrary, the majority of respondents indicated that they did not have a retirement annuity fund that they pay for so that they can obtain a higher tax deduction. In addition to the retirement fund provided by their employer. According to Cooper (2017:44), the tax liability is reduced by the Medical tax credits and Foster (2014:07) affirms that retirement fund contributions are allowable deductions for tax purposes.

In addition, a significant number of respondents indicated that they did not have documentary evidence for all their work travels. It was asserted by Harding (2014:17) that employees should keep proper documentation when they paid any costs for petrol or maintenance on employer provided vehicles. Therefore, there was no contradiction between the findings of the quantitative data as well as qualitative data analysis.

#### **Section E: The value placed by employees on fringe benefits**

The quantitative and qualitative findings were in agreement in that most respondents indicated that they did not find fringe benefits valuable and fringe benefits did not enhance their social and economic welfare. Furthermore, a large number of respondents indicated that should government propose certain changes to fringe benefits, they would not be adversely affected because they do not value fringe benefits. Also, an enormous number of respondents indicated that their employers did not offer valuable fringe benefits for reward purposes.

It has been found by Weathington and Reddock (2011:44) that a large number of employees greatly underestimated the real value of fringe benefits. It was articulated by Galanaki (2013:03) that fringe benefits have conventionally been used by employers as a valuable instrument to enhance the overall returns of their employees and fringe benefits have constantly been endorsed as adding more value to employees than increases in their salaries. Therefore, there was no contradiction between the findings of the quantitative data as well as qualitative data analysis.

### **Section F: The extent of knowledge employees have regarding tax implications of fringe benefits on tax planning**

The quantitative and qualitative findings were in agreement in that a significant number of respondents indicated that they did not conduct their tax planning around fringe benefits and also did not have an understanding of the various provisions of the Income Tax. Furthermore, most respondents indicated that they did not understand the role of fringe benefits on their tax planning. It was found by Dey (2015:01) that most employees did not have a complete understanding of the different provisions of the income tax.. Also, a huge number of respondents indicated that they intentionally comply to tax rules. Most employees do not want to get in trouble with the taxman hence they always adhere to the call of submitting tax returns when they are due. Therefore, there was no contradiction between the findings of the quantitative data as well as qualitative data analysis.

#### **4.6 Summary**

The issues that emerged from the study are that fringe benefits are greatly underutilized in tax planning and most respondents (employees) have limited knowledge of the various provisions of the income tax. The raw data was processed through the Statistical Packaging for Social Science (SPSS) system and the output of the SPSS was presented in the form of tables and graphs. The data was also processed through the Atlas.ti system for the interviews. Data saturation was reached after interviewing 15 people, so no new questions were asked. The data analysis depicted that there were no contradictions between results of the quantitative data analysis as well as findings of the qualitative data analysis. The following chapter

provides a discussion of the findings as well as recommendations followed by a conclusion.

## **CHAPTER 5 - DISCUSSION OF THE FINDINGS, RECOMMENDATIONS AND CONCLUSION**

### **5.1 Introduction**

This chapter presents and discusses results and findings derived from the research . The discussion is based on the results and findings that were acquired on each of the research objectives. Subsequently, recommendations and conclusions are made based on these discussions. Lastly, the study proposes areas that require further research.

#### **5.1.1 Chapter outline**

The chapter was made up of the following:

- Research methodology and design
- Discussion of results
- Limitations
- Recommendations

### **5.2 Research Methodology & Design**

The study was conducted utilising a mixed method research design as this method was perceived as being most suitable for the population of employees in Rustenburg and an unbiased representation was required. The mixed method research design collected both qualitative and quantitative data and consolidated the two for a more complete understanding of the research problem. Moreover, there were two (2) data collection instruments that were used in the study: self-administered questionnaires and interviews. A total of 60 questionnaires with interview questions were administered to respondents and a total of sixty (60) were returned resulting in a 100% response rate. Furthermore, the sampling technique utilised in the study was convenience sampling as the respondents did not have an equal chance of being selected and they were easily accessible.

### **5.3 Discussion of Results**

In the following subsections, discussion of results are discussed:

### 5.3.1 Research objective One

#### **To establish the knowledge employees have about fringe benefits**

The majority of respondents indicated that they understand the value that fringe benefits have on their taxes; that fringe benefits are taxable benefits and also that fringe benefits had allowable deductions for tax purposes. On the contrary, a large (42.6%) number of respondents indicated that they do not know what is meant by gross income or how the cash component of fringe benefits is derived.

It was highlighted by Braverman *et al.* (2015:06) that tax on fringe benefits is payable by employees on the value of the fringe benefits provided with regards to employment and fringe benefits are taxable benefits as affirmed by Stiglingh *et al.* (2017:362). However, inasmuch as fringe benefits are taxable, they also have allowable deductions that may reduce taxes in certain instances. For an amount to be subject to normal tax, it must first meet the requirements of the definition of “*gross income*” in terms of Section 1 of the Income Tax Act (Spearman, 2012:1). Moreover, van Wyk and Terblanche (2017:185) emphasise that the component of fringe benefits that is equal to cash will be included in gross income for tax purposes.

Therefore, the results clearly indicate that even though most respondents are aware that fringe benefits are taxable and have allowable deductions for tax purposes, they are, in contrast, not aware of how fringe benefits are taxable as they do not know what is meant by gross income as well as how the cash component of fringe benefits or the value of fringe benefits that is included in taxable income is derived.

### 5.3.2 Research Objective Two

#### **To assess what factors influence the role of fringe benefits on tax planning**

The majority of respondents indicated that they are not aware of the different tax planning opportunities that exist in tax laws and most respondents also indicated that they do not find creative ways to save on their taxes/reduce their taxes. Moreover, the majority of respondents also indicated that they do not structure their salaries in a tax efficient manner or take advantage of tax planning opportunities. Additionally, most respondents also indicated that they did not know the fringe benefit codes that appear

on their IRP5 certificate / Employee Tax Certificate and they also indicated that they were not aware that fringe benefits had tax benefits or advantages.

It has been established that some salary earners or employees do not have a complete understanding of the different provisions of the income tax (Dey, 2015:01). This was reiterated by Apple *et al.* (2018:116) who observed that most employees do not identify changes in tax codes and all the IRP5 codes mean something to SARS as highlighted by Jones (2008:01). Jones (2015:07) emphasises that the rise of the cost of benefits is borne by the employee and not the employer therefore it is very important for employees to utilize fringe benefits in their tax planning to reduce their taxes.

The results and findings therefore mean that most employees are not aware of what tax planning is and they therefore do not find creative ways to save on their taxes. The results and findings also indicate that most employees do not have knowledge on how to structure their salaries in a tax efficient manner as well as how to take advantage of tax planning opportunities in their salary packages and they also do not know that fringe benefits have a lot of tax benefits / advantages.

### 5.3.3 Research Objective Three

#### **To find out how employees plan their taxes**

Most respondents indicated that they were aware that having more dependents on their medical aid schemes ensured that they obtained higher tax credits. Conversely, the majority of respondents pointed out that they did not have a retirement annuity in addition to the retirement fund provided by their employer. Furthermore, a substantial number of respondents indicated that they did not have documentary evidence for all their work travels and a large number of respondents also indicated that they did not keep a travel logbook for all business travels or keep purchase contracts of motor vehicles utilised for business travels and most respondents also indicated that they did not keep proper supporting documentation for costs incurred when using company cars.

According to Cooper (2017:44), the tax liability is reduced by the medical tax credits and Foster (2014:07) affirms that retirement fund contributions are allowable deductions for tax purposes. Moreover, Cooper (2017:43) concludes that 80% of the

travel allowance should be included in the taxable income of the employee (taxpayer) unless the employee can prove that they used the motor car mostly for work purposes. In addition, it was asserted by Harding (2014:17) that employees should keep proper documentation when they paid any costs for petrol or maintenance on vehicles provided by an employer.

The results and findings clearly demonstrated that most employees are aware that a medical aid ensures tax benefits, especially when one has more dependants on their medical aid but they are not aware that having a retirement annuity in addition to the retirement fund provided by the employer can also reduce their taxes or has tax benefits just like a medical aid. The results clearly showed that most employees did not keep proper documentation for work travel when they either received a travel allowance or utilised a company car for work purposes. It is clear that most respondents are not aware of the fact that they should keep relevant supporting documentation as proof for their work travels hence they did not keep proper record of their work travels.

### **5.3.4 Research Objective Four**

#### **To ascertain whether employees place any value on fringe benefits**

The majority of respondents indicated that they did not find fringe benefits valuable and that fringe benefits did not enhance their social and economic welfare. In addition, a substantial number of respondents indicated that their employers did not offer valuable fringe benefits for reward purposes. According to Weathington and Reddock (2011:44), a large number of employees greatly underestimated the real value of fringe benefits. Moreover, Kristal (2017:31) asserted that benefits that are provided by employers to employees are a necessary element of the total pay of employees and contribute to the welfare of employees as well as their economic and social security.

The results clearly showed that most respondents did not value fringe benefits and they did not view fringe benefits as enhancing their lives in any way whatsoever. Fringe benefits are usually offered by employers to employees to add value to lives of employees but it is clear that in reality that is not always the case as indicated by the huge number of respondents that did not value fringe benefits.

### 5.3.5 Research Objective Five

#### **To determine whether employees are aware of the tax implications of fringe benefits on their tax planning**

The majority of respondents indicated that they did not conduct their tax planning around fringe benefits and they did not have an understanding of the various provisions of the Income Tax. Also, most respondents indicated that they did not understand the role of fringe benefits on their tax planning. Moreover, a large number of respondents indicated that their tax assessments have not been selected for audits by SARS while a substantial number of respondents indicated that they intentionally comply to tax rules. According to Dey (2015:01), most employees did not have a complete understanding of the different provisions of the income tax. Furthermore, Apple *et al.* (2018:116) asserted that if employees are not aware of the new tax rules or fail to interpret them correctly, they may unintentionally fail to comply with tax laws.

The results and findings clearly indicate that most respondents do not conduct their tax planning around fringe benefits and they do not fully understand the dynamics of the income tax regimes applied by SARS. The results also indicated that most respondents did not comprehend what the role of fringe benefits is on their tax planning. Also, it was clear from the results that the majority of the respondents have not been selected for audits by SARS and, needless to say, the majority of respondents indicated that they always comply with tax rules, which explains the long queues often seen at SARS branch offices during the filing season.

### 5.4 Limitations

The setting of the study was in the metropolitan area of Rustenburg, in the Central Business District (CBD) which is in the North West Province in the Rustenburg Local Municipality under the Bojanala District Municipality. The focus of the study was on various employees in the area. The study could be extended further to explore the role of fringe benefits on the tax planning of employees in the entire Bojanala District Municipality which comprise the Rustenburg Local Municipality, Kgetlengrivier Local Municipality, Madibeng Local Municipality and Moses Kotane Local Municipality.

## 5.5 Recommendations

The following recommendations are provided by the researcher based on the research findings and results for the consideration of employees in Rustenburg's metropolitan area:

- Tax education is very important in today's world. Employers need to ensure that employees are taught the most important basics of taxation such as the definition of gross income and how fringe benefits are calculated.
- Employers can educate their employees by ensuring that they register for and pay a Skills Development Levy (SDL) in terms of the Skills Development Levy Act No. 9 of 1999 and then request training for their employees from FASSET which is responsible for the effective operation of the labour market through effective skills.
- Employers should ensure that their Human Resource department does not only issue IRP5 certificates to employees without explaining what most of the codes on the IRP5 mean. It is very important that the Human Resource personnel are equipped with the right interpretive skills in order to assist employees in their tax planning.
- SARS has a unit called the *Taxpayer Education (TPE)* which is responsible for outreach programmes such as educating the general public and companies about taxation and various tax planning opportunities. Employers should ensure that they request regular workshops from the unit throughout the year and ensure that when the unit comes to their offices the employees are present so that they do not miss out and are able to ask any tax related question that they may have.
- Employers should ensure that a few months prior to the tax season (prior to 01 July) that there are banners and posters that remind people to submit their tax returns and stating also the supporting documentation that each employee should have when they submit tax returns.
- Human Resource units of employers should ensure that all employees who either have a travel allowance or travel with a company car have a travel logbook that is completed at work prior to undertaking the work trip as well as when they return from work trips. Such employees should also ensure that

purchase contracts of cars used for work purposes are always filed in each employee's file.

- There are various insurance companies in South Africa that offer Retirement annuities such as Sanlam, Old Mutual, Metropolitan and Assupol. Therefore, employers should ensure that they liaise with any one of those companies to visit their offices and provide training on the importance of having retirement annuities and how they are beneficial from a tax point of view.
- Employers should also ensure that they acquire tax handbooks which contain the latest income tax legislation so that employees should always be able to refer to the Handbooks should they require clarity on tax matters

## 5.6 Conclusion

It is submitted that the data in the study clearly identified that most respondents greatly underestimated fringe benefits and their value thereof and that was mainly due to the lack of knowledge regarding how fringe benefits can be utilised in tax planning to reduce taxes in certain instances. Fringe benefits are offered to employees by employers to enhance their quality of life and they also have a number of tax benefits therefore employers should ensure that employees learn tax processes and procedures so that they can utilise fringe benefits in their tax planning and learn how to find creative ways to save on their taxes.

Through the findings, results and recommendations of the study, the researcher hopes to motivate employers to empower their employees with tax knowledge, particularly regarding the usage of fringe benefits in tax planning. Moreover, further research should be conducted to explore causes for the sore lack of tax planning that this study ascertained in the Rustenburg area.

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## ANNEXURE A – QUESTIONNAIRES AND INTERVIEW QUESTIONS



North West University  
Private Bag X 2046  
Mmabatho  
2735

### **Request for assistance to complete questionnaires**

My name is Yvette Modisane and I am a Masters of Business Administration (MBA) student at North West University. I am currently conducting Research on: **“The role of fringe benefits on the tax planning of employees in Rustenburg’s metropolitan area.** The study has been ethically cleared with the reference: NWU-00456-18-S4 Modisane.

The questionnaire will take approximately thirty (30) minutes to complete. Kindly assist in completing the attached questionnaire. Please note that your personal details such as your name and surname are not necessary as the questionnaire is voluntary. Please answer each question honestly and truthfully. The responses will be treated with utmost confidentiality.

Thank you for your time and efforts.

Kind Regards,

YM Modisane

## **Section A**

Mark relevant box with an X

### **PERSONAL DETAILS**

#### **Age**

18-21	<input type="checkbox"/>	22-30	<input type="checkbox"/>	31-40	<input type="checkbox"/>	41+	<input type="checkbox"/>
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#### **Gender**

Male	<input type="checkbox"/>	Female	<input type="checkbox"/>
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#### **Race**

African	<input type="checkbox"/>	Asian	<input type="checkbox"/>	White	<input type="checkbox"/>	Coloured	<input type="checkbox"/>
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#### **Residential area**

Rural	<input type="checkbox"/>	Semi-rural	<input type="checkbox"/>	Township	<input type="checkbox"/>	Suburb	<input type="checkbox"/>
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#### **Salary level**

Level 1-5	<input type="checkbox"/>	Level 6-8	<input type="checkbox"/>	Level 9-12	<input type="checkbox"/>	Level 13+	<input type="checkbox"/>
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#### **Type of Employment**

Permanent	<input type="checkbox"/>	Contract	<input type="checkbox"/>
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#### **How many years at the department?**

1-2 years	<input type="checkbox"/>	3-5 years	<input type="checkbox"/>	6-10 years	<input type="checkbox"/>	+11 years	<input type="checkbox"/>
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### **KNOWLEDGE AND SKILLS (COMPETENCE)**

#### **Highest qualification attained**

Grade 10-11	Grade 12	National Diploma	Degree	Honours+
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**Section B**

**The knowledge of employees about fringe benefits**

		<b>Strongly agree</b>	<b>Agree</b>	<b>Unsure</b>	<b>Disagree</b>	<b>Strongly disagree</b>
1.	I understand the value that fringe benefits have on my taxes					
2.	I am aware that fringe benefits have allowable deductions for tax purposes					
3.	I know that fringe benefits are taxable benefits					
4.	I understand what is meant by gross income					
5.	I am aware that the component of fringe benefits that has a monetary value is included in my gross income for tax purposes					

**Interview questions**

1. What is your understanding of the value that fringe benefits have on your taxes?

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2. What is your knowledge of allowable deductions of fringe benefits? \_\_\_\_\_

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3. What is your understanding of taxable benefits?

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4. To what extent do you understand what gross income signifies?

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5. What is your understanding of how the cash value of fringe benefits is calculated?

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**Section C**

**Factors that influence the role of fringe benefits on tax planning**

		<b>Stron gly agree</b>	<b>Agree</b>	<b>Unsure</b>	<b>Disagree</b>	<b>Strongly disagree</b>
1.	I am aware of various requirements of tax planning that exists in the laws					
2.	I am always looking for creative ways to save on my taxes					
3.	I structure my salary in a tax-efficient manner					
4.	I take advantage of tax planning opportunities in my salary package					
5.	I understand the fringe benefits codes that					

	appear on my Employee Tax certificate / IRP5 certificate					
6.	I know that fringe benefits have tax advantageous benefits					

6. How is your knowledge of the various requirements of tax planning that exist in the laws?

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7. How do you save on your taxes? \_\_\_\_\_

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8. How do you structure your salary where tax is concerned?

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9. To what extent do you take advantage of tax planning opportunities in your salary package?

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10. What is your understanding of fringe benefits codes that appear on your IRP5?

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11. To what extent do you know that fringe benefits have tax advantageous benefits?

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**Section D**

**The manner in which employees plan their taxes**

		<b>Strongly agree</b>	<b>Agree</b>	<b>Unsure</b>	<b>Disagree</b>	<b>Strongly disagree</b>
1.	I am aware that having more dependants on my medical aid ensures that I obtain higher medical tax credits					
2.	In addition to the retirement fund provided by my employer, I also have another retirement fund that I pay for so I can obtain a bigger tax deduction					
3.	I have documentary evidence of all my work travels which have zero tax values					
4.	I keep a travel logbook for all my business travels					
5.	I have a purchase contract of the motor vehicle I utilize for work travels					
6.	I keep proper supporting documentation for costs I incurred when using a company car					

12. What is your understanding of medical tax credits?

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13. To what extent do you understand the effect of Retirement funds on tax deductions? \_\_\_\_\_

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14. What is your understanding of the importance of keeping relevant supporting documentation for tax purposes?

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15. What do you understand about costs incurred while using company cars?

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**Section E**

**The value placed by employees on fringe benefits**

		<b>Strongly agree</b>	<b>Agree</b>	<b>Unsure</b>	<b>Disagree</b>	<b>Strongly disagree</b>
1.	I highly value fringe benefits					
2.	Should government propose certain changes to fringe benefits, I will be negatively affected					

	because I value fringe benefits					
3.	Fringe benefits enhance me and my family's social and economic welfare					
4.	My employer rewards me by offering valuable fringe benefits					

16. To what extent do you value fringe benefits?

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17. What effect do changes proposed by government on fringe benefits have on you? \_\_\_\_\_

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18. What impact does the provision of fringe benefits have on you?

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19. To what extent does your employer utilize fringe benefits for rewarding purposes?

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20. What is your view of the equality of the provision of fringe benefits in your workplace?

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**Section F**

**The extent of knowledge employees have regarding tax implications of fringe benefits on tax planning**

		<b>Strongly agree</b>	<b>Agree</b>	<b>Unsure</b>	<b>Disagree</b>	<b>Strongly disagree</b>
1.	I conduct my tax planning around fringe benefits					
2.	I have an understanding of the different provisions of the income tax					
3.	I understand the tax implications of fringe benefits on my tax planning					
4.	My income tax submissions have been selected for audits by SARS					
5.	I intentionally comply to new tax rules because I am always aware of them					

21. To what extent do you conduct your tax planning around fringe benefits?

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22. What is your understanding of the different provisions of the income tax? \_\_

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23. How do you comprehend the tax implications of fringe benefits?

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24. To what extent do you intentionally comply with tax laws?

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## ANNEXURE B: REQUEST FOR CONSENT

Yvette M. Modisane

January, 2018

Name of organization: (Dept of Health/SARS/AUDIT FIRMS)

Rustenburg

0300

Dear Sir / Madam

### **LETTER OF APPROVAL**

I am a student at the North West University in the Mafikeng Campus and I am studying towards a Master of Business Administration. As part of my studies, I am required to conduct a Research project in partial fulfilment of the award of the Masters in Business Administration. Therefore, I am humbly requesting for your approval to conduct Research on "*The implications of fringe benefits on the tax planning of employees in Rustenburg's metropolitan area*" with your employees. The purpose of this study is purely for leaning purposes.

Attached to this letter is a questionnaire and I am kindly requesting for your assistance in completing it. The answers should be as honest and as accurate as possible. Please note that the information obtained therein will be treated with utmost confidentiality and trust.

Your favourable response will be greatly appreciated.

Yours sincerely,

Yvette Modisane

(014) 594 6053

## ANNEXURE C: Qualitative Data analysis

### Interview Questions

No.	Item	Popular Response
1	What is your understanding of the value that fringe benefits have on your taxes?	Fringe benefits increase my taxes
2	What is your knowledge of allowable deductions of fringe benefits?	Limited knowledge
3	What is your understanding of taxable benefits?	Benefits that are taxable
4	To what extent do you understand what gross income signifies?	Do not know what gross income is
5	What is your understanding of how the cash value of fringe benefits is calculated?	Limited
6	How is your knowledge of the various requirements of tax planning that exist in the laws?	Limited
7	How do you save on your taxes?	Do not save on their taxes
8	How do you structure your salary where tax is concerned?	Do not know how to structure salaries in tax efficient manners
9	To what extent do you take advantage of tax planning opportunities in your salary package?	Do not take advantage of tax planning opportunities
10	What is your understanding of fringe benefits codes that appear on your IRP5?	They are very confusing
11	To what extent do you know that fringe benefits have tax advantageous benefits?	To a small extent
12	What is your understanding of medical tax credits?	Fair understanding of medical tax credits
13	To what extent do you understand the effect of Retirement funds on tax deductions?	Do not know how the retirement fund affects tax deductions
14	What is your understanding of the importance of keeping relevant supporting documentation for tax purposes?	Limited understanding
15	What do you understand about costs incurred while using company cars?	Do not know
16	To what extent do you value fringe benefits?	Do not value fringe benefits
17	What effect do changes proposed by government on fringe benefits have on you?	No effect
18	What impact does the provision of fringe benefits have on you?	No impact, it doesn't matter whether they are there or not
19	To what extent does your employer utilize fringe benefits for rewarding purposes?	Fringe benefits not offered by employers for reward purposes
20	What is your view of the equality of the provision of fringe benefits in your workplace?	No equality
21	To what extent do you conduct your tax planning around fringe benefits?	Do not conduct tax planning around fringe benefits
22	What is your understanding of the different provisions of the income tax?	Limited understanding of different provisions of the income tax
23	How do you comprehend the tax implications of fringe benefits?	Do not understand what the tax implications of fringe benefits
24	To what extent do you intentionally comply with tax laws?	Always comply with tax laws