

**IS THE TURNOVER TAX SYSTEM FUNCTIONING AS INTENDED? AN  
EXPLORATORY STUDY**

by

Astrid Edelgard Suzanne Hellberg

Submitted in accordance with the requirements

for the degree of

**MASTER OF PHILOSOPHY**

in

**ACCOUNTING SCIENCES**

at the

University of South Africa

Supervisor: Prof. Sharon Smulders

Co-Supervisor: Ms Mphagahlele Ndlovu

Month and year of submission: November 2019

## **DECLARATION**

Name: Astrid Edelgard Suzanne Hellberg

Student number: 64108872

Degree: Master of Philosophy in Accounting Sciences

### **IS THE TURNOVER TAX SYSTEM FUNCTIONING AS INTENDED? AN EXPLORATORY STUDY**

I declare that the above dissertation is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

\_\_\_\_\_ 15 November 2019

SIGNATURE

DATE

## **ACKNOWLEDGEMENTS**

Thanks to God who provided me with the strength I needed to finalise this study and everyone else who supported me throughout this study. Without each one of you, this would not become a reality.

I would like to express a special thanks to the following individuals:

- My supervisors, Prof. Sharon Smulders and Ms Mphagahlele Ndlovu, who guided me, as well as shared their valuable knowledge and experience. Thank you for all your hard work and assistance during this study.
- To my husband, Deon, and my family who supported, encouraged me and believed in my ability to complete my degree.
- To all participants who contributed to this study, thank you for assisting and providing your valuable insights and recommendations.
- Ms Elizabeth Marx, representing Academic and Professional Editing Services, for copyediting and formatting my research work.
- Lastly, Dr Charmaine Williamson, thank you for all your assistance and sharing your knowledge about qualitative research, and assisting me with the theoretical frameworks.

## **ABSTRACT**

This study explores whether the turnover tax system (TTS) fulfils its intended function of being a simplified tax system, using primary and secondary data. Structural-functionalism and the tax canons form the theoretical foundations for this study and are used to guide the questionnaire design, data collection process, identification of the overarching themes and the data analysis. Semi-structured interviews are utilised to solicit information from the selected participants, using convenience and snowball selection techniques. The participants believe that the TTS is not functioning as a fully simplified tax system, as not all the tax canons and structural functionalism principles of an effective tax system are being met. The concept of the TTS is perceived as good, although the administration thereof and the South African Revenue Service officials' knowledge on the TTS are seen to be inadequate. Various recommendations are provided to improve the TTS.

**Keywords:** exploratory qualitative research; functioning; micro-business; semi-structured interviews; small, medium and micro-enterprises (SMMEs); structural functionalism; taxation; tax canons; turnover tax

## **OPSOMMING**

Hierdie studie het ten doel om te bepaal of die omsetbelastingstelsel (“TTS”) sy beoogde funksie vervul – naamlik dié van ’n vereenvoudigde belastingstelsel, deur die gebruik van primêre en sekondêre data. Strukturele funksionalisme en die belastingbeginsels vorm die teoretiese grondbeginsels vir hierdie studie en word gebruik om die vraelysontwerp, data-insamelingsproses, identifisering van die oorkoepelende temas en die data-ontleding te lei. Halfgestruktureerde onderhoude word gebruik om die uitgesoekte deelnemers om inligting te vra met behulp van gerieflikheid- en sneeubalselekteringstegnieke. Die deelnemers glo dat die omsetbelastingstelsel nie as ’n ten volle vereenvoudigde belastingstelsel funksioneer nie, aangesien nie al die belastingbeginsels en strukturelefunksionalismebeginsels van ’n doeltreffende belastingstelsel gevolg word nie. Die konsep van die omsetbelastingstelsel word as goed beskou, hoewel die administrering daarvan, sowel as die kennis wat die Suid-Afrikaanse Inkomstediens se amptenare ten opsigte van die omsetbelastingstelsel het, as ontoereikend beskou word. Verskeie aanbevelings word gedoen om die omsetbelastingstelsel te verbeter.

**Slutelwoorde:** verkennende kwalitatiewe navorsing; funksionering; mikro-onderneming; halfgestruktureerde onderhoude; klein, medium en mikro-ondernemings (KMMO’s); strukturele funksionalisme; belasting; belastingbeginsels; omsetbelasting

## **KGOPOLO**

Thuto ye e lebeledišiša ge e le gore poelo ya tshepedišo ya lekgetho (TTS) e kgotsofatša mohola wo e nepetšwego wona e lego wa go ba tshepedišo ya lekgetho yeo e nolofadišwego ka go šomiša tshedimošo ya motheo le ya tlaleletšo. Tšhomišego ya sebopego le melao ya motšhelo go hlama metheo ya dikgopolo ya thuto ye le go e šomiša go hlahla tlhamo ya letlakalapotšišo, tshepedišo ya go kgoboketša tshedimošo, tlhaolo ya merero ya go tlaleletša le tekolo ya tshedimošo. Dipoledišano tša go hlamega gannyane di šomišwa go hwetša tshedimošo go batšeakarolo bao ba kgethilwego, go šomišwa kgonagalo le mekgwatiro ya go kgetha ka go ya godimo. Batšeakarolo ba dumela go re TTS ga e šome bjalo ka tshepedišo ya go tlala ya lekgetho, ka ge e se metheo ka moka ya melao ya lekgetho yeo e fihlelelwago. Lereo la TTS le lemogwa bjalo ka le kaone, le ge tshepedišo ya lona le tsebo ya bašomi ba Ditirelo tša Lekgetho tša Afrika Borwa ya TTS e bonala e sa lekana. Ditigelo tše mmalwa di tšweleditšwe go kaonafatša TTS.

Mantšu a bohlokwa: diphatišišo tša boleng bja tšweletšo; tšhomišo; kgwebopotlana; dipoledišano tše di beakantšwego ka boripana; ye nnyane, ya magareng le dikgwebopotlana (SMME); tšhomišego ya sebopego; lekgetho; melao ya lekgetho; poelo ya go kgetha.

## TABLE OF CONTENTS

DECLARATION .....	ii
ACKNOWLEDGEMENTS .....	iii
ABSTRACT .....	iv
LIST OF ACRONYMS .....	xi
LIST OF TABLES .....	xiii
LIST OF FIGURES .....	xiv
CHAPTER 1: INTRODUCTION AND BACKGROUND .....	1
1.1 Introduction .....	1
1.1.1 Importance of SMMEs - A global perspective .....	1
1.1.2 Importance of SMMEs - A South African perspective .....	1
1.2 Research problem .....	9
1.3 Significance of the study .....	10
1.4 Research objectives .....	10
1.5 Research methodology .....	11
1.6 Delineations .....	12
1.7 Limitations.....	12
1.8 Definitions of terms and concepts .....	12
1.8.1 Micro-business classification.....	12
1.8.2 Other important terms and concepts .....	13
1.9 Chapter outline .....	14
CHAPTER 2: THEORETICAL FRAMEWORK.....	16
2.1 Introduction .....	16
2.2 Theoretical framework .....	16
2.2.1 Theorisation levels .....	16
2.2.2 What is structural-functionalism and how does it apply to this study? .....	19
2.2.3 What are the tax canons and how do they relate to this study? .....	20
2.3 A tax system defined .....	23
2.4 The theory and its relevance to this study .....	25
2.5 Chapter conclusion .....	28
CHAPTER 3: LITERATURE REVIEW .....	29
3.1 Introduction .....	29
3.2 What is the TTS?.....	29

3.2.1	Background .....	29
3.2.2	Why was the turnover tax system introduced? .....	30
3.2.3	How does the TTS function? .....	32
3.2.4	Transitional rules.....	36
3.3	How is a “micro-business” defined? .....	36
3.3.1	The South African “micro-business” definition.....	37
3.3.2	“Micro-business” definition for the purpose of this study .....	41
3.4	TTS literature.....	41
3.5	Chapter conclusion .....	44
CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY .....		46
4.1	Introduction .....	46
4.2	Research design .....	46
4.2.1	Research paradigm defined .....	49
4.2.2	Research ontology and epistemology .....	50
4.3	Research methodology .....	51
4.4	Study participants .....	52
4.4.1	The convenience selection technique.....	52
4.4.2	The snowball selection technique .....	52
4.5	Research methods - data collection .....	53
4.5.1	The interview process .....	59
4.5.2	Participant selection .....	60
4.5.3	Interview transcripts.....	61
4.6	Research methods - data analysis .....	62
4.7	Ethical considerations.....	62
4.7.1	Credibility .....	62
4.7.2	Dependability .....	63
4.7.3	Conformability .....	64
4.7.4	Transferability .....	65
4.7.5	Authenticity.....	65
4.7.6	Confidentiality .....	65
4.8	Conclusion.....	66
CHAPTER 5: ANALYSES AND THE INTERPRETATION OF RESULTS .....		67
5.1	Introduction .....	67



5.2	Data coding and analysis .....	67
5.3	Analysis of demographical information and emerging themes .....	70
5.3.1	Participants' academic and professional background .....	70
5.3.2	The legal form of the micro-business .....	71
5.3.3	The trading period and main trading activity of the micro-business .....	72
5.3.4	Awareness of the TTS .....	78
5.3.5	Understanding the TTS legislation .....	83
5.3.6	Participants' knowledge about the TTS .....	86
5.3.7	Do you receive assistance with the TTS's compliance obligations? .....	91
5.3.8	Reasons why micro-businesses are/not registered on the TTS .....	94
5.3.9	Participants' perceptions on the success of the TTS .....	96
5.3.10	Suggested changes to the TTS .....	97
5.3.11	Application of the tax canons to findings of the study .....	97
5.3.12	Application of structural functionalism to findings of the study .....	100
5.4	Chapter conclusion .....	101
CHAPTER 6: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....		102
6.1	Introduction .....	102
6.2	Research objectives .....	102
6.2.1	Primary research objective .....	102
6.2.2	Secondary research questions .....	102
6.3	Research limitations .....	113
6.4	Recommendations to improve the TTS .....	114
6.5	Recommendations for future research .....	115
6.6	Chapter conclusion .....	116
LIST OF REFERENCES .....		118
ANNEXURES .....		135
ANNEXURE A: ETHICAL CLEARANCE CERTIFICATE .....		135
ANNEXURE B: THE INTRODUCTORY EMAIL SENT TO PARTICIPANTS .....		137
ANNEXURE C: INTERVIEW QUESTIONS .....		138
ANNEXURE D: CONSENT TO PARTICIPATE IN THIS STUDY .....		139
ANNEXURE E: CONFIDENTIALITY AGREEMENT .....		140
ANNEXURE F: FULL TEXT OF THE SIXTH SCHEDULE OF THE INCOME TAX ACT 58 OF 1962 .....		141

ANNEXURE G: EXTRACT OF THE GROUNDED CODES FROM ATLAS.TI™8.....152

## LIST OF ACRONYMS

<b>Acronym</b>	<b>Description</b>
AICPA	Association of International Certified Professional Accountants
ASGISA	Accelerated Shared Growth Initiative for South Africa
BEE	Black Economic Empowerment
CAQDAS	Computer-Assisted Qualitative Data Analysis Software
CC	Close Corporation
CGT	Capital Gains Tax
DSBD	Department of Small Business Development
DTC	Davis Tax Committee
DTI	Department of Trade and Industry
EFT	Electronic funds transfer
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution strategy
NBPA	Ntsika Business Promotion Agency
NDP	National Development Plan 2030
NSBC	National Small Business Council
NT	National Treasury
NQF	National Qualification Framework
OECD	Organisation for Economic Cooperation and Development
OTO	Office of the Tax Ombud
PAYE	Pay-as-you-earn
PCOF	Portfolio Committee on Finance
RSA	Republic of South Africa

<b>Acronym</b>	<b>Description</b>
SAICA	South African Institute of Chartered Accountants
SAIT	South African Institution of Tax Professionals
SARS	South African Revenue Service
SBI	Small Business Institute
SBP	Small Business Project
SBCTC	Small Business Corporation Tax Concession
SDL	Skills development levies
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency (SOC) Limited
SMME	Small, Medium and Micro-Enterprise
SOC	State Owned Company
STATS SA	Statistics South Africa
TT	Turnover tax
TTS	Turnover tax system
QDAS	Qualitative Data Analysis Software
UNISA	University of South Africa
VAT	Value-added Tax

## LIST OF TABLES

Table 1: Summary of the South African Government initiatives, implemented to assist developing SMMEs .....	3
Table 2: Terminology in the Income Tax Act .....	13
Table 3: Explanation of various theorisation levels.....	17
Table 4: The theory and its relevance to this study .....	27
Table 5: TT rates for the period 1 March 2019 to 28 February 2020 .....	33
Table 6: Revised Schedule 1 of the National Definition of Small Enterprise in South Africa	38
Table 7: Research blueprint .....	46
Table 8: Semi-structured interview questions linked to relevant literature review findings ...	54
Table 9: The study's emerging themes, identified and described.....	68
Table 10: SARS education, training and awareness initiatives .....	79
Table 11: The tax canons addressed by the participants' awareness of the TTS.....	82
Table 12: The tax canons addressed by the participants' understanding and knowledge of the TTS.....	89
Table 13: The tax canons addressed by the participants using assistance on the TTS .....	92
Table 14: Extract from the SARS Statement of Financial Performance .....	98
Table 15: Summary of the tax canons to the findings of the study.....	106

## LIST OF FIGURES

Figure 1: The anticipated government GDP growth rates versus its actual growth rates.....	6
Figure 2: The South African GDP growth rate versus the unemployment rate.....	7
Figure 3: Theorisation levels .....	17
Figure 4: Diagrammatical presentation of a tax system.....	24
Figure 5: How the TTS operates .....	26
Figure 6: Calculating ‘taxable turnover’ .....	34
Figure 7: Selection method used to source participants.....	60
Figure 8: Academic background of micro-business owners.....	70
Figure 9: The legal form of micro-businesses .....	72
Figure 10: How long has the micro-business been trading? .....	73
Figure 11: The main trading activities of micro-businesses .....	74
Figure 12: Employment per main trading activity .....	75
Figure 13: The number of individuals employed by micro-businesses .....	76
Figure 14: The number of individuals employed per legal form .....	77
Figure 15: Micro-business owners’ awareness of the TTS.....	78
Figure 16: Sources participants used to gain an understanding of the TTS.....	81
Figure 17: Participants registered on the TTS .....	94

## **CHAPTER 1: INTRODUCTION AND BACKGROUND**

### **1.1 Introduction**

Small, medium and micro-enterprises (SMMEs) are globally regarded to represent several dynamic and forward-thinking businesses. SMMEs are entrepreneurs with the ability to identify the divergence within an industry or location (Bin Hashim, Raza & Minai, 2018:1; Department of Trade and Industry (DTI), 2016:1; Gopaul & Manley, 2015:306). These businesses are globally recognised for driving economic growth, reducing unemployment, poverty and inequality (Bin Hashim *et al.*, 2018:2; Smulders, Stiglingh, Franzsen & Fletcher, 2017:135; Smulders, Stiglingh, Franzsen & Fletcher, 2016:715; Rena & Msoni, 2014:22; Smulders & Naidoo, 2013:33). Consequently, the importance of SMMEs globally, including in the South African market, is briefly discussed below.

#### **1.1.1 Importance of SMMEs - A global perspective**

According to the latest available information, the global significance of SMMEs is clear from the Organisation for Economic Cooperation and Development's (OECD) investigation (OECD, 2015:18) focussing on taxing SMMEs within the OECD and G20 countries. This investigation established that SMMEs created over 50% of the total employment within OECD countries (besides India) (OECD, 2015:21). SMMEs' global employment trend is reported as between 60% to 70% of the total employment (OECD, 2017:6).

#### **1.1.2 Importance of SMMEs - A South African perspective**

The South African National Development Plan (NDP), (Republic of South Africa (RSA), 2012a:119) indicates that SMMEs should generate 90% of the domestic-oriented and services sector employment by 2030. According to the Small Enterprise Development Agency (SEDA) report (SEDA, 2019b:1), SMMEs in South Africa contribute to 66% of the country's employment and 38,2% of its income. According to these statistics, the employment creation contribution of the South African SMMEs appears to exceed global employment trends (OECD, 2017:6). The Small Business Institute (SBI) and Small Business Project (SBP) report (SBI & SBP, 2019:3) emphasise that 98,5% of the country's economy, comprise SMMEs, whilst creating only 28% of all South African occupations. These findings contradict SEDA's findings that stated that SMMEs generate 66% of the country's employment. It is evident that

the exact information regarding employment statistics of SMMEs requires further clarity and scrutiny. Statistics South Africa (Stats SA) have not made publicly available any official figures on this matter.

In addition to the aforementioned, the SBI and SBP (2019:4) established that there are only 176 333 micro-businesses from a total of 250 000 formal SMMEs. In contrast, the Finscope (2010:2) report estimated the existence of 948 560 formal SMMEs (the 17% registered micro-business owners of the total micro-business owners), whereas the SEDA (2019b:1) report reckoned there to be 736 198 formal SMMEs in South Africa. SBI and SBP (2019:1) believed the variances are due to the SMME data being haphazardly collected in South Africa, unlike other emerging and middle-income countries. This results in unreliable estimates of SMMEs in South Africa and their contribution to the South African Gross Domestic Product (GDP) and employment results (SBI & SBP, 2019:1). SBI and SBP (2019:4) reported that SMMEs employed 343 847 individuals from 2011 to 2016. The aforementioned findings may emphasise potentially less SMMEs than originally reported, whilst their contribution to the South African employment may not be as significant as anticipated.

A lack of formal statistics on SMMEs from Stats SA and contradicting information between SEDA (a Government entity), SBI and SBP (both private companies), emphasises the absence of accurate information on this sector in South Africa. Without accurate information and baseline facts, policy interventions and strategic planning for small business development in South Africa could be based on ideology or ignorance rather than facts. This is not an ideal situation. President Cyril Ramaphosa (The Presidency RSA, 2018) stated during the State of the Nation address in 2018, that it is a challenge to address the high unemployment, hardship, and discrimination taking place in South Africa. In an attempt to address these challenges, the South African Government implemented various initiatives to assist SMMEs to develop, reduce high unemployment rates and stimulate economic growth (Labuschagne, 2018:1; Smulders *et al.*, 2017:135; Smulders *et al.*, 2016:715; Wiese, 2014:4). A summary of the South African Government initiatives implemented to assist in developing SMMEs is illustrated in Table 1.



**Table 1: Summary of the South African Government initiatives, implemented to assist developing SMMEs**

<b>Initiative implementation year</b>	<b>Government's SMME initiative implemented</b>	<b>The initiative's objective relating to SMMEs</b>	<b>Reference</b>
1994	Reconstruction and Development Programme	Improve economic growth by stimulating lasting work and implementing measures to support the advancement of SMMEs.	(RSA, 1994:6)
1995	The National strategy for the development and promotion of small businesses in South Africa	Empower SMMEs and enable equalisation of income, wealth and earning opportunities, creating lasting employment and inspiring economic growth.	(DTI, 1995:20)
1996	National Small Business Act	The National Small Business Act was established to provide guidelines for the Government in promoting small businesses within South Africa	(RSA, 1996:1)
1996	Khula Enterprise Finance Limited	SMMEs funding difficulties were addressed by Khula Enterprise Finance Limited, providing funding to SMMEs unable to obtain funding from any commercial financial institutes	(Khula Enterprise Finance Limited, 2019)
1996	National Small Business Council (NSBC)	NSBC advocates for and advance interests of small businesses (mainly focussing on small business support). In addition to its previous	(RSA, 1996:3)

<b>Initiative implementation year</b>	<b>Government's SMME initiative implemented</b>	<b>The initiative's objective relating to SMMEs</b>	<b>Reference</b>
		stipulated roles, the NSBC also provides advice to various government spheres (national, provincial and local) on how to develop small businesses through social-economic policies.	
1996	Ntsika Business Promotion Agency (NBPA)	NBPA, conversely, was established to educate, council; mentor small businesses and to provide non-financial services assistance where needed.	(RSA, 1996:7)
1998	Growth, Employment and Redistribution (GEAR) strategy	GEAR was implemented to promote the fiscal growth needed to fund the social objectives. The policy aimed to reduce the fiscal shortfalls and the price increases, whilst stabilising the exchange rate, relieving trade obstacles and loosening up capital.	(Wiese, 2014:19)
2004	SEDA	SEDA's objective is to implement the small business strategy of Government; to design and implement a network for small business development; and to integrate government-funded small business support agencies across all tiers of Government.	(SEDA, 2019a)

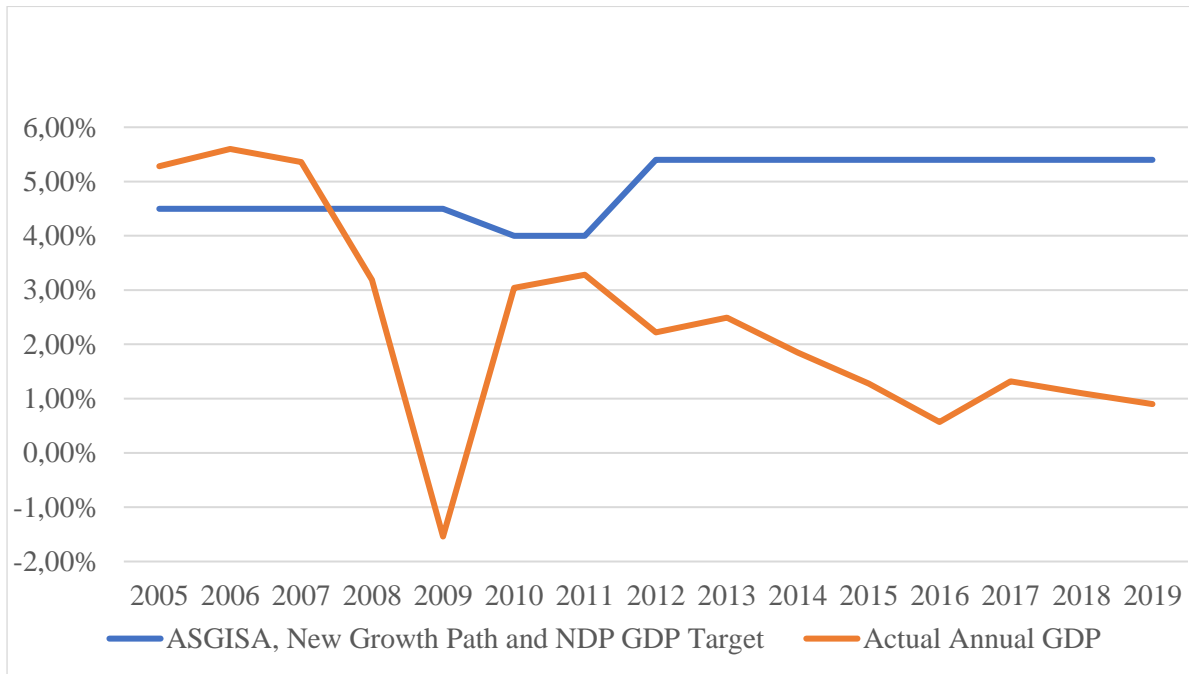
<b>Initiative implementation year</b>	<b>Government's SMME initiative implemented</b>	<b>The initiative's objective relating to SMMEs</b>	<b>Reference</b>
2006	Accelerated Shared Growth Initiative for South Africa (ASGISA)	ASGISA objective was to decrease hardship by 2010 and unemployment by 2014.	(The Presidency RSA, 2007:2)
2010	New Growth Path	The New Growth Path aimed to enhance economic growth, create employment and improve equity and income distribution.	(Economic Development Department, 2011:11)
2012	NDP	The NDP was implemented in South Africa to eradicate hardship and discrimination, by 2030.	(RSA, 2012a:64)
2012	Small Enterprise Finance Agency (SOC) Limited (SEFA)	SEFA was created to offer South African SMMEs with trouble-free access to funds.	(Wiese, 2014:19)
2018	Small business incubation programme	The programme was implemented to assist emerging SMMEs with the required infrastructure, finance, knowledge and marketing, amongst others, to start a business.	(SEDA, 2018:8)

Source: Adapted from Wiese (2014:19)

Regardless of these initiatives, time and resources invested into the SMMEs sector, the anticipated growth rates and the reduction in unemployment hoped for (as set out in the ASGISA, New Growth Path and the NDP) were not achieved. Figure 1 illustrates the association between the anticipated government GDP growth rates (RSA, 2012a:64; Economic

Development Department, 2011:23; The Presidency RSA, 2007:2) and the actual growth rates achieved (Trading Economics, 2019; Stats SA, 2019b).

**Figure 1: The anticipated government GDP growth rates versus its actual growth rates**

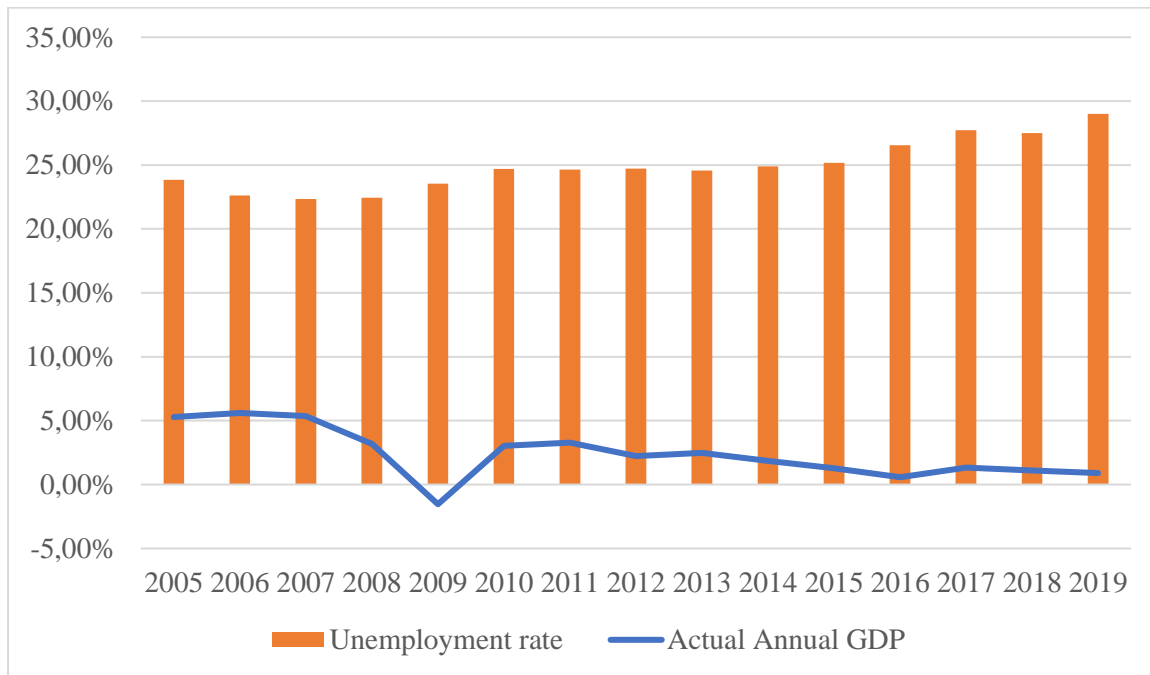


Source: Compiled from Trading Economics (2019); Stats SA (2019b); RSA (2012a:64); Economic Development Department (2011:23) and The Presidency RSA (2007:2)

It is evident from Figure 1 that the Government surpassed its targets in the first three years, henceforth none of the projected growth rates were achieved. The South African Market Insights update regards the decline in the South African GDP to be attributable to the Government’s failure to establish and implement policies that create and sustain economic growth (South African Market Insight, 2019). The President also cautioned that without fiscal growth, unemployment, hardship and discrimination will not decrease (The Presidency RSA, 2018).

Initiatives implemented by the Government (Table 1) projected that SMMEs would reduce the high unemployment rate (SBI & SBP, 2019:3). Figure 2 illustrates a comparison between the actual South African GDP growth rate and the unemployment rate.

**Figure 2: The South African GDP growth rate versus the unemployment rate**



Source: Trading Economics (2019)

Figure 2 illustrates with the declining GDP growth rate to 0,9% (Stats SA, 2019b) and the unemployment rate gradually increasing to a rate of 29% (Trading Economics, 2019; Stats SA, 2019a:1). The drop in the GDP growth rate and the economic turmoil (locally and internationally), naturally have influenced the SMME's ability to create jobs. It is thus acknowledged, that the decrease in the GDP growth rate does not indicate that the SMME initiatives were ineffective. However, despite the incentives introduced for SMMEs, the employment contribution was not as expected. This is due to additional external factors and not just the possible ineffectiveness of the SMME incentives.

Considering the high South African unemployment rate (Figure 2), it is not surprising that President Cyril Ramaphosa (The Presidency RSA, 2019), like his predecessors, once again emphasised the vital function that SMMEs fulfil in South Africa's economy. However, despite the time and resources provided by the Government to assist SMME growth, these businesses are still faced with various challenges. These challenges are discussed next.

The Department of Small Business Development (DSBD) emphasises five areas hindering SMMEs' success. These five areas are: procurement within the public sector, regulatory

constraints, public sector value chain admission, access to funding and support for informal and rural SMMEs (Davis Tax Committee (DTC), 2016:4). One of these regulatory constraints referred to by the DTC is the regulatory burden and costs of becoming and remaining tax compliant. Research has indicated that tax compliance costs are regressive and high for SMMEs, compared with large businesses (Smulders *et al.*, 2017:135; Smulders *et al.*, 2016:714; Ndlovu, 2015:28; Smulders & Naidoo, 2013:2).

The National Treasury (NT) and the South African Revenue Authority (SARS) realised that several SMMEs are overwhelmed by the tax system or were marginalised previously (NT & SARS, 2008:56). The South African Government recognised that it is unreasonable to expect SMMEs to contribute the same tax percentage as their more established equivalents (Van Schalkwyk, 2017). In an attempt to encourage SMMEs to enter the tax system, regularise their tax affairs and alleviate their tax compliance burden, SARS introduced two new tax initiatives in 2009: the small business corporation tax concession (SBCTC) and the Turnover Tax System (TTS) (Naicker & Rajaram, 2019:127; Labuschagne, 2018:8; DTC, 2014:11; Smulders, Stiglingh, Franzsen & Fletcher, 2012:189).

The SBCTC is an additional tax incentive comprised in Section 12E of the Income Tax Act 58 of 1962 (Income Tax Act), for small businesses with a gross income of R20 million or less in 12 months (RSA, 1962). A small business qualifying for this incentive will pay income tax using the SBCTC sliding scale tax tables, taxing small business from 0% to 28% but at lower intervals than the normal tax tables and will also receive accelerated depreciation allowances. (Stiglingh, Koekemoer, Van Heerden, Wilcocks, De Swart & Van der Zwan, 2019:689).

In contrast, the TTS is a ‘separate tax system’ available for micro-businesses with a qualifying annual turnover of R1 million or less (SARS, 2019a; Stiglingh *et al.*, 2019:861) and replaced five taxes: Income Tax, Value-added Tax (VAT), Provisional Tax, Capital Gains Tax (CGT) and Dividends Withholding Tax. This tax system intended to assist micro-businesses meeting their tax obligations, through simplifying the tax process, whilst reducing their tax compliance costs (SARS, 2019a).

The DTC noted that according to SARS, registered on 4 July 2013, there were 7 827 active micro-businesses registered on the TTS (DTC, 2016:26). Makwakwa, a SARS representative, in 2016, indicated that the uptake for the system was minimal with not more than 8 000 businesses choosing the simplified tax system (Visser, 2016). In 2018 Gluckman and Turner

(2018:1) reported that this number was still less than 10 000. The Government has not released any updated published figures on the actual uptake of the TTS since then.

According to the 2018 Tax Statistics report (NT & SARS, 2018:150), 143 768 small business corporations were assessed. Considering that some of these businesses would be eligible to adopt the TTS, the take-up rate for the TTS seems extremely low. This is a concern because, if the TTS, was utilised by all qualifying micro-businesses, it should have lessened their tax compliance costs, providing them with more funds and time to expand. Yet this does not appear to be the case. The TTS does not seem to have enticed micro-businesses to adopt this system despite the benefits it offers them. Based on these findings, the question to be posed is whether the TTS is functioning as intended and if not, why not.

## **1.2 Research problem**

The NT recognised the challenges encountered by SMMEs and launched two incentives to assist them. The first being the SBCTC that was introduced in 2001, and is available to SMMEs with a gross income of R20 million or less and provides these businesses with reduced tax rates and accelerated depreciation allowances. (Stiglingh *et al.*, 2019:687). In 2009 the NT launched the TTS to specifically assist micro-businesses. This is a separate tax system introduced to make compliance simpler for these businesses and to alleviate their tax compliance burden (SARS, 2019a; Ndlovu, 2015:37; Lindeque, 2012:9). As the focus of this study is on the TTS, the SBCTC will not be considered further.

Despite this initiative implemented to assist micro-businesses, less than 8 000 businesses adopted the TTS (Visser, 2016; DTC, 2016:26). Sparse academic research has been conducted within South Africa concerning the TTS applicable to micro-businesses (refer to Chapter 3). There is no research to understand why the adoption of the TTS is low and hence whether the system is functioning as intended by the Government of South Africa.

The following question motivated this study:

- Is the TTS functioning as intended by the South African government and if not, why not?

The following sub-questions, further guided this study:

- Are micro-business taxpayers aware of the TTS?

- Is the TTS living up to its original purpose – that is, is it a simplified tax system and does it reduce the tax compliance costs for micro-businesses?

### 1.3 Significance of the study

This study explores whether the TTS is functioning as intended by considering the underlying reasons why micro-businesses do/not adopt the TTS. This will aid Government in determining which aspects of the TTS are functioning, which areas need to be revised as they hinder the uptake of the TTS, and what changes need to be incorporated to improve the TTS. This information also assists in guiding observations concerning the ultimate viability of the TTS, whilst determining if it should be annulled.

### 1.4 Research objectives

The main objective of this research was to explore whether the TTS is functioning as intended by the Government. The sub-objectives of this research and related questions are described below:

	<b>Main objective</b>	<b>Sub-objectives</b>
1.	Is the TTS functioning as intended?	Are micro-businesses aware of the TTS? [Awareness]
		Do micro-businesses know about the TTS? [Knowledge]
		Do micro-businesses understand the TTS legislation? [Understanding]
		Does someone assist micro-businesses with their TTS compliance obligations? [Assistance]
		What are the reasons why micro-businesses are/not registered on the TTS? [Benefits and Challenges]
		How successful do micro-businesses perceive the turnover system tax to be? [Benefits and Challenges]



	<b>Main objective</b>	<b>Sub-objectives</b>
		What changes to the TTS do micro-businesses believe are needed? [Recommendations for improvements]

## **1.5 Research methodology**

This study adopted an exploratory qualitative research approach to gain an improved understanding of the problem, as existing research does not address the challenge in detail (Dudovskiy, 2019). This study followed an interpretivist worldview as no collective answer about the functionality of the TTS could be established, therefore various observations of micro-business owners were required to clarify the predicament (Denzin & Lincoln, 2018:10).

Prior to obtaining micro-business owners' perspectives (the interview phase), a literature review was conducted. The recurring themes from the literature review and the theoretical frameworks (discussed in Chapter 2) were used to draft the semi-structured interview questions. As interviews involve human participants, ethical considerations were considered, therefore ethical clearance approval was obtained (Annexure A), prior to the interviews being conducted (Creswell, 2018:134).

To answer the study's primary research question, the first round of participants was selected, employing convenience selection techniques (Etikan, Musa & Alkassim, 2016:2). These participants were selected from social network groups (friends and family) located near Pretoria and Johannesburg. To complement the first round of participants, each participant was requested to provide contact details of another possible participant (snowball sampling) (Etikan *et al.*, 2016:2). This eliminated any research bias, whilst expanding the participant size until data saturation was achieved (Hennink, Kaiser & Marconi, 2017:591).

The interview data collected were analysed employing deductive and inductive content analysis (Bengtsson, 2016:9-10). The computer-assisted Qualitative Data Analysis Software (CAQDAS), ATLAS.ti™8 was used to enhance rigour, manage and consolidate data, whilst ensuring the transparency of analyses (Friese, 2019:268).

## **1.6 Delineations**

- The study focussed on micro-businesses within the formal sector. Micro-businesses within the informal sector were excluded as there was a possibility that they would not understand the research questions, or even want to divulge their tax status.
- The initial intention was to only interview micro-business owners near Pretoria and Johannesburg with a qualifying turnover of R1 million or less for the 2019 tax period (SARS, 2019a; RSA, 1962). Two referrals (received from other participants' accountants based in Pretoria) were based in Cape Town and Nelspruit.
- The initial intention was that no tax practitioners would be interviewed. The intention of the TTS was that it was simple enough that they did not require the assistance of tax practitioners, but it was established that several micro-businesses use tax practitioners to assist them with their tax matters; they were subsequently included in interviews where further information was required (NT & SARS, 2010:65).

## **1.7 Limitations**

A limitation of the study was that no formal database of businesses registered on the TTS was publicly available and therefore, a convenience selection method was initially used to select participants. To reduce research bias from this selection process, the snowball selection technique was used to select additional participants.

Another limitation was that the study only incorporated changes to the legislation, statistical data or academic literature as published up to 30 September 2019.

## **1.8 Definitions of terms and concepts**

The definitions of terms and concepts for the purpose of this study are described in the subsequent sections.

### **1.8.1 Micro-business classification**

The literature review indicates "micro-business" and "micro-business enterprise" as terms used in various contexts. Several similarities were established though, between these terms. The differences were analysed from a taxation and commercial perspective. To determine if any

similarities exist, the taxation and commercial terminologies were compared and are discussed in Chapter 3.

## 1.8.2 Other important terms and concepts

This is an overview of the core terms and concepts, assisting the reader’s understanding of the terminology in the Sixth Schedule (Annexure F) of the Income Tax Act (RSA, 1962) that deals with the TTS.

**Table 2: Terminology in the Income Tax Act**

Term	Description
Investment income	“... any income in the form of annuities, dividends, interest, rental derived in respect of immovable property, royalties, or income of a similar nature; and any proceeds derived from the disposal of financial instruments...” (RSA, 1962)
Micro-business	“... a person that meets the requirements set out in Part II of the Sixth Schedule...” (RSA, 1962)
Professional service	“... a service in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, consulting, draftsmanship, education, engineering, financial service broking, health, information technology, journalism, law, management, real estate broking, research, sport, surveying, translation, valuation or veterinary science...” (RSA, 1962)
Personal service provider	“... means any company or trust, where any service rendered on behalf of such company or trust to a client of such company or trust is rendered personally by any person who is a connected person in relation to such company or trust, and- (a) such a person would be regarded as an employee of such client if such service was rendered by such person directly to such client, other than on behalf of such company or trust; or (b) where those duties must be performed mainly at the premises of the client, such person or such company or trust is subject to the control or supervision of such client as to the manner in which the duties are performed or are to be performed in rendering such service; or

Term	Description
	(c) where more than 80 per cent of the income of such company or trust during the year of assessment, from services rendered, consists of or is likely to consist of amounts received directly or indirectly from any one client of such company or trust, or any associated institution as defined in the Seventh Schedule to this Act, in relation to such client, except where such company or trust throughout the year of assessment employs three or more full-time employees who are on a full-time basis engaged in the business of such company or trust of rendering any such service, other than any employee who is a holder of a share in the company or settlor or beneficiary of the trust or is a connected person in relation to such person;” Section 1 of the Fourth Schedule...” (RSA, 1962)
Qualifying turnover	“... total receipts from carrying on business activities, excluding any amount of a capital nature; and amount exempt from normal tax in terms of section 10(1) (zK) or section 12P...” (RSA, 1962)
Registered micro-business	“... a micro-business that is registered in terms of paragraph 8 of the Sixth Schedule...” (RSA, 1962)
Taxable turnover	“... the amount determined in terms of paragraph 5 of the Sixth Schedule...” (RSA, 1962)

Source: The Income Tax Act (RSA, 1962)

## 1.9 Chapter outline

Chapter 1: This introduction and background chapter explains the background of this study, emphasising the research gap, the reason and the significance of this study.

Chapters 2 and 3: These chapters introduce the reader to the theories and the literature review that guided the interview questions, data analysis and interpretation of this study. The literature review chapter summarises the existing and historical literature reviewed, based on the underlying theories and the research problem.

Chapter 4: This chapter explains the research design and methodology used in collecting and analysing the study's data, obtained from feedback from the semi-structured interviews conducted.

Chapter 5: This chapter comprises the data analysis and interpretation of data, explaining and illustrating how the theories and the overarching themes apply to primary data collected.

Chapter 6: The summary, conclusions, and recommendations of this study are contained in this chapter and areas for further research are highlighted.

## **CHAPTER 2: THEORETICAL FRAMEWORK**

### **2.1 Introduction**

Chapter 1 discussed the importance of SMMEs and the background to this study. In this chapter, the theoretical framework used to determine whether the TTS is functioning as intended, is discussed. Contextualising the theoretical framework ensures a comprehensive research foundation, whilst providing a more theory-driven research outcome.

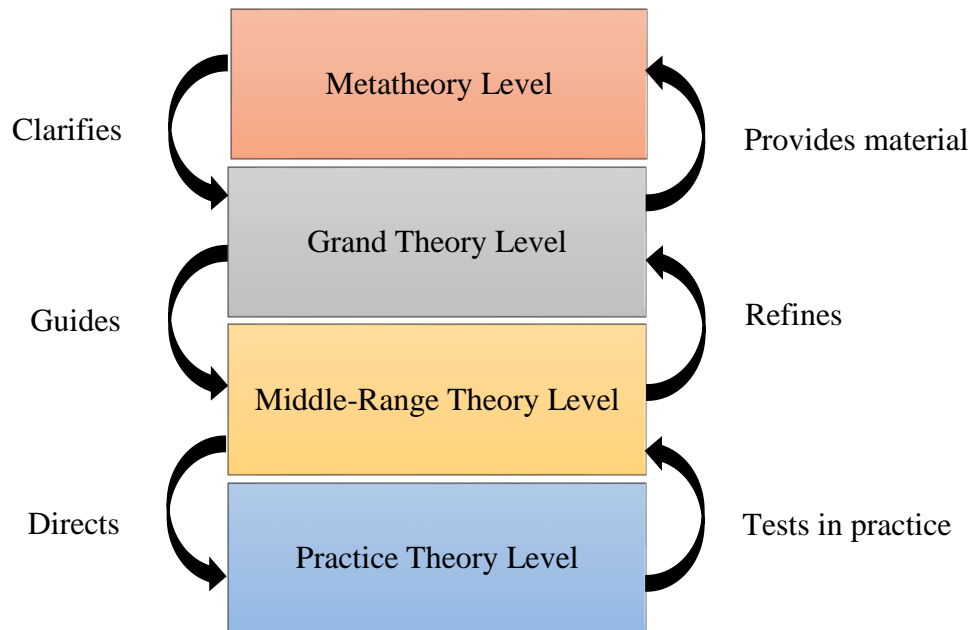
### **2.2 Theoretical framework**

Adom, Hussein and Agyem (2018:438) summarise a theoretical framework (hereinafter referred to as theory) as a research blueprint, guiding researchers to the most relevant research design and data analysis plan for their study. Lapan, Quartaroli and Riemer (2012:249) agree with Adom *et al.*'s observation, whilst elaborating that a theory also assists in explaining the relationship between concepts or ideas. Considering what a theory is, this study first considered the appropriate level of theorisation, and secondly, the appropriate theory (foundation) for this study. Academics contend that theories in qualitative research have various levels of theorisation (Figure 3) instead of just one level (Walker & Avant, 2019:17; Llewelyn, 2003:664). Considering this fact, each level of theorisation is briefly explained, providing a high-level distinction between the various levels, subsequently applied to this study's chosen theories.

#### **2.2.1 Theorisation levels**

Figure 3 briefly illustrates each theorisation level.

**Figure 3: Theorisation levels**



Source: Walker and Avant (2019:17)

**Table 3: Explanation of various theorisation levels**

Theorisation level	Explanation
Metatheory	Walker and Avant (2019:5) state that a metatheory concentrates on wide-ranging challenges related to a theory and does not normally result in any grand, middle-range, or practice theories being created. In addition to this Walker and Avant (2019:5) argue that metatheory does not relate to only one universally accepted theory, but rather relates to multiple theoretical perspectives within a specific discipline. Paterson, Thorne, Canam and Jillings (2001:91) contend that metatheory explains the paradigmatic way of observing the world.
Grand theory	Walker and Avant (2019:10) state that a grand theory provides a wide-ranging perspective explaining how the middle-range (also known as the substantive) theory and knowledge contribution of a study are viewed. Sanchez and Heene (2017:3) state that grand theory indicates the cause and effect relationships that will broadly apply to all cases and contexts within a specific occurrence within a study.

<b>Theorisation level</b>	<b>Explanation</b>
Middle-range theory	<p>Walker and Avant (2019:12) state that the middle-range theory is the least abstract level of theory and is a layer of theory needed to bridge the divergence between a grand theory and their investigational dimensions (i.e. the practice-oriented level).</p> <p>Walker and Avant (2019:12) further explain that middle-range theories are limited in scope and normally have few constraints, however, is still general enough, easily testable and fascinating on a theoretical level.</p> <p>Walker and Avant (2019:12) citing McQuiston &amp; Campbell (1997) emphasise that the testability of a grand theory is enhanced when a middle-range theory is included. In contrast, Sanchez and Heene (2017:4) state that a middle-range theory tries to identify the diverse outcomes applicable when considering different combinations of variables of the cause and effect relationships.</p>
Practice-oriented level of theory (practice theory)	<p>Walker and Avant (2019:16) state practice theory defines in-practice procedures or processes. Walker and Avant (2019:16), citing Wald and Leonard (1964), explain that practice theory was created as a form of theory, fundamental in nature and included variables that could be modified by society.</p>

Source: Walker and Avant (2019:5, 10, 12 &16), Sanchez and Heene (2017:4) and Paterson *et al.* (2001:91).

Metatheory does not relate to a specific theory but observes theories within a discipline and the paradigmatic way of considering the world. (Paterson *et al.*, 2001:91). A metatheory is not utilised in this study as it is considered too wide-ranging and would direct attention away from the analysis of the operative dynamics of the social world (such as the functioning of the TTS) that would be better explored using a grand and middle-range theory (Turner, 1990:37).

The substantive theories and knowledge contribution of the study are thus positioned using grand and middle-range theories. The grand theory provides a wide-ranging explanation for how the components of a study are viewed. In this case, structural functionalism, as argued below, will be used as the grand theory to explore the functionality of the TTS.



Aligned to structural-functionalism, are the tax canons of Smith (1776:818-819) that provide stable, practical and predictable arguments for how taxation structures and systems should be constituted. The tax canons (discussed further in Paragraph 2.2.3) provide a substantive theoretical base for the study's knowledge contribution and bridges the divergence between the structural-functionalism theory and the practical aspects of the TTS system (functionality or operational implementation). Thus, the tax canons will be the middle-range theory adopted for this study.

Practice-oriented level theories test how procedures or processes are used in practice. In this study, only participants' perceptions were considered, and no tests of the TTS procedures or processes were conducted in practice. Practice theory has also been criticised for offering no conceptual means for identifying and thus comparing specific practices (Schmidt, 2018:133). For these reasons, the practice-oriented level theory was not considered further in this study.

### **2.2.2 What is structural-functionalism and how does it apply to this study?**

Durkheim, the father of functionalism, argued that society is constructed as a system where objective functions provide a formalised and operative structure and stability for the workings of the way of the world (Jones, 2013:1). His work also complements Radcliffe-Brown's views, that suggested the formation of structural arrangements in society, evolving functionalism into structural-functionalism (Radcliffe-Brown, 1949:320). Durkheim's observations provide the basis for adapting the thinking of natural sciences into society, based on logic and unity within society: "All of social life is constituted by a system of facts, derived from positive and lasting relationships established between a plurality of individuals" (Durkheim, 1893:329/277, cited in Jones, 2013:7).

Structural functionalism, developing from Durkheim's rational, advances that within the system, structures are created to deliver services to the community. These services are provided through subsystems and inter-relationships between structures and individuals, whilst enabling certain functional goals to be achieved, enabling society to be sustained and to operate efficiently. Systems and subsystems became a normative part of society, forming the foundation of public administration. Structural functionalism addresses the intentions, functions, relationships and practical arrangements needed for society to operate, particularly in an efficient and pragmatic manner (Lamidi, 2015:15).

Structural functionalism thus explains that systems can be broken down into smaller public service delivery components (i.e. structures) (Lamidi, 2015:15). Certain functional objectives are attained when services are provided to the public within a structural subsystem, as the structures and the public are linked. The continuation and operational efficiency of a society is obtained through the realisation of those functional goals. Structural functionalism focusses on the areas required for a society to function in an efficient and coherent manner. These areas consist of the goals, tasks, relationships and real-world arrangements that are needed to run a society (Lamidi, 2015:15).

This study explores the TTS and its functioning in the South African society. Revenue collection systems and structures of tax are implemented to deliver particular functions for Government in supporting society, whilst enabling service delivery and contributing to improve survival and lifestyles of individuals. This also assists to improve the environment. Taxation falls under public administration, providing a practical infrastructure for society to function within structural governance arrangements (Lamidi, 2015:15). Taxation strives to achieve objectives, factual and functional arrangements, concerning the diversity and complexity of society. The TTS is a separate tax and function-specific sub-system of the taxation legislation of South Africa. Placing the TTS in a macro lens of structural functionalism, is appropriate in understanding the practical utility of the tax to individuals and societies, presented by the study data.

### **2.2.3 What are the tax canons and how do they relate to this study?**

In designing a tax system, it is a generally accepted practice to utilise Adam Smith's tax principles (canons) (Stiglingh *et al.*, 2019:1) as shaped in his book 'The Wealth of Nations' (Smith, 1776:818-819). Smith's four taxation canons are: equity, certainty, convenience and economic efficiency. These four canons are still today considered the foundation of tax policy design. With the exponential changes in modern society, other economists expanded on Smith's four tax canons by adding the following principles: effective tax administration, simplicity, transparency and visibility, productivity and flexibility (Stiglingh *et al.*, 2019:5; AICPA, 2017:3). These additional principles are globally recognised as vital in designing modern tax policies (Stiglingh *et al.*, 2019:5). Smith's (1776:818-819) four tax canons, and the additional principles listed above were used as a foundation in addressing the functionality of

the TTS in South Africa. The tax canons provided a theoretic foundation (middle-range theory) for the study's knowledge contribution, as discussed below.

### **2.2.3.1 Equity (also known as the ability-to-pay)**

Smith's (1776:818) first tax canon is 'equity' and reads as follows:

"... The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state ... In the observation or neglect of this maxim consists of what is called the equality or inequality of taxation..."

Smith's equity principle, or the ability-to-pay principle, as it is more commonly known (Stiglingh *et al.*, 2019:5; Arendse, 2017:51; AICPA, 2017:7), considers if a tax system is designed in such a manner that taxes levied on taxpayers are fair, that is, that taxpayers' contributions are structured in proportion to their respective abilities or capacity to pay and in relation to the benefits they receive (Stiglingh *et al.*, 2019:5; Arendse, 2017:51; Downer, 2016:4; Smith, 1776:818). This indicates that wealthier individuals should pay more tax compared to the poorer individuals (Stiglingh *et al.*, 2019:5; Gluckman & Turner, 2018:3).

### **2.2.3.2 Certainty**

Smith's (1776:819) second tax canon is 'certainty':

"... The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person..."

This certainty tax canon expects that taxpayers (the micro-business owners), must know how to calculate the tax they need to pay, and when the payments are due. Gluckman and Turner (2018:6) also argue that there should be no elements of subjectivity or confusion within the TTS legislation for taxpayers. In contrast, Arendse (2017:56) states that the Government should also be able to reasonably predict the revenue flowing from a tax system.

For a taxpayer to be certain about the amount of tax owed, the taxpayer needs to be aware of tax rules and regulations applicable to the TTS (Stiglingh *et al.*, 2019:5; Downer, 2016:5).

### **2.2.3.3 Convenience**

Smith's (1776:819) third tax canon is 'convenience':

"... Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it..."

The convenience tax canon considers if the tax system is designed to be convenient for the taxpayer, referring to the timing and manner that taxes are paid. For example, for farming operations, taxes should be collected only after the harvesting was done (Stiglingh *et al.*, 2019:7; Arendse, 2017:56; Downer, 2016:6).

### **2.2.3.4 Economic efficiency**

Smith's (1776:819) fourth tax canon is 'economic efficiency':

"... Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state..."

Tax is regarded as economically efficient if it does not affect a taxpayer's economic decision-making. According to AICPA (2017:9), the tax system should not obstruct any economic objectives, such as economic growth and global competitiveness. A tax system is regarded as efficient when taxpayers do not change their conduct in an effort to avoid paying tax (Stiglingh *et al.*, 2019:7).

### **2.2.3.5 Administrative efficiency**

The 'administrative efficiency' tax canon requires a tax system to be designed in such a manner so as to limit the tax administrative burden (tax collection costs) for revenue authorities and taxpayers (Stiglingh *et al.*, 2019:6; AICPA, 2017:3). The effectiveness of tax administration incorporates two aspects: first, the resources required by the revenue authority to implement the tax legislation and secondly, limiting the administrative burden imposed on taxpayers to remain tax compliant (Stiglingh *et al.*, 2019:8; AICPA, 2017:8).

#### **2.2.3.6 *Simplicity***

The ‘simplicity’ tax canon requires tax legislation to be simple and easy for taxpayers to understand, whilst remaining compliant in a cost-efficient manner (Stiglingh *et al.*, 2019:8; Arendse, 2017:59).

#### **2.2.3.7 *Transparency and visibility***

The ‘transparency and visibility’ tax canon requires taxpayers’ awareness of the tax system (visibility) and to understand how the tax system affects them and others. This means the taxpayer understands the tax calculations, the logic behind the tax legislation, and the tax compliance burden (transparency) (AICPA, 2017:9).

#### **2.2.3.8 *Productivity (also known as appropriate government revenues)***

The ‘productivity’ tax canon considers that a tax system should generate ample taxable income for the government to administer the tax system efficiently and care for the welfare of its citizens (AICPA, 2017:3). For a tax system to be productive (create appropriate government revenue), sufficient taxpayers should be on the system, ensuring ample tax is collected to pay for all the services rendered by the Government to its citizens.

#### **2.2.3.9 *Flexibility***

The ‘flexibility’ tax canon considers if a tax system can speedily adapt to new economic or technological conditions (Stiglingh *et al.*, 2019:6). As a tax system can swiftly become outdated, it should be flexible to change, by increasing or decreasing the tax burden (revenue collected) during economic growth or recessions (Jarczok-Guzy, 2017:71) or by keeping up to speed with technological innovations (Stiglingh *et al.*, 2019:6).

These tax canons, forming the foundation for the middle-range theory, will be used to evaluate whether the TTS is a good tax system and is functioning as intended. Before evaluating the TTS using these canons, it is important to understand what a tax system is and how a good tax system should be designed taking these tax canons into account.

### **2.3 A tax system defined**

A tax system is an economic policy device used by the Government to achieve its objective to generate revenue to fund government expenditure (Stiglingh *et al.*, 2019:1; Arendse, 2017:1).

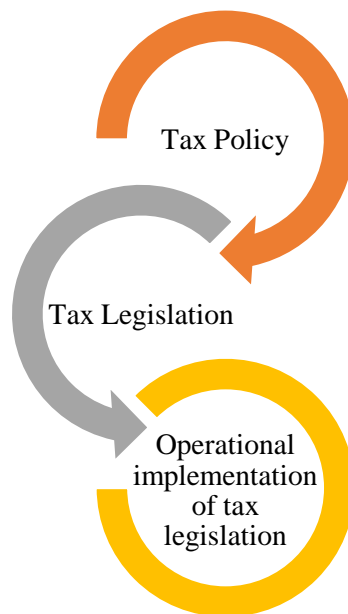
Arendse (2017:1) argues that economic policy devices are used in the modern-day to obtain certain behaviours and economic decisions from taxpayers to address economic shortages.

- The TTS is a separate tax system differentiated from the standard income tax system. Micro-businesses can adopt the TTS rather than the normal income tax system if they prefer (and if they qualify - Chapter 3). The TTS is a simplified tax, replacing the Income Tax, CGT, Dividends Withholding Tax, VAT and Provisional Tax

The TTS was implemented specifically to encourage the informal sector and micro-businesses to register as taxpayers and to become contributing tax citizens (NT & SARS, 2010:65). Considering that the TTS is a separate tax system, what is contemplated to be good tax system?

Academics explain that a good tax system can be grouped into three main elements namely: tax policy, tax legislation and the operational implementation of the tax legislation (Stiglingh *et al.*, 2019:10; Budak & James, 2016:437). Figure 4 illustrates how the three elements of a good tax system are interconnected. Each element is briefly discussed in the subsequent section.

**Figure 4: Diagrammatical presentation of a tax system**



Source: Own compilation

Governments predominantly use the tax policy as an instrument to influence a country's micro- and macro-economy, whilst increasing a country's taxation revenue to finance the Government's anticipated expenditures required to meet its planned objectives (Stiglingh *et al.*, 2019:1). A tax policy does not merely ensure that sufficient finances are received by the Government to fund its expenditure but is also a great device to improve a country's equity, whilst alleviating societal and fiscal challenges within a country (Arendse, 2017:9). Tran-Nam, Lignier and Evans (2016:455) note that the latter is only achieved when a country structures its tax policy to incentivise taxpayers to become more tax compliant.

A tax policy is typically implemented legislatively. Thus, tax legislation is the implementation of a tax policy into the Tax Acts (for example the Income Tax Act, VAT Act and Tax Administration Act, amongst others). These Acts prescribe specific tax rules, applicable to individuals and businesses, as well as how these taxes are administered, collected and paid over by SARS to the National Revenue Fund (South African Institution of Tax Professionals (SAIT), 2018).

Lastly, the operational implementation of the tax legislation comprises activities and operations that ensure a high-quality, taxpayer focussed service, and that provide impartial advice and recommendations to taxpayers that are executed in an efficient manner (Office of the Tax Ombud (OTO), 2018:18).

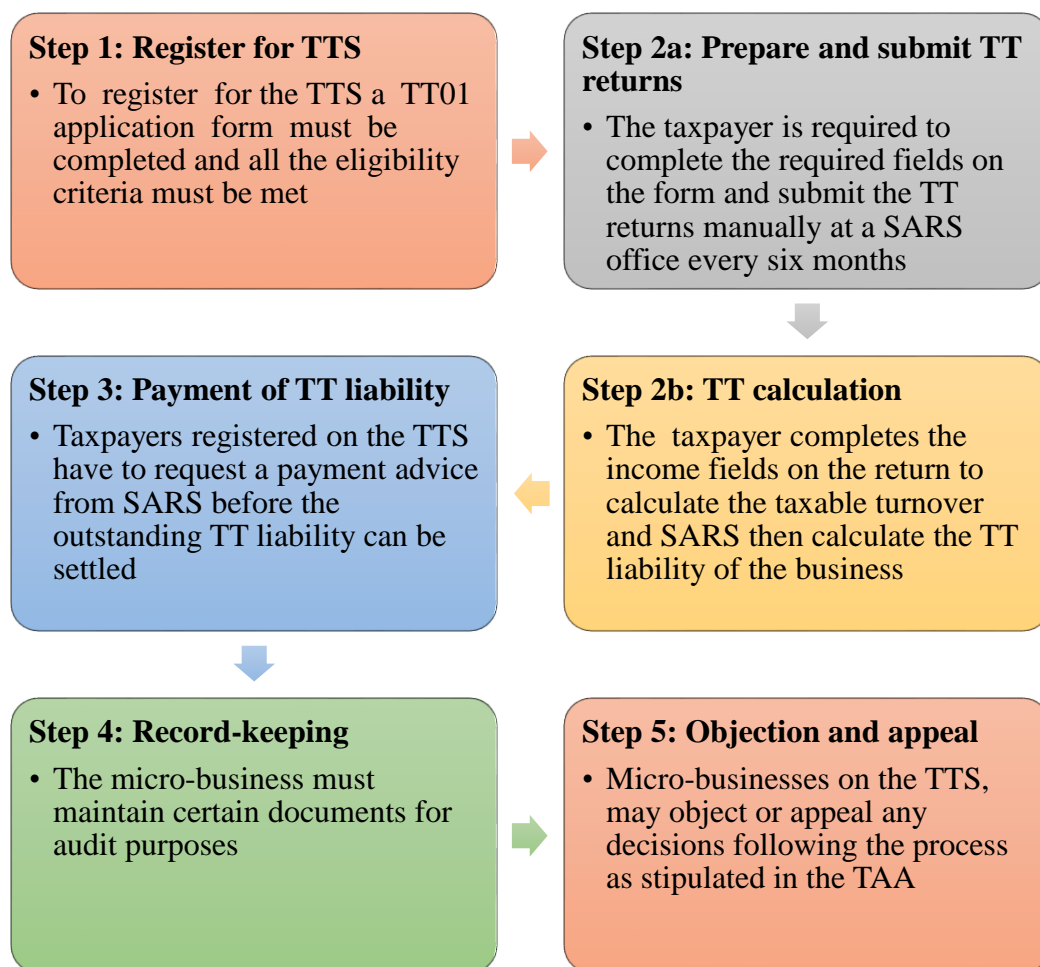
#### **2.4 The theory and its relevance to this study**

In determining the appropriate theoretical framework for this study, consideration was given to taxation as an integrated study field, incorporated within other fields too, such as business management, accounting, economics and policy development, amongst others (Gracia & Oats, 2015:2). Principles of a good tax system were first presented by Smith in his famous book 'The Wealth of Nations'. These principles of taxation (see Paragraph 2.2.3) form the foundation of any tax system, whilst defining numerous rules and principles upon which a good taxation system should be built (Stiglingh *et al.*, 2019:5; AICPA, 2017:3; Smith, 1776:818-819). For this reason, this study used the tax canons to assist in framing the discussion on whether the Turnover Tax (TT) functions as originally intended.

Gracia and Oats (2015:1) emphasise the importance of considering the social and institutional influences, crucial in creating a more synthesised and reflexive understanding of tax systems.

Social and institutional influences relating to the TTS, such as, individual habits, routines, customs, traditions, social norms and values, also require further consideration. The tax canons do not address all functional aspects of a good tax system (especially the social and institutional influences on an operational level). For this reason, the structural-functional theory was also considered to address these additional functional aspects of the TTS that may be present and not captured by the tax canons (Babbie, 2017:37). Each of these theories are discussed and summarised in Table 4. To understand how structural functionalism can be applied to the TTS, it is important to first understand how the TTS operates (Figure 5).

**Figure 5: How the TTS operates**



Source: Adapted from SARS (2019b:4, 11, 25 & 29)

Taxation strives to achieve objective, factual and functional arrangements concerning the diversity and complexity of society. Placing the TTS, which is a specific and function-specific sub-system of the taxation legislation of South Africa, in a macro lens of structural-



functionalism, is appropriate to understand the practical utility of the tax amongst individuals and societies as presented by the study data.

**Table 4: The theory and its relevance to this study**

Theory	Relevance to this study
Tax canons	As aforementioned, the TTS is a separate tax system from the income tax system, which certain micro-businesses can adopt. Stiglingh <i>et al.</i> (2019:5) emphasise that although a perfect tax system does not exist, a good tax system can be evaluated using Smith’s (1776:818-819) tax canons: equity, certainty, convenience and economic efficiency. As the objective of this study is to determine if the TTS is functioning it is vital to first establish whether the TTS is a good tax system by determining if it has adhered to the tax canons. As a tax system comprises three main elements i.e. the tax policy, the tax legislation and the operational implementation of the legislation, all of these elements are assessed in this study, as each element directly or indirectly affects the functionality of the TTS.
Structural functionalism	Structural functionalism values stability and practical functions delivered within a system and that are fit for the purpose for a society’s survival. Taxation is considered to be such a system and the tax canons are the qualities of a good tax system. Gracia and Oats (2015:1) emphasised the importance of considering the social and institutional influences to obtain a more holistic understanding of a tax system. These influences include individual habits, routines, customs, traditions, social norms and values which are not considered by the tax canons. Taxpayers decisions may inadvertently be influenced by their customs, traditions, values or social norms. For this reason, the structural-functionalism theory is considered the best grand theory, in complementing and expanding on the tax canons for this study, as it also considers the functionality of the TTS by considering each function (step) in the TTS life cycle as well as the social and institutional influences that may be present amongst those eligible for or using it.

Source: Own compilation

## **2.5 Chapter conclusion**

In this Chapter, arguments were made for the best theory on which to base the research and to inform how the data should be collected and analysed. The structural-functionalism was established as the most suitable grand theory for the foundation of the research, with the tax canons adopted as the most appropriate mid-range theory. The structural functionalism aided in connecting the tax canons with observable patterns obtained from the micro-businesses interviewed. The structural-functionalism theory and tax canons are therefore overlapped to answer the research question.

The subsequent chapter explains the TTS by considering how it operates on a step-by-step basis. The academic literature on micro-businesses and their adoption and perceptions of the TTS are also investigated in this chapter to gauge the gaps in the literature, confirming the need for this study.

## **CHAPTER 3: LITERATURE REVIEW**

### **3.1 Introduction**

In Chapter 2 the theories forming the foundation for the study, establishing whether the TTS functions as intended, were explored. This chapter seeks to explain what the TTS is, how it functions and how a micro-business is defined. The chapter continues by providing insight into previous research conducted on the TTS to emphasise the divergences in the literature and the need for this study.

### **3.2 What is the TTS?**

This section explains the background concerning the TTS and the reasons why the TTS was introduced. It continues to discuss the operational components of the TTS and provides a brief description of each.

#### **3.2.1 Background**

The TTS is a simplified tax system that the South African Government implemented, aiming to reduce micro-businesses' tax compliance costs and making it easier for them to meet their tax obligations (SARS, 2019a; Ndlovu, 2015:37; Lindeque, 2012:9). Section 48 and the Sixth Schedule of the Income Tax Act (RSA, 1962) were legislated to formally document the TTS prerequisites and relief measures provided. The TTS was introduced with effect from years of assessment, starting on or after 1 March 2009 (SARS, 2019a).

The TTS is a tax system for registered micro-businesses with a qualifying annual turnover of R1 million or less (SARS, 2019a; Ndlovu, 2015:16; Lindeque, 2012:9; RSA, 1962). The benefit of the TTS is that it is an all-inclusive tax rate, replacing the following taxes: Income Tax, Provisional Tax, CGT, VAT and Dividends Tax (limited to R200 000 per annum) (SARS, 2019a; SARS 2019b:2; RSA, 1962). The TTS, however, does not exempt a micro-business from withholding payroll and other taxes (for example employees' tax, skills development levies (SDL) and unemployment insurance fund (UIF) contributions) or VAT (if voluntarily registered as a VAT vendor) (SARS, 2019b:2; RSA, 1962).

According to the Taxation Laws Amendment Bill of 2010 (NT & SARS, 2010:65), changes to the initial legislation introduced in 2009, were required to remove several unanticipated technical implementations/challenges, such as, entry criteria, the turnover calculation, and the

transition from the normal tax system into the TTS. These amendments only came into effect from 1 March 2011 and onwards.

### **3.2.2 Why was the turnover tax system introduced?**

The TTS was originally implemented, aspiring to encourage the informal sector and other small businesses earning taxable revenue of R1 million or less, to register for tax, by reducing the compliance cost and the administrative burden (including recordkeeping) associated with the normal income tax system (NT, 2012:91). The system focussed on the unsophisticated, micro-business operations with moderate profit margins, lacking necessary skills or resources to manage their tax compliance (Portfolio Committee on Finance (PCOF), 2008:17).

The TTS reduces the tax compliance costs and administrative burden of micro-businesses by simplifying the information needed to comply with the tax and by reducing the number of returns that must be filed (Labuschagne 2018:1; Smulders & Naidoo, 2013:268; Lindeque, 2012:77; SARS, 2010:11). Each aspect used to make the tax compliance simpler for the qualifying businesses, is detailed below.

#### ***3.2.2.1 Reduce tax compliance costs and administrative burden***

Trevor Manuel (a previous South African Minister of Finance) mentioned in the 2002 budget speech (RSA, 2002:20), that it is common knowledge that the tax and regulatory compliance burden impacts small and micro-businesses more severely. Trevor Manuel's statement was confirmed by subsequent academic studies (Naicker & Rajaram, 2019:130; Smulders *et al.*, 2017:135; Ndlovu, 2015:28; Smulders & Naidoo, 2013:2).

The main objective of a simplified tax system, such as the TTS, is to make it easier for micro-businesses to meet their tax obligations (SARS, 2019a; Lindeque, 2012:77). The simplification is evident by micro-businesses only having to pay one all-inclusive tax, the turnover tax (TT) instead of five other taxes (SARS, 2019a; RSA, 1962). The reduction in taxes and the ease of calculating the business tax liability were implemented with the intent that taxpayers will be able to complete their own tax returns and in effect reduce their tax compliance costs (NT & SARS, 2010:65). An impression was therefore created that SMMEs will no longer require the services of a tax practitioner, as the TTS is easy to use (NT & SARS, 2010:65). According to Lindeque (2012:77), only 30% of micro-business owners moved away from using tax practitioners and now complete and submit their tax returns on their own.

Lindeque (2012:73) highlighted that it requires a micro-business on average 37,5 hours annually to complete the TTS returns. It is unclear from Lindeque's study if the time to manually submit the TTS returns was incorporated within the 37,5 hours. Smulders *et al.* (2012:192) elaborate that micro-businesses spent (on average) a total of 155,2 hours to address their tax compliance matters. This included 67,3 hours of TTS compliance and 87,9 hours of pay-as-you-earn (PAYE) compliance (PAYE is excluded from the TTS) (Smulders *et al.*, 2012:192). Smulders study's (Smulders *et al.*, 2012:188 & 191) findings were based on 2 375 respondents (40,5% of the 5 865 respondents who had a turnover of R1 million or less), whereas Lindeque's study (Lindeque, 2012:69) only considered 119 respondents, hence the former study appears to be more robust and reliable.

Compared to the above, Smulders *et al.* (2012:194) reveal that small businesses (not on the TTS) spent (on average) 255 hours per annum, managing their tax compliance related matters. This was further divided into 98,92 hours for VAT, 69,85 hours for Income Tax, 83,18 hours for PAYE, 2,52 hours for CGT and 0,67 for customs and excise duties (Smulders *et al.*, 2012:194). Comparing the time spent by small businesses on the normal tax system to that spend by micro-businesses on the TTS, it is evident that the TTS reduces the tax compliance time and costs for these businesses.

### ***3.2.2.2 Reduce returns to be filed***

The second objective of the TTS aimed to reduce the number of returns micro-businesses had to complete and file. A micro-business has to file the following returns (RSA, 1962):

- TT01 - Application for TT form - only once;
- TT02 - Payment advice for TTS – semi-annually;
- TT03 - TT return – annually;
- PAYE, SDL and UIF returns – monthly; and
- VAT return (if registered for VAT) – semi-annually (opposed to monthly or bi-monthly).

Apart from the number of VAT returns to be submitted, the TTS insignificantly reduced the number of returns to be submitted by a taxpayer. The only real change is the amount of information that is included within the returns to be submitted. Micro-businesses merely have to indicate their turnover and the specific inclusions and exclusions, where other businesses have to indicate all sources of revenue and business expenses and capital gains, amongst others.

### **3.2.3 How does the TTS function?**

It is important to understand how the TTS works before one can consider whether the TTS is functioning or not. Therefore, each function/operational aspect in the TTS (registration, preparation and submission of returns, calculation of taxable turnover and tax payable, payment of the tax liability, recordkeeping and objection and appeal procedures) is briefly discussed in the subsequent sub-sections.

#### **3.2.3.1 Registration**

SARS poses a few questions on the turnover tax application form (TT01), in order to determine whether an individual or a company qualifies to register for the TTS or not. This test aligns with eligibility criteria in the Sixth Schedule of the Income Tax Act. If any of these questions are answered with “No” the individual or company will not be eligible to register for the TTS (SARS, 2019e; RSA, 1962).

This form, comprising the questions mentioned above (the TT01 form), is available on SARS’ website. The form may be completed manually or online; taxpayers need to submit the TT01 form manually at the nearest SARS branch as an e-filing option is unavailable for these returns (SARS, 2019d).

An individual or a company’s application for registration or deregistration must be submitted to SARS before the beginning of an assessment year (1 March) (SARS, 2019a) [except for the first year of implementation of the TTS where the Commissioner determined a later date of 29 June 2012 (RSA, 2012b:3)].

New businesses required to register for the TTS, established during the assessment year, must apply within two months from the date the business started operating (SARS, 2019d). Deciding whether to register or not, is not an easy task, as a new business can seldom predict the extent of its annual turnover or if it will be running at a loss (a business registered on the TTS and making a loss is still required to pay tax on the TTS, as it is based on taxable turnover and not on a net profit, unlike the normal tax system, where no tax is required when a business encounters loss).

The Sixth Schedule of the Income Tax Act (RSA, 1962) (the Sixth Schedule - Annexure F) prescribes criteria for a taxpayer to comply with before being eligible to register on the TTS.

According to Paragraph 2 of the Sixth Schedule (RSA, 1962), a person qualifies as a micro-business if that person (a natural person or a company) received a qualifying turnover of R1 million or less for the assessment year. Paragraph 3 of the Sixth Schedule (RSA, 1962) imposes further restrictions on micro-businesses, disallowing registration on the TTS (refer to Annexure F for these specific restrictions). Paragraph 3 includes the main restriction indicating that a person may not register on the TTS when owning more than one business.

A person that is deregistered (voluntarily or in terms of a compulsory deregistration – see Paragraph 10 of the Sixth Schedule) may not again be registered as a micro business.

### ***3.2.3.2 Preparation and submission of returns***

The annual TT return (TT03 form) can be obtained from a SARS branch or on their website (SARS, 2019b:11). Once the TT03 form is completed, it must be submitted at the taxpayer’s nearest SARS branch office or it can be posted (to two specific SARS PO Box addresses) (SARS, 2019b:11). The TT03 form cannot be submitted online.

The TT03 form is not pre-populated with information, therefore the taxpayer needs to insert all the necessary information on the form. All the mandatory fields must be completed to prevent the form from being rejected by SARS.

### ***3.2.3.3 Calculating the taxable turnover and tax liability***

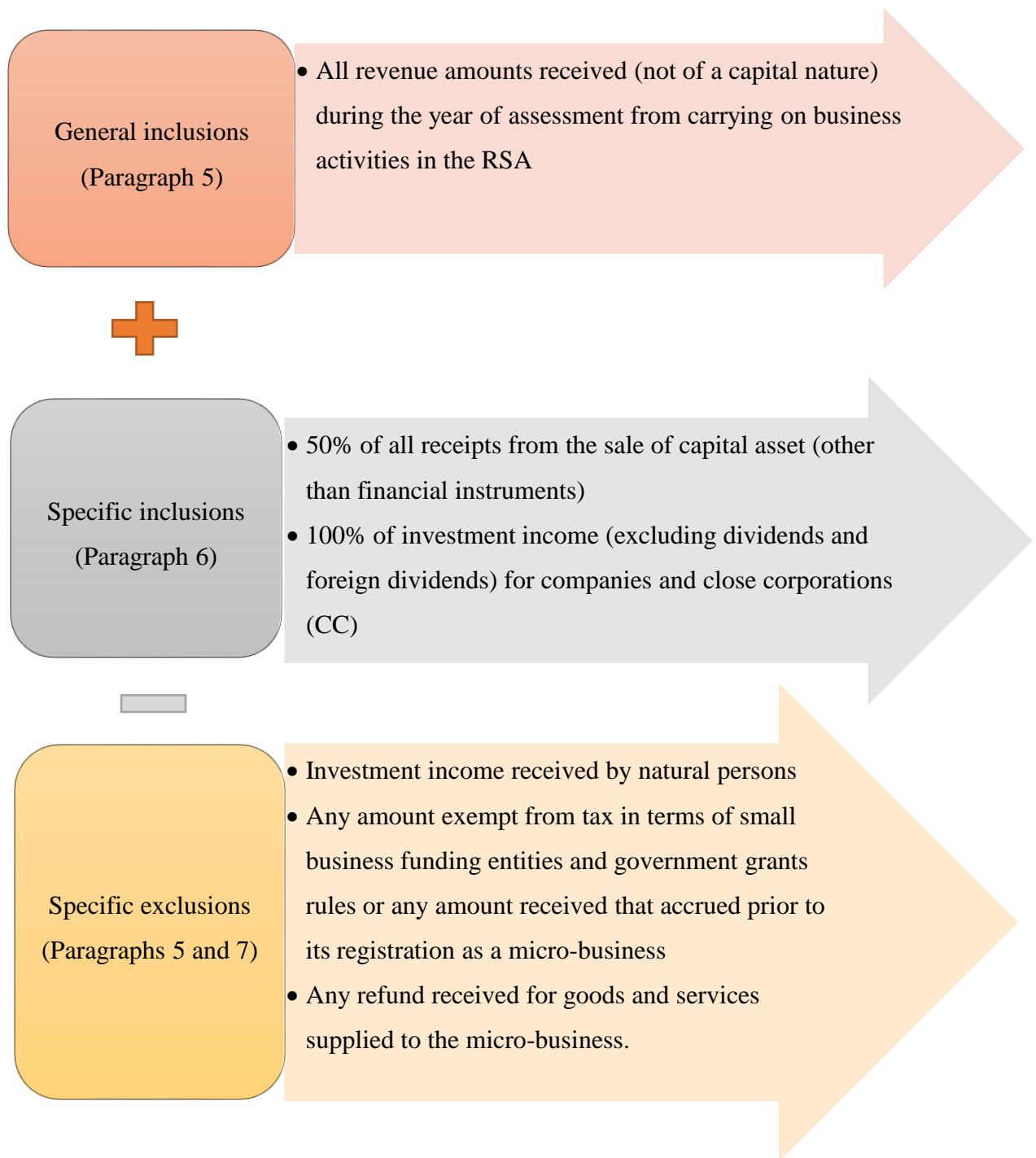
The tax liability for a micro-business on the TTS is calculated by applying the applicable rates (see Table 5) to a micro-businesses’ ‘taxable turnover’. Paragraphs 5 to 7 of the Sixth Schedule (see Figure 6) describe how the ‘taxable turnover’ for a micro-business is calculated.

**Table 5: TT rates for the period 1 March 2019 to 28 February 2020**

<b>Turnover</b>	<b>Rate of tax</b>
<b>R0 - R335 000</b>	0%
<b>R335 001 - R500 000</b>	1% of each R1 above R335 000
<b>R500 001 - R750 000</b>	R1 650 + 2% of the amount above R500 000
<b>R750 001 and above</b>	R6 650 + 3% of the amount above R750 000

Source: SARS (2019a)

**Figure 6: Calculating ‘taxable turnover’**



Source: Adapted from Stiglingh *et al.* (2019:864) and SARS (2019b:17-18)

According to Lindeque (2012:10), the ‘taxable turnover’ calculation does not consider deductions as is the case when using the normal income tax rules.



#### **3.2.3.4 *Payment of the tax liability***

Taxpayers registered on the TTS have three interim payment dates according to Paragraph 11 of the Sixth Schedule (RSA, 1962):

- The first interim payment occurs within six months of the previous tax period, on the last business day of August (RSA, 1962). For example, on 31 August 2019, the taxpayer submits a TT02 - Payment Advice for TT return (SARS, 2019b:24).
- The second interim payment ensues on the last business day of February, coinciding with the business' tax year-end (RSA, 1962); for example, 29 February 2020. On this date, the taxpayer submits another TT02 - Payment Advice for TT return (SARS, 2019b:24).
- The final payment (if necessary) is made by the taxpayer after the TT03 (Annual TT Return) is submitted and processed. The submission period for the TT03 return is the same as that of the annual income tax return for provisional taxpayers, which is between 1 July and 31 January of the succeeding year (RSA, 1962).

According to SARS (2019b:25), TT02 and TT03 forms are available on SARS' website, at the nearest SARS branch office or from allocated banks. Although these forms are available electronically, taxpayers still need to follow the manual process when submitting the forms. In contrast to the return/form submission, payments can be made electronically through an electronic funds transfer (EFT) or at the taxpayers nearest bank.

#### **3.2.3.5 *Recordkeeping on the TTS***

According to Paragraph 14 of the Sixth Schedule (RSA, 1962), a registered micro-business must retain a record of:

- All amounts received during the assessment year;
- Any dividends declared during the assessment year;
- Each asset as at the end of a year of assessment with a cost exceeding R10 000; and
- Each liability as at the end of a year of assessment, exceeding R10 000.

Although the micro-business' record-keeping requirements in respect of the TTS have been drastically reduced, this reduction is not necessarily helpful for a micro-business registered as a company or a CC. These businesses still have specific recordkeeping requirements in terms of the Companies Act 71 of 2008 and the Close Corporations Act 69 of 1984, rendering the

recordkeeping concessions provided by the TTS, superfluous for these entities (South African Institute of Chartered Accountants (SAICA), 2016:6-9).

### ***3.2.3.6 Objections and appeals***

The Tax Administration Act stipulates that the same rules for objection and appeal apply to micro-businesses on the TTS and all other businesses (RSA, 1962), however, this process would need to be performed manually, in the case of the TTS, as opposed to the normal tax system where this process is automated on E-filing.

Micro-businesses also have the right to approach the Office of the Tax Ombud, instituted in 2013 (OTO, 2019). The function of the Tax Ombud is to review and address taxpayer complaints regarding a service, procedural or administrative matter arising from a SARS' application of the provisions of a tax Act (OTO, 2018:20-21).

### **3.2.4 Transitional rules**

Section 48C of the Income Tax Act (RSA, 1962) provides a brief explanation of the transitional rules concerning the following two situations:

- An individual or business registered on the normal tax system, electing to register on the TTS.
- An individual or business registered on the TTS, who wishes to deregister.

The Income Tax Act only covers how certain amounts should be dealt with when transitioning between the TTS and the normal tax system. However, neither the Income Tax Act, nor the SARS Guides explain the process of transitioning between the two systems.

## **3.3 How is a “micro-business” defined?**

As briefly discussed in Chapter 1, “micro-business” or “micro-enterprise” are some of the various terms used in different contexts. The taxation and commercial terminologies are compared and discussed in the subsequent sub-section.

Considering that no universal definition for micro-business exists, global comparisons become challenging (Ramli & Razali, 2019:268; Gregory, 2019; Gale & Brown, 2013:871). Governments struggled to develop a single definition, addressing the Government and the private sector's requirements (Department of Innovation Industry, Science and Research,

2011:8). In this chapter, the micro-business definitions established in the South African literature (National Small Enterprises Act, NDP and the Income Tax Act) are reviewed to establish if there are any similarities.

### **3.3.1 The South African “micro-business” definition**

In South Africa, and globally, various definitions are used to describe a micro-business. Each definition will be briefly discussed below.

#### ***3.3.1.1 National Small Enterprises Act definition***

In South Africa, the National Small Enterprises Act 29 of 2004 (RSA, 2019:110) classifies a “small business”:

“... means a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and classified as a micro, a small or a medium enterprise by satisfying the criteria mentioned in columns 3 and 4 of the Schedule....”

As observed from the aforementioned definition, the small business definition specifically includes a micro-business. The National Small Business Amendment Act (RSA, 2003:9-10), previously categorised each business category based on their industry thresholds, such as the total full-time employee equivalent, the total turnover and the gross asset value. The business size was also previously categorised as a micro, very small, small or medium business, based on criteria as indicated in the National Small Business Amendment Act.

The Minister of the DSBD (RSA, 2018:94), Lindiwe Zulu, in October 2018, proposed amending the definition of a Small Enterprise in South Africa. The amendments were promulgated on 15 March 2019 (RSA, 2019:110), introducing new threshold values to account for inflation (RSA, 2018:96-98) and to reduce factors defining small enterprises to two factors (Table 6). Changes were attributable to users finding the previous definition sizes or class categories unsupportive and inconsistent with global practices. In addition to the thresholds and amended factors, the size or class category of a "very small enterprise" was removed and incorporated into the category of a "small enterprise" (RSA, 2018:96-98).

**Table 6: Revised Schedule 1 of the National Definition of Small Enterprise in South Africa**

<b>Sectors or sub-sectors consistent with the Standard Industrial classification</b>	<b>Size or class of enterprise</b>	<b>Total full-time equivalent of paid employees</b>	<b>Total annual turnover</b>
<b>Agriculture</b>	Medium	51 - 250	≤ 35,0 million
	Small	11 - 50	≤ 17,0 million
	Micro	0 - 10	≤ 7,0 million
<b>Mining and Quarrying</b>	Medium	51 - 250	≤ 210,0 million
	Small	11 - 50	≤ 50,0 million
	Micro	0 - 10	≤ 15,0 million
<b>Manufacturing</b>	Medium	51 - 250	≤ 170,0 million
	Small	11 - 50	≤ 50,0 million
	Micro	0 - 10	≤ 10,0 million
<b>Electricity, Gas and Water</b>	Medium	51 - 250	≤ 180,0 million
	Small	11 - 50	≤ 60,0 million
	Micro	0 - 10	≤ 10,0 million
<b>Construction</b>	Medium	51 - 250	≤ 170,0 million
	Small	11 - 50	≤ 75,0 million
	Micro	0 - 10	≤ 10,0 million
<b>Retail, motor trade and repair services</b>	Medium	51 - 250	≤ 80,0 million
	Small	11 - 50	≤ 25,0 million
	Micro	0 - 10	≤ 7,5 million
<b>Wholesale</b>	Medium	51 - 250	≤ 220,0 million
	Small	11 - 50	≤ 80,0 million
	Micro	0 - 10	≤ 20,0 million
<b>Catering, Accommodation and other Trade</b>	Medium	51 - 250	≤ 40,0 million
	Small	11 - 50	≤ 15,0 million
	Micro	0 - 10	≤ 5,0 million

<b>Sectors or sub-sectors consistent with the Standard Industrial classification</b>	<b>Size or class of enterprise</b>	<b>Total full-time equivalent of paid employees</b>	<b>Total annual turnover</b>
<b>Transport, Storage and Communications</b>	Medium	51 - 250	≤ 140,0 million
	Small	11 - 50	≤ 45,0 million
	Micro	0 - 10	≤ 7,5 million
<b>Finance and Business Services</b>	Medium	51 - 250	≤ 85,0 million
	Small	11 - 50	≤ 35,0 million
	Micro	0 - 10	≤ 7,5 million
<b>Community, Social and Personal Services</b>	Medium	51 - 250	≤ 70,0 million
	Small	11 - 50	≤ 22,0 million
	Micro	0 - 10	≤ 5,0 million

Source: RSA (2019:111)

From Table 6 it is evident that parameters applied (specifically observing turnover) in estimating the size of a business, differs amongst industries.

### ***3.3.1.2 The National Development Plan***

In contrast with the aforementioned summarised National Small Enterprises Act, the NDP uses three broad categories for SMMEs: survivalist, lifestyle and entrepreneur (DTC, 2014:6; RSA, 2012a:141). The NDP defines these categories as indicated below.

#### **3.3.1.2.1 Survivalist enterprise**

A survivalist is observed as any home-based (often in townships or poor areas) SMME or a street vendor, with little to no capital. These SMMEs mainly operate with cash and in some instances keep basic financial records, for example, casual construction workers, bars, taxi operators, spaza shops, pedlars, gardeners and informal subcontractors (DTC, 2014:6; RSA, 2012a:141).

#### 3.3.1.2.2 Lifestyle enterprise

A lifestyle SMME is a home-based or single office business (often in middle- and upper-class areas) with a certain skill, such as a physician, plumber, artisan, engineer, electrician, bookkeeper, franchisee, broker, adviser and a technology supplier (DTC, 2014:6; RSA, 2012a:141).

#### 3.3.1.2.3 Entrepreneur

Entrepreneurs are those SMMEs endeavouring to expand their business or market share, invent new products or processes, grow a brand or create a franchise group. The NDP considers these SMMEs as the main source for employment generation (DTC, 2014:6; RSA, 2012a:141).

The DTC believes that micro-businesses on the TTS would mainly represent the “survivalist businesses”, defined in the NDP (DTC, 2014:26). Considering DTC’s viewpoint, micro-businesses may also potentially be subjected to any other category, based on business owners’ underlying motivation for starting the business, and not only the survivalist category.

#### **3.3.1.3 *Income Tax Act***

Contrary to the National Small Business Amendment Act and the NDP, the Income Tax Act in Section 1(1)(s), differentiates between small, medium or micro-business, based on their annual turnover.

Section 1 of the Income Tax Act (RSA, 1962) defines a ‘small, medium or micro-sized enterprise’ as:

“... a) any person that qualifies as a micro-business as defined in paragraph 1 of the Sixth Schedule of the Income Tax Act or

(b) any person that is a small business corporation as defined in section 12E (4)...”

According to Part II of the Sixth Schedule (RSA, 1962), a person qualifies as a micro-business if that person is a natural person or company, where the “qualifying turnover” of that person for the year of assessment does not exceed R1 million.

“Qualifying turnover”, according to the Sixth Schedule, is defined as total receipts (excluding accruals) from business activities, excluding any capital amounts. Qualifying turnover also excludes any exempt amount in relation to small business funding entities or government grants. Qualifying turnover differs from the taxable turnover and is an easy method for taxpayers to determine whether they qualify as a micro-business or not (Haupt, 2019:824).

Complying with the criteria contained in Paragraph 2 of the Sixth Schedule does not mean a person can register as a micro-business. Further circumstances are set out, in Paragraph 3 of the Sixth Schedule, under which a person does not qualify as a micro-business need to be considered. Annexure F describes the restrictions where the person cannot register as a micro-business.

### **3.3.2 “Micro-business” definition for the purpose of this study**

As is evident from the discussions above, there are numerous definitions of micro-businesses. For this study, the micro-business definition as contained in the Income Tax Act (see Paragraph 3.2.1.3) is adopted.

Having defined a micro-business and understanding when and how the TTS can be adopted by a micro-business and how it functions, attention is now drawn to the academic research that has been conducted on the TTS in order to illuminate any gaps in the literature and to highlight the need for this study.

### **3.4 TTS literature**

The following academic literature, dealing with aspects of the TTS, was established and reviewed to identify the academic gap driven by the research objective. The literature was reviewed with the intent to determine the extent of other academic research focussed on the TTS’ functionality. The main findings from academic studies, focussing on micro-businesses and/or the TTS, are summarised below.

Aucamp’s (2010:vii) study critically compares tax relief measures for SMMEs in South Africa (including the TTS) with those in Australia. Aucamp concludes that tax relief measures available to South African SMMEs are complex; eligibility criteria are narrow and restrictive. The study recommends that the Australian tax relief measures, unavailable in South Africa, should be considered. Similarly, Du Toit’s (2012:3) study expands on Aucamp’s study by

adding Canada. Du Toit establishes that tax incentives in South Africa align with developed countries, concluding that some tax incentives legislated in Australia and Canada should be considered in South Africa to improve South African tax incentives. In contrast, Ndlovu (2015:55) compares the tax compliance burden and tax incentives of South African SMMEs to those in the United Kingdom and the United States of America. Ndlovu concludes that SMMEs encounter similar tax compliance challenges in the three countries. Each country attempted to tackle SMME challenges in various ways. In addition, Ndlovu establishes that SARS worked hard to reduce tax compliance costs through simplifying the tax registration process, whilst implementing further initiatives, such as e-filing, the TTS, increasing the VAT registration threshold and combining PAYE, UIF and SDL information on one form. The main shortcoming of the aforementioned studies is that they only focus on the empirical knowledge of the TTS and there is very little on the Australian or Canada equivalent of the TTS. Considering that none of these studies expand on the TTS (or an international equivalent) functionality, these studies are not considered suitable in assisting to answer the research question.

In contrast Lindeque's (2012:2) study focusses on the extent that the TTS reduced tax compliance costs for micro-businesses. Lindeque (2012:77) concludes that several micro-business owners are moving away from costly tax practitioners and completing their own tax forms. It was found that SARS used initiatives to provide taxpayers with the necessary knowledge to understand the TTS (Lindeque, 2012:59). Lindeque's study provides a wide range of data, as the study had access to all registered TTS participants across South Africa. The shortcoming of Lindeque's study is that most of the data analysis focusses on the geographical data of the participants and on whether their tax compliance costs are reduced. Although Lindeque's study has some shortcomings, the study provides insight into the potential shortcomings or frustrations of the TTS, which aided the drafting of the interview questions. Therefore, Lindeque's study is considered suitable and informative when analysing the functionality of the TTS.

Smulders and Naidoo (2013:263) expand on earlier studies by comparing previous small business tax compliance cost findings and recommendations in South Africa with the SARS initiatives (including the TTS) introduced. The study establishes that SARS addressed most of the identified tax compliance burdens, except for the tax law complexity, a lack of recordkeeping software to assist small businesses and the provisional tax compliance burden. Smulders and Naidoo (2013:263) further argue that SARS failed to incorporate a threshold,



indicating that no tax return for small businesses have to be submitted and that including taxation in the school syllabus should be considered. In contrast Stols (2014:62) researches the effectiveness of tax relief measures for small businesses (Section 12E of the Income Tax Act and the TTS) in South Africa and approaches accountants in Pretoria to provide their views on this matter. Stols (2014:44) argues that the tax relief measures do not meet all SARS's objectives, for example: reducing the small business tax compliance burden; encouraging entrepreneurship; generating a sustainable environment for small businesses to grow; encouraging SMMEs to investment in assets and to create jobs.

The shortcoming of these studies are that they focus on a broad range of small business incentives and not only the TTS. Although, some of the data is useful for drafting the interview questions in the current study, most of these studies' data are not applicable to the TTS and therefore not considered suitable in determining the functionality of the TTS.

Rahim (2015:6) study uses a more practical approach, by using 30 case studies, to compare the TTS and SBCTC in South Africa. Rahim's evidence suggests that the TTS is not always the best tax system for a micro-business, with several other factors, such as that the business type, the turnover, taxable income and allowable deductions, amongst others, that must be considered before determining the most appropriate tax system for the business. Although, some of the data was useful for drafting the interview questions and providing potential responses in the study, most of Rahim's study is not suitable in assisting to answer the research question as it merely compares the tax liability on the two systems with one another.

On the other hand, Kgatla (2016:i) focusses on obtaining an understanding of the informal sector SMMEs and the nature of their operations, whilst investigating challenges encountered in their operations and whether the income tax relief initiatives (including the TTS) really assisted the informal sector SMMEs. Considering the focus of the current study is limited to the formal SMME sector, Kgatla's study and findings are not considered relevant in addressing the functionality of the TTS.

Gluckman and Turner (2018:1) investigates whether the TTS is regarded as being fair by considering the literature and provisions of the Sixth Schedule to reach an opinion in this regard. In addition to this, Gluckman and Turner (2018:1) uses a survey questionnaire with two open-ended questions, testing participants' knowledge of the TTS, whilst analysing participants' statements against Adam Smith's Maxims of a fair tax system. Gluckman and

Turner's (2018:1) respondents believes that the TTS is unfair. The shortcoming of Gluckman and Turner's study is that only Adam Smith's tax canons are considered. No consideration has been given to any other tax principles, which impact the modern tax policies. This study is considered suitable to provide a foundation for the study as it addresses some of the tax canons of a good tax system and is aligned with the TTS.

In contrast Labuschagne (2018:ii) investigates whether SMMEs in the North West Province use the TTS. He establishes that SMMEs in the North West Province do not use the TTS and are thus not benefitting from the tax incentive. Labuschagne (2018:48) explains that the main reasons the TTS is not utilised, is owing to the participants' unawareness; and lack of sufficient knowledge of the system and they do not want to pay tax should they make a loss. Likewise, Naicker and Rajaram (2019:130) focuses on determining if small business tax initiatives introduced by SARS, are effective and utilised. Naicker and Rajaram (2019:133) reveal that 50% of participants are unaware of these specific tax initiatives. Only a small percentage of SMMEs is eligible for the small business tax concession. Naicker and Rajaram (2019:136) conclude that most small business owners agrees that Government initiatives introduced are ineffective and need to be revised. The shortcoming of both the Labuschagne and Naicker and Rajaram studies are that none of the micro-business participants are eligible for the TTS. However, the interview questions and data collected in these studies were suitable to assist in drafting the interview questions, as well as assist in analysing the study's findings.

Based on the above summary of the academic literature, it is evident from the studies that the TTS was not considered from a tax system design and structural-functional perspective. This study, therefore, considers the confluence of the tax canons in relation to structural functionalism, to establish if the TTS functions as intended.

### **3.5 Chapter conclusion**

This chapter discusses the functioning of the TTS, by analysing the subsystems within the TTS, such as the registration process, preparation and submission of returns, calculation of taxable turnover and tax payable, payment of the tax liability, recordkeeping and the objection and appeal procedures.

Various micro-business definitions used in South Africa are also discussed and the definition adopted for this study is a "micro-business" as defined by the Income Tax Act. A review of the

academic literature emphasised that previous studies did not assess whether the TTS (in its entirety) functions as intended. This gap in the literature emphasises the need for this study. The subsequent chapter explains the research design and methodology adopted to achieve the objective set out in this study.

## CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY

### 4.1 Introduction

This chapter explains the theoretical assumptions and the research design, supporting this study, such as the study's action plan (Kuada, 2012:57) or blueprint (Babbie, 2017:33). The main research objective was to determine if the TTS is functioning as intended.

Common theoretical assumptions were considered, identifying an interpretive qualitative paradigm as the theory of this study. In addition, this chapter further discusses the research design and methodologies, including the action plan, research instruments, data collection and analysis methods and the ethical considerations immersed in the study.

### 4.2 Research design

Table 7 summarises the research design into the following sub-categories: the research paradigm, including its ontology and epistemology, the research methodology, study participants, data collection, the data analysis and ethical considerations. The study's research design sub-categories are discussed further in the subsequent section.

**Table 7: Research blueprint**

<b>Research Paradigm</b>	Interpretivism was used to explore the reality of whether the TTS is functioning as intended and why micro-businesses are/not adopting the TTS (see Paragraph 4.2.1). A nominalist ontological approach was used, as it was believed that our reality of the tax is influenced by what we see and how we experience it (see Paragraph 4.2.2.1). An idealist epistemology was used as it is believed that in the tax environment, multiple socially constructed realities exist amongst SMMEs (see Paragraph 4.2.2.2).
<b>Research Methodology</b>	An exploratory study was used in an attempt to explain whether the TTS operates as intended and why micro-businesses are/not adopting the TTS (Denzin & Lincoln, 2018:10; Babbie, 2017:90; Joubert, Hartell & Lombard, 2016:110) (see Paragraph 4.2.3). This study combines primary data from interviews and secondary data from the literature review. Data collected were linked to overarching themes identified in the literature

	review. New themes were summarised. The interview data were analysed qualitatively, using content analysis, aided by ATLAS.ti™8 a Qualitative Data Analysis Software (QDAS).
<b>Study participants</b>	Intended participants (micro-business owners - situated in Gauteng, with the exception of two participants located in Cape Town and Nelspruit) were selected using convenience and snowball selection techniques (Etikan <i>et al.</i> , 2016:2).
<b>Research Methods - Data Collection</b>	Semi-structured interviews were conducted to solicit observations and attitudes of the respondents to the TTS near Pretoria or Johannesburg (except for two participants located in Cape Town and Nelspruit) (see Paragraph 4.4) (Walle, 2015:60). The semi-structured interview questions were constructed from the recurring themes stemming from the literature review. Where necessary, additional prompts or clarifications were used by the interviewer during the interview process to obtain more insight into some of the responses provided.
<b>Research Methods - Data Analysis</b>	Content analysis was used through holistic and pattern coding with the use of ATLAS.ti™8 QDAS to analyse individual interviews (see Paragraphs 4.5 and 5.2) (Saldaña, 2016:68; Bengtsson, 2016:10). ATLAS.ti™8 was used in enhancing rigour, managing and consolidating data, whilst ensuring the transparency of analyses (Friese, 2019:268).
<b>Ethical considerations</b>	The study followed the qualitative interviews methodology norms, by adhering to all ethical considerations (credibility, dependability, confirmability transferability, authenticity and confidentiality) (Anney, 2014:272).

Source: Mertens, 2015:11 - adapted

To answer the research question of this study, a qualitative research design was used to establish if the TTS for micro-businesses within South Africa functions as intended. As a result, this research design provided the researcher with a glimpse of the way of the world through the participants' observations (Thanh & Thanh, 2015:24).

Joubert *et al.* (2016:110) explain that qualitative research assists to obtain an in-depth understanding of individuals and their social environment. Denzin and Lincoln (2018:10) confirmed this element, stating that qualitative research observes and interprets phenomena in their natural setting, with the assistance of individuals' knowledge, experience and perceptions. Creswell (2018:31) conversely, observed qualitative research as interpretative, recommending that research biases and judgements must be explained within the research report. A qualitative research design normally holds the following traits (Babbie, 2017:27; Newby, 2014:116):

- Studies are conducted in a “true-to-life” setting;
- Interviews are conducted using open-ended research questions to explore, interpret, or understand the social context more profoundly, whilst increasing the flexibility of the study;
- Participants are selected through non-statistical sampling techniques, whilst selecting and including only individuals who can contribute valuable information, whilst responding to research questions;
- Data collection techniques include, observation and interviewing, constructing a rapport between the interviewer and the participant, whilst assisting in putting participants at ease; and
- Studies are more subjective rather than objective, because of human involvement.

Characteristics of a qualitative research design as aforementioned, specifically relate to this study, as open-ended questions were used to investigate or understand why micro-business owners are/not adopting the TTS, in order to understand if the TTS is functioning as intended. In addition, interview participants were selected through non-statistical sampling methods (see Paragraph 4.4 for detail).

As very little research has been conducted on micro-businesses within South Africa, an exploratory qualitative research approach is considered the most appropriate (Babbie, 2017:92). Dudovskiy (2019) explains that the main objective of exploratory research is to investigate the research questions. This type of research does not aim to provide the final and conclusive answers to the research questions. It merely investigates the research questions with varying levels of depth. It also aids to better understand the problem, whilst changing the direction of their research as new data and insights arise. An exploratory research design forms the initial basis of more conclusive research and tends to tackle new challenges on which little or no previous research has been done.

In this study, consideration is given to both structural-functionalism and the tax canons as discussed in Chapter 2. No research has been performed on the structural functionalism of the TTS, whilst very little research has been performed on the TTS and the relevance of the tax canons to this particular system. As these theories are key in understanding whether the TTS is functioning as intended, and assists in understanding why micro-businesses are/not adopting the TTS. Therefore, an exploratory qualitative research approach is considered most suitable, as this study researches a new aspect of the TTS where little research has been done.

#### **4.2.1 Research paradigm defined**

According to Creswell (2018:97), a research paradigm is an all-encompassing process. This process comprises complementary academic practices and thinking, explaining the exploratory nature of research within four major dimensions: ethics (axiology), ontology, epistemology and methodology.

The research worldview (also known as a paradigm) and its intended audience structure the research design within a study (Creswell, 2018:31; Mertens, 2015:6). Individuals background, culture and experiences shape their worldview. The research design will therefore vary, whilst influencing the way knowledge is studied and interpreted (Creswell, 2018:31; Mertens, 2015:6). Creswell (2018:36) describes the four most commonly established worldviews within academic research as: post-positivist, constructivist, transformative and pragmatist. Mackenzie and Knipe (2006:195) expanded on Creswell's main worldviews, adding: the interpretivist, emancipatory, critical, pragmatism and deconstructivism.

This study employed an interpretivism research paradigm. Interpretivism is a holistic approach seeking numerous perspectives from the participants (Thanh & Thanh, 2015:25). Furthermore, an interpretivist tends to rely upon the "... participants view of the situation studied..." (Creswell & Poth, 2018:8; Mertens, 2015:16). Academics believe that the interpretivism paradigm should predominantly side with qualitative research (Mertens, 2015:8; Thanh & Thanh, 2015:25). Walliman (2011:22) explains that in this paradigm the researcher is intricately involved with the participants and the research process, and do not merely observe a phenomenon as an outsider. Research using this approach, normally creates or inductively establishes a theory or meaning patterns as the study progresses (Creswell & Poth, 2018:9).

This approach was considered as the most appropriate in answering the research questions, as the approach relies upon participants' observations of the TTS, whilst accepting that there may be multiple perspectives provided by the micro-business participants on the functionality and the reasons why micro-businesses are/not adopting the TTS.

#### **4.2.2 Research ontology and epistemology**

The research paradigm chosen for the study, influences the research ontological and epistemological positions (Neuman, 2014:93). An understanding of the meaning of ontology and epistemology is therefore crucial.

##### **4.2.2.1 Ontology**

Ontology is the theory concerned with the issue of what exists, or the fundamental nature of reality (Mertens, 2015:11; Neuman, 2014:94). According to Neuman (2015:94), ontology can be grouped into two main categories:

- Realists - Consider the world as “out there” and believe the study area is grouped into pre-existing categories, waiting to be discovered. This indicates that a realist assumes that the “real world's” existence is separate from humans and their interpretations thereof, including “What you see is what you get”.
- Nominalists - Assume that what humans experience in “the real world” always occurs through a lens or scheme of interpretations and inner subjectivity. This means nominalists believe that observations are influenced by what is observed and how reality is experienced.

##### **4.2.2.2 Epistemology**

Epistemology is the theory concerned with the creation of knowledge. It focusses on what is known about the way of the world or what makes a representation true (Mertens, 2015:11; Neuman, 2014:95).

Two basic epistemology approaches are indicated to acquire knowledge:

- Empiricism (originated by Aristotle) - Knowledge is acquired based on previous experiences (particularly sensory experiences). This knowledge is acquired through inductive reasoning based on observations and perceptions (Boothby & Clough, 2017:8).



- Rationalism (originated by Plato) - Knowledge is acquired through deductive reasoning by relying on models and logical layouts without considering previous experience (Boothby & Clough, 2017:7).

In addition to the mainstream approaches, academics also created the following epistemological approaches:

- Idealism – The belief that the “real world” exists, however, that people observe it in various ways, meaning all individuals hold their own reality (Nelson, 2017:225).
- Materialism – The belief that individuals’ minds and consciousness are influenced through interacting with physical things only, attributable to the active operation of materials (Nelson, 2017:225; Kuhn & Wolpe, 2013:7).
- Positivism – The believes that all phenomena can be scientifically analysed, as everything can be measured, whilst causes and effects of each phenomenon can be discovered when individuals hold adequate knowledge on the topic (Mertens, 2015:11).

#### ***4.2.2.3 Ontology and epistemology conclusion***

This study employed a nominalist ontological approach. It is believed that individuals’ observations and how they experience it, influence the reality of the tax environment (Neuman, 2014:94).

The epistemology adopted (idealism), closely relates to the ontology, focussing on what is known about the way of the world (Denzin & Lincoln, 2018:644; Creswell, 2018:42). This is further understood by using deductive reasoning (Mertens, 2015:11; Neuman, 2014:95). In this study, an idealism epistemology was used as it is believed that in the tax environment, multiple socially constructed realities exist amongst SMMEs (Mertens, 2015:11).

### **4.3 Research methodology**

According to Creswell (2018:31), methodology is the collection of data, analysis of data and the interpretation undertaken of data in a particular study. Walter (2006:346) describes methodology as principles, theories and values, supporting a particular research approach.

A qualitative research design, supported by an interpretivist paradigm, was used in this study. An exploratory qualitative research methodology was deemed appropriate as this study aimed

to investigate if the TTS functions as intended, whilst aiming to identify reasons why micro-businesses are/not adopting the TTS.

#### **4.4 Study participants**

This study followed a qualitative approach; non-statistical selection techniques were employed to select a sample of micro-businesses. These are discussed subsequently.

##### **4.4.1 The convenience selection technique**

The convenience selection technique is where units, such as participants selected for inclusion, are the easiest to access. This is considered the best technique for identifying and selecting information-rich individuals. The method ensures the most effective use of limited resources, by including contributors whom are easily accessible to the research (Etikan *et al.*, 2016:2).

The study was conducted with limited resources (particularly, limited funds), therefore this technique was followed and employed. The researcher's affiliations with family, friends and acquaintances assisted to source suitable respondents. The respondents were contacted through an email, explaining the research, identifying the type of business involvement needed to participate. The information sheet and informed consent form were also distributed amongst the invitees.

Most micro-business owners included, were in close proximity to Pretoria and Johannesburg, with a qualifying turnover of R1 million or less for the tax period 1 March 2018 to 28 February 2019. For all groups, participants could be excluded by disagreeing to participate. Initially, it was intended that micro-business owners outside the geographical region of Pretoria and Johannesburg, would be excluded. Two identified participants registered on the TTS, were based in two other regions, therefore an exception was made.

##### **4.4.2 The snowball selection technique**

The snowball selection technique is used for hard-to-reach and/or hidden populations. This selection technique entails, requesting each interviewee to suggest an additional individual to take part in this study, endeavouring to expand the total sample size for data saturation (Hennink, Kaiser & Marconi, 2017:591). As a list of TTS registrants is not publicly available,

this method was believed to be the most suitable to complement the aforementioned convenience selection technique.

After initial participants were identified, more participants were identified, using the snowball selection technique. The initial participants were requested to refer other possible participants. This technique was specifically included, endeavouring to reduce the risk of research bias.

Qualitative study participant sizes are normally smaller than its quantitative studies counterpart (Mason, 2017:522). The reason for the smaller participant size is that more data-rich information is collected. Extending the sample will not provide any additional information. Creswell (2018:239) agrees with Mason that small samples sizes characterise qualitative studies.

Guest, Bunce and Johnson (2006:59) conclude that even though the concept of saturation is supportive in the planning phase, it provides insufficient practical guidance for estimating sample sizes for in-depth research, prior to the data collection phase. Bertaux (1981:35) states that 15 interviews represent the minimum sample for qualitative research (adapted from Mason, 2010:3). Creswell (2018:239) disagrees with Bertaux's observation, estimating that three to ten participants were sufficient for qualitative research. Adopting Creswell's view, this study assumed that an appropriate sample will be reached with a minimum of three participants. It was extended until the responses reached saturation (respondents did not provide any new, additional information) and further participants on the TTS could not be sourced (Marshall, Cardon, Poddar & Fontenot, 2013:2).

The selected participants were individually interviewed to understand their perception of the functionality of the TTS and their reasons for adopting (or not adopting) the TTS. As interviews involve human participation, ethical considerations needed to be considered (Creswell, 2018:134).

#### **4.5 Research methods - data collection**

Qualitative research data collection methods are holistic, emergent, flexible, and often develop or change (Mertens, 2015:20). Interviewing is identified as the predominant mode of data collection in qualitative research (Mertens, 2015:20).

Prior to the interview phase, a literature review was conducted. From the literature review, recurring themes were identified and included in the interview questions. These themes aligned with the tax canons and structural-functionalism theories (Chapter 2). The recurring themes informed the semi-structured questions asked during the interview process. The interview questions comprised a combination of structured and unstructured questions, directed amongst participants to corroborate or disprove themes ascending from the literature review.

In-person interviews can be structured in the following ways: structured, unstructured, semi-structured (Denzin & Lincoln, 2018:579; Walle, 2015:71-74) or through focus groups (Denzin & Lincoln, 2018:523; Walle, 2015:60; Doody and Noonan, 2013:29). In this study, semi-structured interviews were employed as they usually provide a richness of data, assisting in resolving the research question. This type of interview holds some flexibility as the open-ended questions provide an opportunity to investigate supplementary concerns as they surface (Doody & Noonan, 2013:30). Doody and Noonan (2013:32) state that the validity of a study increases by allowing open-ended questions; this assists in collecting rich data for analysis.

Semi-structured interviews include certain predetermined questions. These predetermined questions comprised questions, similar to a structured interview question, assisting the interviewer to create a sense of order (Doody & Noonan, 2013:30). Semi-structured interview questions (including additional prompts) used by the interviewer during the interview, were constructed, using recurring themes from the literature review (Table 8).

**Table 8: Semi-structured interview questions linked to relevant literature review findings**

Question	Reason for question. Reference to the relevant literature review
<b>Part A: General information about micro-business and owner</b>	
1. What is your academic and professional background?	Business owners’ academic background is important, because if the tax legislation is too complex or too difficult to read and/or understand (Fakhfakh, 2016:74), it can lead to escalated business costs. They need to hire a tax practitioner. It may even result in ‘unintentional’ non-compliance with the tax

<b>Question</b>	<b>Reason for question. Reference to the relevant literature review</b>
	legislation (Saad, 2014:1070). According to the latest SEDA (2019b:21) report, SMMEs' educational levels can be summarised as follows: No schooling 3,2%; Less than primary school completed 7,2%; Primary school completed 5,3%; Secondary school not completed 35,1%; Secondary school completed 27,5%; Tertiary education 19,8% and Other education 2,0%.
2. What is the legal form of your business?	Although the micro-business' recordkeeping requirements for TTS purposes are drastically reduced, micro-businesses that are registered as a company or a CC, are still required to keep specific records as stipulated in the Companies or the CC Act (SAICA, 2016:6-9).
<p>3. How long has your business been trading and what does your business do?</p> <p>Probing question:</p> <p>a) How many individuals do you employ?</p>	<p>In South Africa, 70% of emerging SMMEs fail within their first year of operation (Rabie, Cant &amp; Wiid, 2016:1009). Fatoki (2018:2) states that 75% of SMMEs fail within their first five years if they do not carefully manage their business disasters. According to Wiese (2014:39), the failure rate of businesses increases as the size of the business decreases.</p> <p>One of the main reasons for the high failure of small businesses in South Africa is that businesses are only created by the owners to survive and that they do not have the necessary skills, experience or resources to construct a sustainable business (Your Business Magazine, 2018).</p>

<b>Question</b>	<b>Reason for question. Reference to the relevant literature review</b>
	<p>According to the University of the Western Cape (2013), only 1% of micro-businesses (starting with less than five employees) could grow and employ 10 or more employees. Considering this, micro-businesses do not appear to be able to relieve the unemployment concern in South Africa (University of the Western Cape, 2013).</p>
<p>4. Are you aware of the TTS?</p> <p>Probing questions:</p> <p>a) If affirmative: Where did you hear or read or find out about the TT?</p> <p>b) If not affirmative or unsure: Have you seen any SARS campaigns? Have you read any articles in magazines or newspapers about the TT? And which magazine or newspaper. Radio? TV?</p>	<p>Awareness of the small business tax incentives appears to be a challenge, particularly in South Africa (Labuschagne, 2018:48; Olla, 2016:64; Evans, Hansford, Hasseldine, Lignier, Smulders &amp; Vaillancourt, 2014:472).</p>
<p>5. Do you understand the TT legislation?</p> <p>Probing questions:</p> <p>a) Have you read the TT legislation?</p> <p>b) If affirmative: Was it easy to understand?</p> <p>c) If not affirmative: Why have you not read it? Could you find it?</p>	<p>The complexity of the tax legislation and the complex requirements to remain compliant are daunting, even for well-educated SMME entrepreneurs (Smulders, 2006:3). The tax legislation (even the supposedly simple TT legislation) is still written in a complex manner (Smulders &amp; Naidoo, 2013:268).</p> <p>Olla (2016:20) notes that most SMMEs are unaware of the legislation with which they are required to comply.</p>
<p>6. Does someone assist you with your TTS compliance obligations?</p>	<p>SMMEs tend to outsource their tax function attributable to a lack of capacity and it is</p>

<b>Question</b>	<b>Reason for question. Reference to the relevant literature review</b>
<p>Probing questions:</p> <p>a) Do you complete your own tax returns?</p> <p>b) Do you have a third party completing your tax returns?</p> <p>c) Why are you using a third party to assist you with your tax returns?</p> <p>d) Did the third party tell you about the TTS?</p>	<p>cheaper for an SMME to use a third party than employing someone full-time (Ndlovu, 2015:27; Venter &amp; De Clercq, 2007:144).</p> <p>SMMEs in South Africa hold a higher proportional burden concerning external and internal tax compliance costs (Smulders <i>et al.</i>, 2017:135; Smulders <i>et al.</i>, 2016:715) and noted that these compliance requirements are often beyond the ability of an SMME owner or employees, resulting from the tax legislation complexity (Smulders, 2006:3).</p>
<b>Part B: General information and perceptions about the TTS</b>	
<p>7. Please explain what you know about the TTS?</p> <p>Probing questions:</p> <p>a) Do you know what eligibility criteria are?</p> <p>b) Are you eligible?</p> <p>c) How many returns do you have to submit? And how are returns submitted?</p> <p>d) How is the tax liability calculated?</p>	<p>Kgatla (2016:51) indicates that eligibility criteria for micro-businesses could be too restrictive.</p> <p>Smulders <i>et al.</i> (2012:212) indicate that eligibility criteria for small business tax concessions (including TTS) could be too restrictive, or that some small businesses or their external service providers are ignorant, not updated, lack knowledge of the TTS. Marketing of these concessions was also inadequate or inappropriately targeted.</p> <p>Smulders <i>et al.</i> (2012:212) further establish confusion concerning eligibility criteria and use of these concessions (especially concerning the TTS).</p>

<b>Question</b>	<b>Reason for question. Reference to the relevant literature review</b>
<p>8. Please provide reasons why you are/not registered on the TTS?</p>	<p>The TTS was implemented to reduce the high tax compliance cost of micro-businesses and to make it easy to use so that SMMEs no longer require the services of a tax practitioner (Stols, 2014:39; NT &amp; SARS, 2010:65).</p>
<p>9. How successful do you perceive the turnover system tax to be?</p> <p>Based on participants' knowledge and their comments, additional prompts were used in probing participants (whether registered on the TTS or not).</p> <p>For those participants registered on the TTS, the main components (as listed below) was also used as prompts in the event that they did not address it:</p> <ul style="list-style-type: none"> <li>a) The registration process</li> <li>b) Recording of the data</li> <li>c) Calculating the tax liability</li> <li>d) Filing of tax returns</li> <li>e) Paying the tax liability</li> <li>f) The objection and appeal process</li> </ul>	<p>This question will indicate areas of the TTS that are functioning, but will also highlight those areas that are not. This will inform recommendations for change and/or areas for further research.</p>
<p>10. What changes to the TTS do you believe are needed?</p> <p>Based on participants' knowledge and their comments, additional prompts were used in probing participants (whether registered on the TTS or not).</p>	<p>This question will provide insight into the areas of the TTS that require reform and/or areas for further research.</p>



<b>Question</b>	<b>Reason for question. Reference to the relevant literature review</b>
<p>For those participants registered on the TTS, the main components (as listed below) were also used as prompts in the event that they did not address it:</p> <ul style="list-style-type: none"> <li>a) Registration</li> <li>b) Data recording</li> <li>c) Calculating the liability</li> <li>d) Filing tax returns</li> <li>e) Paying tax liability</li> <li>f) The objection and appeal process</li> </ul>	

Source: Own compilation

Interview questions were arranged to enable demographical questions (simple questions) to be directed first to put participants at ease, whilst constructing a rapport with them. The more complex questions (open-ended questions) followed the demographical questions and were broader in nature. Further prompts were employed to encourage more specific conversation on the research topic. Interview questions were created to align with research questions of this study (see Paragraph 1.4). They were not necessarily arranged according to their importance in the study.

#### **4.5.1 The interview process**

Individual in-depth interviews conducted by the researcher with selected participants for this study were accomplished over a two-month period during 2019. Potential participants were contacted, distributing an introductory email (Annexure B), explaining the study details. Interview questions (Annexure C) were attached to the introductory email, providing participants a chance to familiarise themselves with the questions. Participants were provided with all the necessary information to make an informed decision to participate. Once a participant agreed to participate in the study, a calendar invite was distributed.

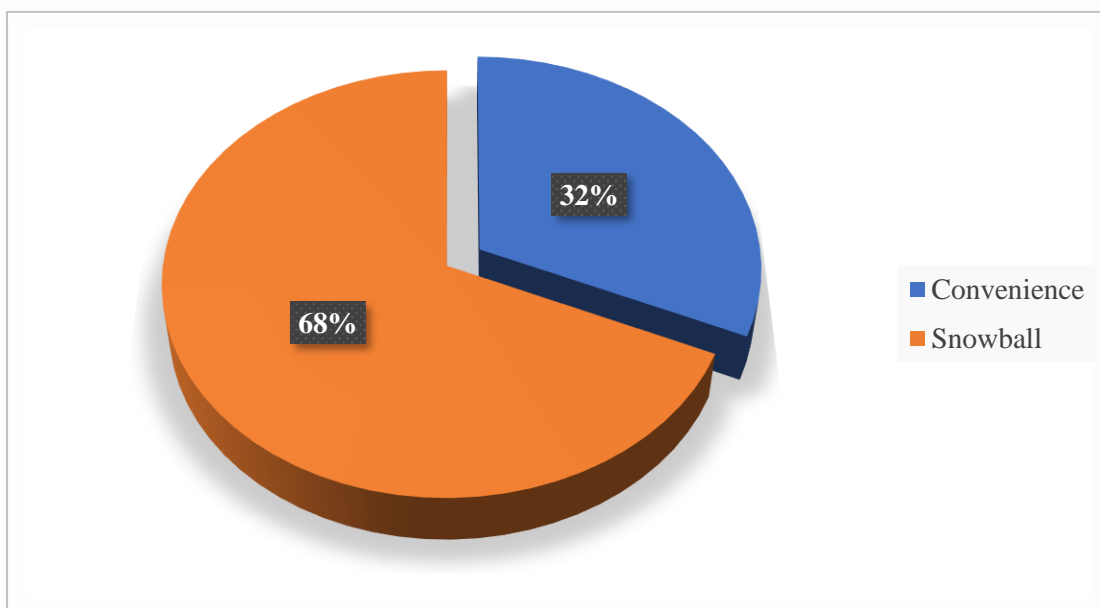
All interviews were conducted personally to construct a rapport with participants. Most interviews were therefore conducted face-to-face, with the exception of two telephonic

interviews, and one, using Skype®, on the request of participants. Participants selected a convenient time and location for the interview. All interviews were conducted in English. Before starting the interview, all formalities were dealt with. The interviewer briefly explained the interview process and the purpose of the study. Participants agreed to participate by means of a signed consent form (Annexure D). They were informed that their responses would be treated with confidentiality. The interviewer also obtained permission from participants to record interviews.

#### 4.5.2 Participant selection

For this study, 19 participants (micro-business owners) were interviewed. Figure 7 illustrates the relevant selection technique used in selecting the study participants.

**Figure 7: Selection method used to source participants**



Source: Own compilation

Figure 7 illustrates that 32% of the total participants (i.e. 6 participants) were selected using convenience selection techniques and the remaining 68% (i.e. 13 participants) were selected using the snowball selection techniques.

The 68% snowball selection depicted in Figure 7 were mainly sourced from referrals of initial convenience selection participants, however four referrals (specifically participants on the TTS), were obtained with the assistance of participants' accountants. As aforementioned, most participants were sourced from external parties, eliminating research bias in the selection process.

Semi-structured interview questions were employed to obtain rich data, whilst establishing some form of structure. This afforded the participants an opportunity to communicate freely and reveal their observations on the research topic. The same questions were directed to all (19) participants. They were also informed at the beginning of the interview process that the interviewer will direct a number of questions, whilst providing the participant an opportunity to respond. If they were unsure, they were advised to communicate with the interviewer to provide clarity and to rephrase the question where necessary. Questions were directed in a chronological order; however, participants' conversation sometimes changed direction, as their minds wandered. Sometimes, participants' responses did not meticulously answer a specific question, but touched on multiple questions, adding to the richness of collected interview data. In addition to the aforementioned, the interviewer prompted participants where insufficient information were provided in responding to a specific question.

Interviews were recorded using a voice recorder and the recordings were saved in a password protected secure folder on an external hard drive. Voice recordings were provided a unique label, protecting the anonymity of participants.

### **4.5.3 Interview transcripts**

After completing the interview process, all interviews were transcribed, using the software program SpeechNotes©. The text files were reviewed, whilst listening to the original audio files to identify transcription errors. The necessary changes were applied, ensuring the accuracy of transcriptions.

Subsequent to transcriptions, member checks were used to enhance the reliability and credibility of the research data. After the interviewer transcribed all interviews a "thank you" message was distributed amongst participants, including a copy of the transcript for approval by each participant. Participants were requested to review the transcript and ensure that it reflected their words correctly. All participants accepted the transcriptions, whilst some

participants implemented minor commentary changes. After participants confirmed that they were content with transcripts, final transcripts were saved in the same manner as the voice recordings. These transcripts were used in the data analysis process (see CHAPTER 5:).

#### **4.6 Research methods - data analysis**

Data analysis refers to the process to arrange and extract meaning from data collected during the study, by searching for patterns in the body of knowledge and forming a representative conclusion (Bengtsson, 2016:10). Erlingsson and Brysiewicz (2017:94) explain that the data analysis process is the systematised transformation of a large quantity of data into a logical and concise summary of the main findings. Mohajan (2018:37) further expands on this idea, stating that data analysis is a vigorous process where emergent themes, crucial ideas or meaning units and acquired literature material, are woven together, whilst creating a “tapestry of findings”. In the context of this study, the data analysis assists to identify repetitions and themes from the interview transcripts that would describe why micro-business owners are (are not) adopting the TTS, as well as, the perceptions of micro business owners on whether they believe the TTS is functioning or not.

#### **4.7 Ethical considerations**

The study followed the qualitative interviews methodology norms, whilst adhering to all ethical considerations. As in-person interviews were conducted, one of the challenges was ensuring that data collected during interviews were trustworthy and/or authentic. The subsequent subsection provides a brief discussion on how the trustworthiness and/or authenticity of collected data was ensured.

Korstjens and Moser (2018:121) emphasises that, in determining the qualitative trustworthiness of data collected, the following areas need to be considered: credibility, transferability, confirmability, and dependability.

##### **4.7.1 Credibility**

Credibility means that the research findings are considered believable (Korstjens & Moser, 2018:121). Lincoln and Guba (1985:296) describe credibility as the confidence that the findings are true, whereas Shenton (2004:64) describes it as the study measures the intended contents. This is achieved when data collected from participants, are correctly interpreted,

whilst representing the original observation of individuals (Korstjens & Moser, 2018:121; Anney, 2014:276; Bitsch, 2005:82). The following credibility strategies were implemented to ensure care is taken during the individual interview processes: using literature to corroborate interview findings/themes and requesting participants to review conclusions drawn from their interviews, ensuring an accurate summary (Creswell, 2018:252; Anney, 2014:276-277; Bitsch, 2005:82-85).

Credibility was ensured by employing common research techniques or methods (for example, member checks and multiple data sources). By implementing these techniques, it was ensured that participants provided honest and correct data. The aforementioned credibility of data was further strengthened by participants being instructed of their rights during the study; the protection of their anonymity by assigning participant numbers (instead of names) during the data analysis process (Creswell, 2018:252; Shenton, 2004:64-69).

In addition, to ensure the trustworthiness of data collected, prior approval was obtained from the University of South Africa (UNISA) College of Accounting Sciences' Ethics Review Committee. This was conducted to ensure due ethical consideration was provided in protecting the confidentiality of participants involved. Participants were instructed of their rights during the study. A participant consent form was documented and signed by all parties as evidence of implementing ethical considerations. Lastly, to ensure the trustworthiness of the data collected during this study, a visible audit trail was kept, supporting research findings. Participants were requested to review conclusions drawn from their interviews, ensuring that their observations were correctly reflected.

#### **4.7.2 Dependability**

Bitsch (2005:86) defines dependability as “the consistency of findings over time”. According to Shenton (2004:71), the consistency of findings may change over time, as the researched phenomenon or variables change. According to Anney (2014:280), participants' involvement is vital in evaluating the findings and making sure explanations and suggestions are aligned with their observations (Anney, 2014:280). Lincoln and Guba (1985:317) believe that implemented credibility techniques reflect that a study is dependable. Data are dependable if an audit trail is used and through data triangulation (Korstjens & Moser, 2018:121; Anney, 2014:280). Processes used within the study are documented, however, even if repeated by another researcher, they may potentially not yield the same results (Shenton, 2004:71).

In the aforementioned credibility section, trustworthiness of collected data in this study is addressed. In addition to this, ethical consideration was provided, confirming that the confidentiality of participants was ensured. In this regard, participants were informed of the interview process and of their rights, before the interview. The consent form was signed by all parties as evidence of implemented ethical considerations.

### **4.7.3 Conformability**

Confirmability is the ease that the study's results can be proven or supported (Anney, 2014:279; Bitsch, 2005:87). The main concern of confirmability is to ensure that the collected data and findings are not fabricated by the researcher but collected from the participants (Tobin & Begley, 2004:392). According to Anney (2014:280), conformability can be obtained by sustaining an audit trail and/or data triangulation (multiple data sources). Korstjens and Moser (2018:121) documented that this process provides visible evidence for others to follow the process from the beginning to end.

In this study, the detailed methodological description assists the reader in deciding if the emerged results could be accepted (Shenton, 2004:72). A detailed audit trail was kept, ensuring that the process followed by the researcher can be traced "step-by-step", as follows:

- Communication was distributed amongst participants through email, which included an explanation of the study (Annexure B). Participants were asked individually if they would like to participate; to confirm participation, they needed to accept the meeting request.
- Before commencing with the interview, the written consent to participate form was obtained from the participant (Annexure D). Information on the participation sheet was discussed, including the interview process.
- Interviews with participants were recorded, after participants verbally agreed. To protect participants' identity, all interview recordings were saved using the allocated participant number (instead of names). These recordings are stored on an external hard drive and are password protected.
- Interview voice recordings were transcribed into text. A copy of their transcript was distributed amongst all participants. It was accompanied with a request to confirm the accuracy and to alter transcripts where necessary. All participants confirmed that they

accepted the transcripts as an accurate reflection of what they verbalised, with minor amendments.

- The transcripts were then imported into Atlas.ti<sup>TM</sup>8 where the coding and data analysis process was performed (see Paragraph 5.2).

Various sources were consulted (Government documents, academic journals and other theses and research documents) to corroborate or verify the study findings, enhancing its validity (Denzin & Lincoln, 2018:445-446; Yin, 2016:87; Bengtsson, 2016:11).

#### **4.7.4 Transferability**

Transferability explains the degree that results of the qualitative research can be compared to similar circumstances with different participants (Korstjens & Moser, 2018:121; Anney, 2014:277; Bitsch, 2005:85). According to Bitsch (2005:85), the research ensures the transferability by using only relevant data pertaining to the research question. Shenton (2004:70) believes other researchers should be able to transfer findings. This can occur if sufficient information, surrounding the circumstances and elaborative descriptions, are provided (Shenton, 2004:70). To achieve transferability, the current study provided detailed descriptions of the steps followed (see Paragraph 5.2). This enables other researchers to determine if the findings can potentially be transferred to similar situations.

#### **4.7.5 Authenticity**

Authenticity mainly refers to the “truth” or fairness in presenting all value differences, observations and conflicts (Creswell, 2018:251).

The descriptive analysis included all opinions of the participants. Both positive and negative responses were included in the analysis, to truthfully portray participants’ perceptions, so that improvements to the TTS could be highlighted.

#### **4.7.6 Confidentiality**

Security protocols were implemented, ensuring collected data remained password protected on a computer database. Information collected during interviews is kept confidential and anonymous, except when the consensus of the opposite was received. The research objective was discussed with participants. They were informed of their right to withdraw from the

process without any clarification. In the event where participants required to inspect the results of the study, this was made available on request (Kaiser, 2009:1639).

Only the researcher/interviewer and the second coder had access to the data obtained. The second coder signed a confidentiality agreement, ensuring that participants' anonymity is protected (Annexure E). All related substantial material is kept locked in a safe at the researcher's residence.

#### **4.8 Conclusion**

Chapter 4 summarises the research design and methodology used in this study. The study was designed as an exploratory qualitative study (Babbie, 2017:80). The study employed primary data, collected during the interview process, to obtain an understanding of whether the TTS is functioning as intended. This study employed the interpretivist paradigm, the nominalist ontology, the realist epistemology and the exploratory qualitative methodology (see Paragraph 4.2).

The data collection techniques (see Paragraphs 4.4 and 4.5) comprised participant selection (convenience and snowball selection techniques) and semi-structured interviews. The data analysis comprised of the analysis of the voice-recorded interviews after transcription and the processes followed to verify the credibility of the research in this study. The overarching themes identified from the literature review were linked to the overarching themes identified during the interview process. Collected interview data were analysed qualitatively, employing content analysis, aided by ATLAS.ti™8 a QDAS. Lastly, this chapter elaborated on the research ethics considerations needed and employed in the study (see Paragraph 4.7).

Following the research design and methodology described in this chapter, the data analysis and interpretation of results are discussed in Chapter 5.



## **CHAPTER 5: ANALYSES AND THE INTERPRETATION OF RESULTS**

### **5.1 Introduction**

Building on the theories discussed in Chapter 2 and the literature review discussed in Chapter 3, this chapter investigates whether the TTS is functioning as intended. The primary data collected during interviews with micro-business owners and information obtained from previous chapters, provide the necessary knowledge and data to answer the research question and sub-questions (see Chapter 1). This chapter details the analysis and interpretation of the research findings.

### **5.2 Data coding and analysis**

The data analysis and coding process commenced by creating a project file in ATLAS.ti™8 (Friese, 2019:36). All 19 interview voice recordings were transcribed (see Paragraph 4.4.3). These were imported into ATLAS.ti™8 as primary documents (Friese, 2019:37).

According to Saldaña (2016:5), coding is a transitional procedure between the data collection process and the in-depth analysis of data. Interview data were analysed, employing a holistic coding approach (Saldaña, 2016:68) in the first cycle and pattern coding (Saldaña, 2016:68) in the second coding cycle. To make sense of the data collected, deductive and inductive content analysis (Bengtsson, 2016:10) was employed within the aforementioned coding patterns.

Saldaña (2016:165) contends that holistic coding occurs when an individual comprehends the basic themes, using big-picture themes rather than analysing the data line by line to understand the content. The researcher used deductive content analysis, where data were reviewed for content, based on the pre-set themes or categories identified during the literature review (Elo, Kääriäinen, Kanste, Pölkki, Utriainen and Kyngäs, 2014:1).

Saldaña (2016:235) explains that pattern coding uses category labels, identifying similarly coded data. Pattern codes organise and structure the corpus to assign meaning from the research. The researcher employed an inductive content analysis as the holistic coding approach. Elo *et al.* (2014:1) define an inductive content analysis as the phase where researchers create open codes and themes, as they peruse data collected.

Chapter 2 discussed theories, guiding the potential themes and relationships emerging from the participants' responses (Friese, 2019:71). The transcripts were perused repeatedly. As pre-set codes were created, deductive reasoning was employed during the initial coding cycle. The codes ('meaning units') identified were initially grouped according to the relevant questions. These codes were directly created within ATLAS.ti™8. It was acknowledged that participants may have worded the same theme differently, and this aspect was contemplated whilst coding. Data were arduously analysed by scrutinising the text and carefully considering the contents conveyed by each participant.

After the first cycle of codes, the codes were further condensed during the second cycle of coding, linking them to themes identified during the literature review. The second cycle of coding was then grouped into emerging themes (group codes) within ATLAS.ti™8 (Erlingsson & Brysiewicz, 2017:94). These emerging themes were assigned to the research and sub-research questions. Table 9 summarises the emerging themes identified from the data.

**Table 9: The study's emerging themes, identified and described**

<b>Code group</b>	<b>Meaning of identified emerging theme</b>
Awareness	Refers to participants' awareness of the TTS.
Understanding	Refers to participants' understanding of tax rules and the relevant legislation.
Knowledge	Refers to the participants' knowledge of the TTS, detailing their explanations of the TTS, including demonstrating their degree of knowledge thereof.
Assistance	Refers to participants using a third party to assist them with their tax obligations.
Benefits	Refers to the TTS benefits (including the subsystems: registration, recording of data, tax calculation, tax returns and payments and object and appeal), emphasised by participants.
Challenges	Refers to the participants' challenges with the TTS (including the subsystems as listed above).
Recommendations for improvements	Refers to participants' recommendations for improvements to the TTS (including the subsystems).

Source: Own compilation

The emerging themes created from the data were analysed based on the code groups that were the most grounded (most frequent comments provided by the participants) regarding the open-ended questions. The most grounded codes were those codes that occurred five or more times. The frequency of a code was determined by the number of descriptive statistics, referring to the same theme. The frequency may exceed the total number of participants. A code could sometimes appear multiple times for a single participant. Additionally, in qualitative studies, a single instance of a code might be particularly insightful and useful. Any interesting or surprising codes are therefore also discussed, even if it occurred less than five times. The full listing is indicated in Annexure G.

A second coder was assigned to increase the credibility of the coding in this study. The second coder co-coded the transcribed interviews simultaneously and independently from the researcher. The second coder was an independent, objective consultant, knowledgeable in the field of qualitative research. As the second coder is not a TTS specialist, several meetings were arranged to provide the second coder with the necessary background and knowledge to effectively code the interview transcripts. The second coder was briefed personally and through emails, specifying the expectations for second coding. The second coder used ATLAS.ti™8 for coding, within the ethical thresholds as provided in the quotation. The quotation reflects that data coding is provided through interpretation and the analysis is the responsibility of the researcher.

The second coder reviewed the literature on the tax canons and structural functionalism. These were communicated as core theories for this study. The second coder followed the sound practice for second coding stages (Smith & McGannon, 2018:101; MacPhail, Khoza, Abler, & Ranganathan, 2016:201-202). These stages involved the second coder perusing the provided information, grouped according to the interview questions. Data were coded in ATLAS.ti™8, combining cognitive/manual tasks and auto-coding. First and second cycle coding occurred by employing the interview questions as a guide. The codes were then grouped, according to the questions and a general category, based on the tax canons and users' confidence in SARS' support.

Coding results analysed per question are discussed in Paragraph 5.3. The tax canons, relevant to each emerging theme, are discussed in the relevant sub-sections, whereas the structural-functionalism application is only discussed at the conclusion of this chapter, once all the

emerging themes were considered. The middle-range theory (tax canons) prepares the reader for the application of the grand theory (structural-functionalism). A conclusion on the grand theory can only be reached, after considering all the data.

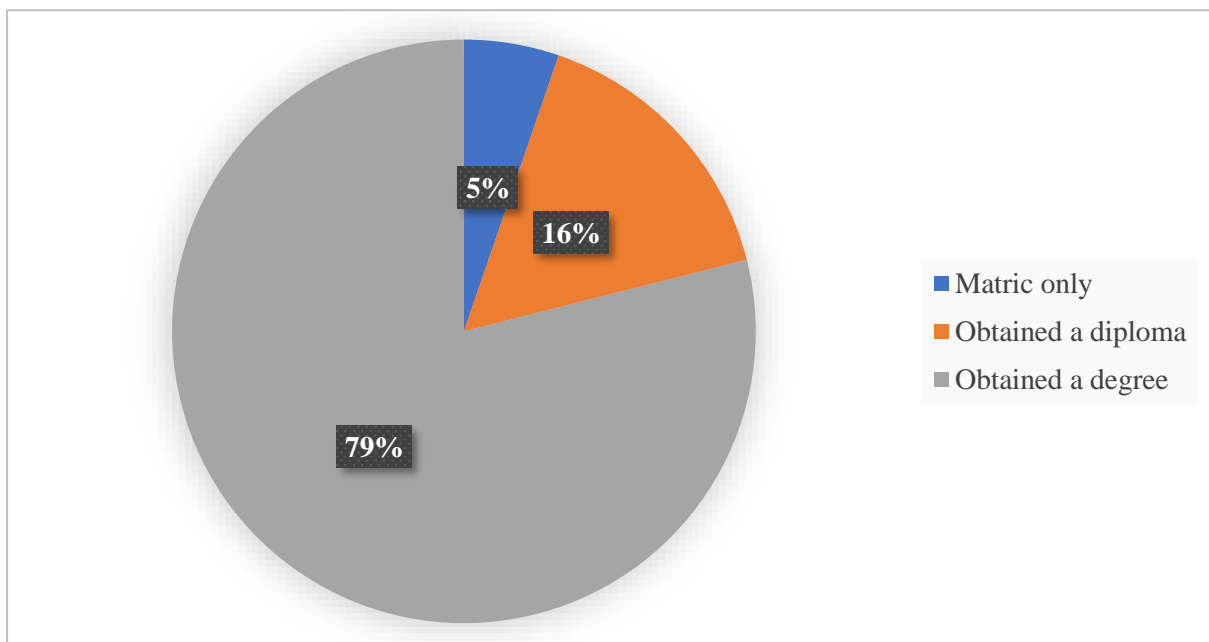
### 5.3 Analysis of demographical information and emerging themes

Based on the grounded codes, data were analysed and interpreted. Findings are presented in the subsequent sections. Data were grouped according to general information obtained concerning the micro-business and its owner (demographic information), including open-ended questions (emerging themes) discussed below. For the emerging themes, the tax canons are also discussed.

#### 5.3.1 Participants' academic and professional background

Figure 8 illustrates that 95% of the micro-business owners (in the formal sector) participating in this study, either obtained a degree or diploma, such as a tertiary education; only 5% had only obtained a matric certificate (secondary education).

**Figure 8: Academic background of micro-business owners**



Source: Own compilation

As a qualitative research design was adopted in this study, a small number of participants were interviewed and hence the findings cannot be regarded as being representative of the population. This study's findings indicate that participants were more educated than most SMME owners (SEDA, 2019b:21) and this should be considered when contemplating the results. No conclusive comparison can, therefore, be drawn between this study and SEDA's (2019b:21) data as mentioned in Paragraph 4.4. However, it is important that the educational levels of the micro-business owners are established as this information provides an indication of what National Qualification Framework (NQF) level should be used when writing the TTS legislation and supporting documents. Based on the SEDA (2019b:21) findings, as most SMME owners have not completed a secondary education, the legislation and SARS documentation should be written at a general certificate (NQF 1) level which is equivalent to Grade 9 (South African Qualifications Authority, 2018).

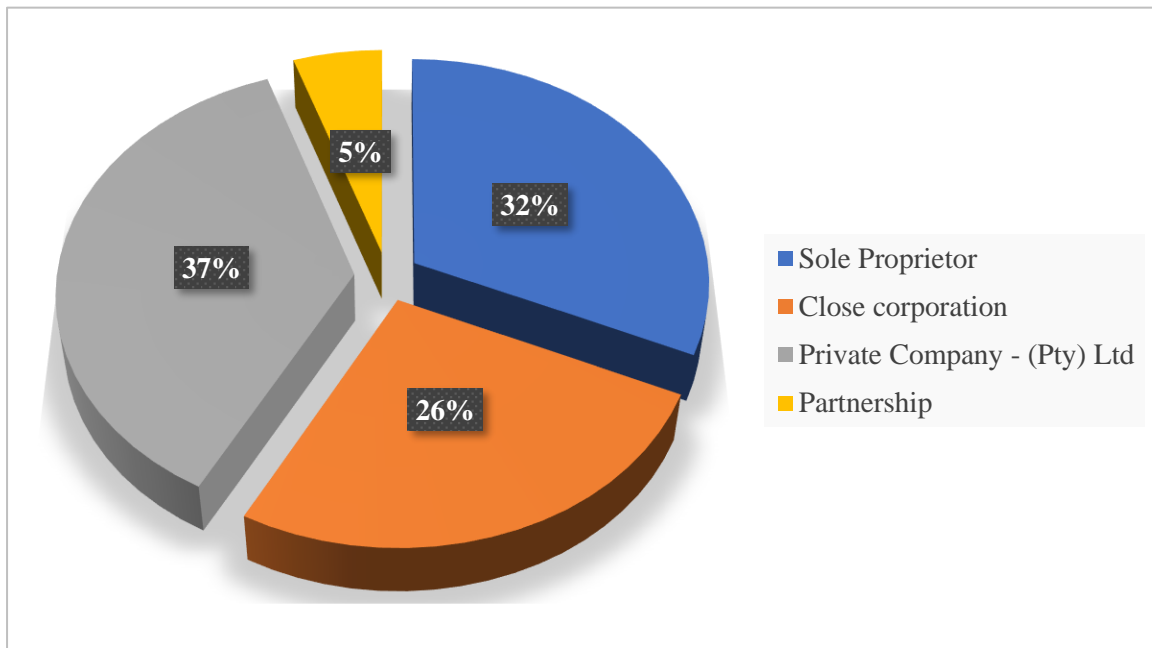
According to the SEDA (2019b:20) report, 5% of SMMEs owners are Indian/Asian; 4% are Mixed-race; 17% are Caucasian and 74% are African. This includes all SMMEs (formal and informal SMMEs sector) race demographics. This study's participants comprised 18 Caucasian and one Asian participants. The findings thus do not include the perspectives of African, Indian or Mixed-race owners.

### **5.3.2 The legal form of the micro-business**

Participants were asked to reveal which legal form their businesses are currently trading under as certain legal forms have different recordkeeping requirements than others (see Paragraph 4.4). Some participants required clarification as to what is meant by legal form, as this was a foreign concept.

Figure 9 depicts the responses received and illustrates that 32% of the participants traded as sole proprietors; 26% as CCs and 37% as private companies; only 5% traded as a partnership. The micro-businesses interviewed, therefore, mainly use a private company, close corporation or a sole proprietorship as their legal form of business. It appears that the use of partnerships is less common amongst micro-businesses.

**Figure 9: The legal form of micro-businesses**



Source: Own compilation

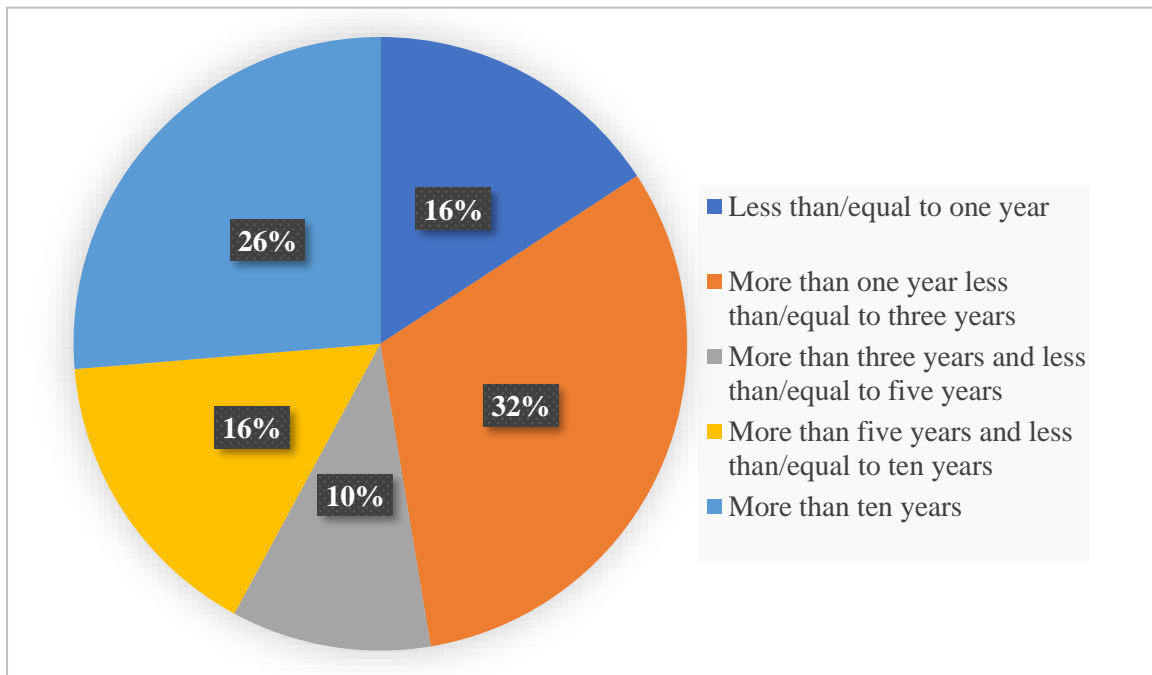
A possible reason for the low number of close corporations is the implementation of the Companies Act No. 71 of 2008 which discontinued the incorporation of new close corporations after 1 May 2011, but existing close corporations could convert to a company (Hefer, 2014).

In the context of the TTS and aligning it with the simplification tax canon, as more than half of the micro-businesses in this study are registered as either a private company or a close corporation, neither of these businesses would really benefit from the reduced TTS record keeping requirements, as these businesses are still required to keep more extensive and specific records as stipulated in Section 24 of the Companies Act or Schedule 3 of the Close Corporation Act (SAICA, 2016:6-9).

### **5.3.3 The trading period and main trading activity of the micro-business**

Figure 10 illustrates that 16% of businesses were start-ups (trading less than one year); 32% of the businesses traded for one year but less than three years; 10% traded for three years but less than five years, 16% traded for five years but less than ten years; 26% traded for 10 years or more.

**Figure 10: How long has the micro-business been trading?**

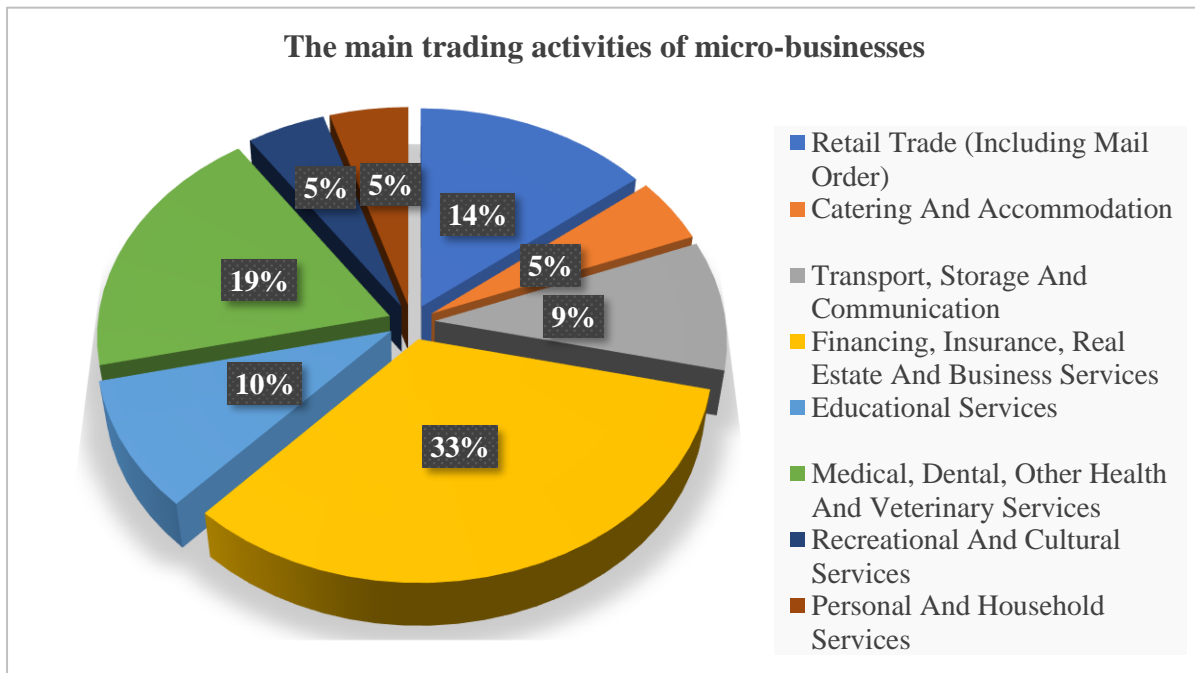


Source: Own compilation

The DSBD (2014:22) report includes a high-level analysis of the business lifespan (of all SMMEs), indicating that 8,38% of SMMEs traded for one year or less; 41,52% traded between one to three years; 28,74% traded between three to five years and 21,34% for five years and longer. The DSDB (2014:22) considered their results similar to the conventional knowledge that about half of the small businesses struggle to survive beyond their first three years of operation. DSBD (2014:22) further noted that after a three-year operational period, a remarkable decline in SMMEs survival rate was established.

In this study, 52% of micro-businesses traded for over three years, and 42% of micro-businesses over five years. Reasons for this could possibly be because most of the business owners in this study are well-educated and trade in the formal SMME sector. Figure 11 illustrates the main business activities of participants in this study, grouped according to SARS' business source codes.

**Figure 11: The main trading activities of micro-businesses**

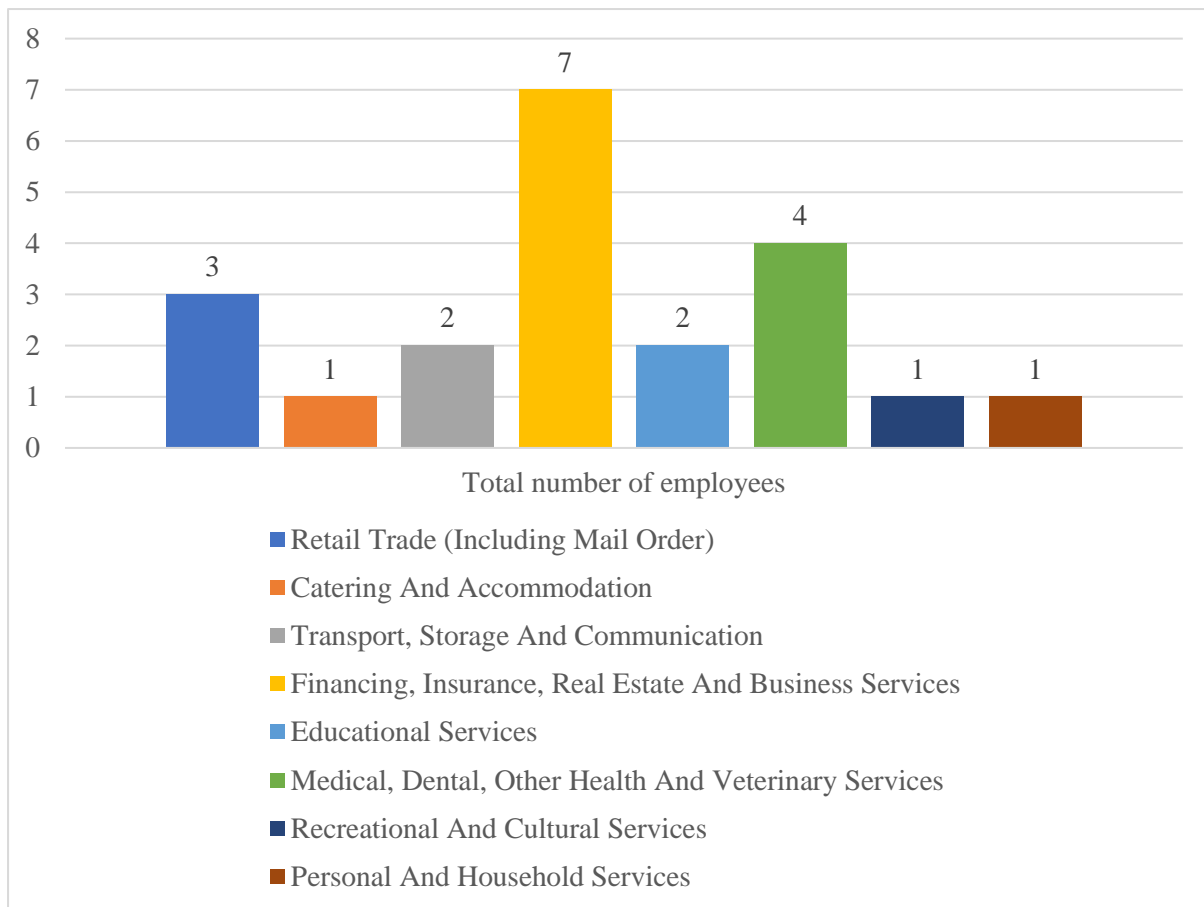


Source: Own compilation

From Figure 11, it seems that this study's participants trade in several industries. 52% of the main trading activities, such as financing, insurance, real estate, business services, medical, dental, other health and veterinary services, would normally be disqualified from adopting the TTS. These businesses are classified as professional services and are generally disqualified from registering for the TTS (unless they employ three or more full-time employees). This enforces evidence of narrow eligibility criteria (not all micro-businesses can employ three or more full-time employees). To an extent, industries that could be generating a higher turnover, whilst developing the economy, are (in certain circumstances) excluded. Aucamp (2010:58) and Killian, Karlinsky, Payne and Arendse (2007:33) support this reasoning by contending that rigid eligibility criteria and narrow definitions, counteracted small business incentive benefits. In addition, Killian *et al.* (2007:33) assert that excluding professionals from the eligibility criteria, is against global best practices. Figure 12 provides an overview of how many individuals are employed by each main trading activity.



**Figure 12: Employment per main trading activity**



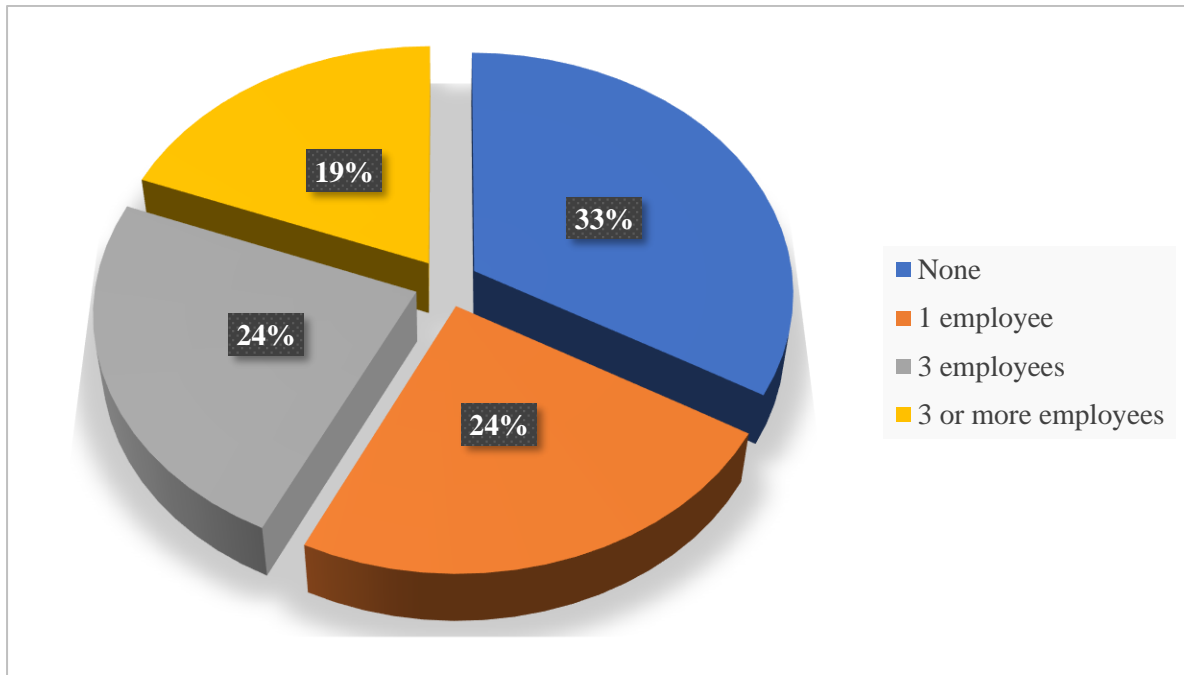
Source: Own compilation

Figure 12 illustrates that 7 individuals are employed in the financing, insurance, real estate and business services sector and 4 individuals are employed in the medical, dental, other health and veterinary services sector. The rigid eligibility criteria and narrow definitions, whilst excluding professionals, would prevent these businesses from adopting the TTS. These businesses are taxed at a higher rate than other micro-businesses qualifying for the TTS. The increased tax burden on these businesses may impact these businesses job creation capabilities. As the aforementioned information is not representative of the entire population, further research is required to determine trading activities employing most individuals, establishing if the current eligibility criteria should be scrapped or made less stringent. Neither of these participants are registered on the TTS and they would also not qualify to adopt the TTS, as a result of having multiple businesses.

Figure 13 summarises the number of individuals employed by the study's micro-businesses. Figure 14 illustrates the employment per legal form. Participant 6 and 14 manage two different

businesses, therefore the employment and trading information for both businesses are included in the data presented. Neither of these participants are registered on the TTS and they would also not qualify to adopt the TTS, as a result of having multiple businesses.

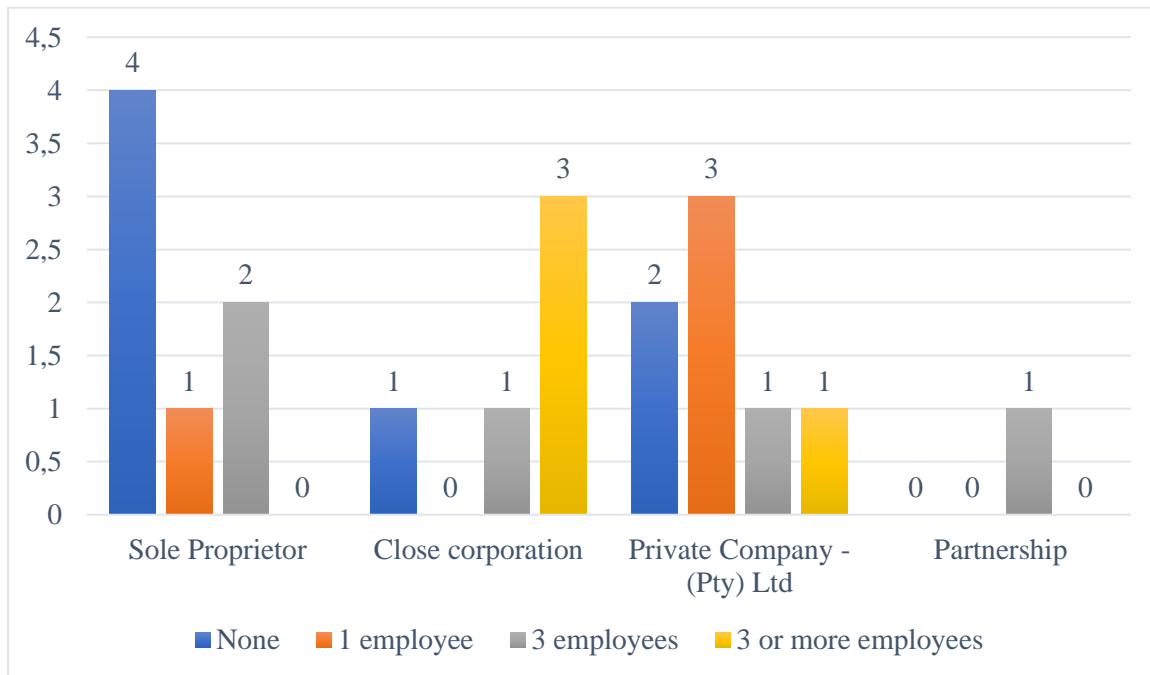
**Figure 13: The number of individuals employed by micro-businesses**



Source: Own compilation Neither of these participants are registered on the TTS and they would also not qualify to adopt the TTS, as a result of having multiple businesses.

Figure 13 indicated: 33% of the micro-business owners did not employ any person; 24% employed one individual; and 43% employed more than two individuals. Considering the number of employees, which legal form employs the most people? Figure 14 graphically depicts the number of individuals employed per legal form.

**Figure 14: The number of individuals employed per legal form**



Source: Own compilation

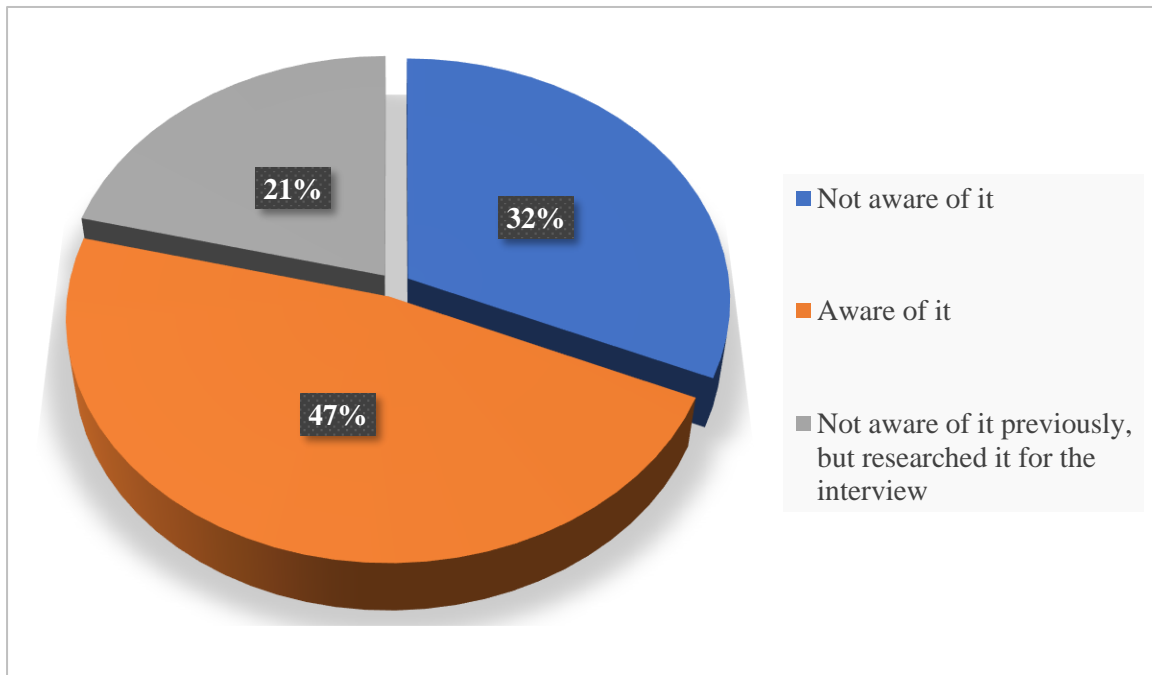
The data indicates 50% or more sole proprietors and private companies employ one or less individuals. In contrast, more than half of the CCs employed three or more individuals. The partnership employed three individuals. Further research is required to establish whether employment opportunities are determined by the nature of the business, or the money generated, and if the turnover limit of R1 million is still appropriate.

According to the University of the Western Cape (2013), only 1% of micro-businesses (starting with less than five employees) grew and employed ten or more individuals. In this study, only Participant 13 employed ten individuals. The participant explained that they started the business from the ground up and developed it, acquiring one client at a time over ten years. This demonstrates, that constructing and developing a micro-business requires hard labour, perseverance and time. Participant 13 is hence, an excellent example of the possible effect of a micro-business on the country's unemployment rate. The nature of this business involves selling hair products and training hairdressers. Most individuals employed, are minimum wage earners, allowing this business to employ ten people, whilst remaining within the R1 million TTS limit.

### 5.3.4 Awareness of the TTS

Figure 15 indicates that 53% of participants were unaware of the TTS; 21% of these participants tried to investigate the TTS before the interview.

**Figure 15: Micro-business owners' awareness of the TTS**



Source: Own compilation

Findings in this study, indicating that most micro-businesses are still unaware of the TTS, are concerning as this system was implemented in 2009. SARS implemented numerous campaigns to raise awareness but despite this, it still appears that small businesses are unaware of this system. The unawareness of small business tax incentives is not a new finding; several academics (Naicker & Rajaram, 2019:133; Labuschagne, 2018:38; Stols, 2014:49; Smulders *et al.*, 2012:214) have previously emphasised that taxpayers are unaware or unsure of the small business tax incentives including the TTS.

According to SARS' Annual Report (SARS, 2010:41), awareness of the TTS was raised through 65 radio interviews and 89 workshops during the implementation year. During the periods that followed, SARS reported the following education, training and awareness initiatives, as well as the number of people reached.

**Table 10: SARS education, training and awareness initiatives**

<b>Tax period</b>	<b>Workshops and seminars presented</b>	<b>Number of attendees</b>	<b>Other initiatives</b>	<b>Tax products presented</b>
2011/2012	4 185	65 100	No information available.	Income tax, PAYE, provisional tax, SBCTC, TTS and VAT (SARS, 2012:43)
2012/2013	5 459	133 584	SARS visited 687 schools and tertiary institutions to promote tax education (SARS, 2013:37).	Income tax, PAYE, provisional tax, SBCTC, TTS and VAT (SARS, 2013:48)
2013/2014	2 000	55 000, and 33 000 owners of small businesses	SARS launched outreach initiatives to reduce the administrative cost and compliance burden of SMMEs and to encourage SMMEs to register for tax. Of the 1 100 SMMEs visited 550 were registered or updated their information (SARS, 2014a:46).	TTS, SMME registration, SMME business types, recordkeeping, basic PAYE and VAT, tax overview, E@syfile, e-Filing, and provisional tax (SARS, 2014a:46)
2014/2015	3 041	202 283	SARS created the Small Business Unit, and 138 small business desks were launched, amidst 50 SARS branches to assist small businesses. It assisted 197 000 taxpayers since August 2014 (SARS, 2015:46).	Income tax, PAYE, provisional tax, SBCTC, TTS and VAT (SARS, 2015:37)

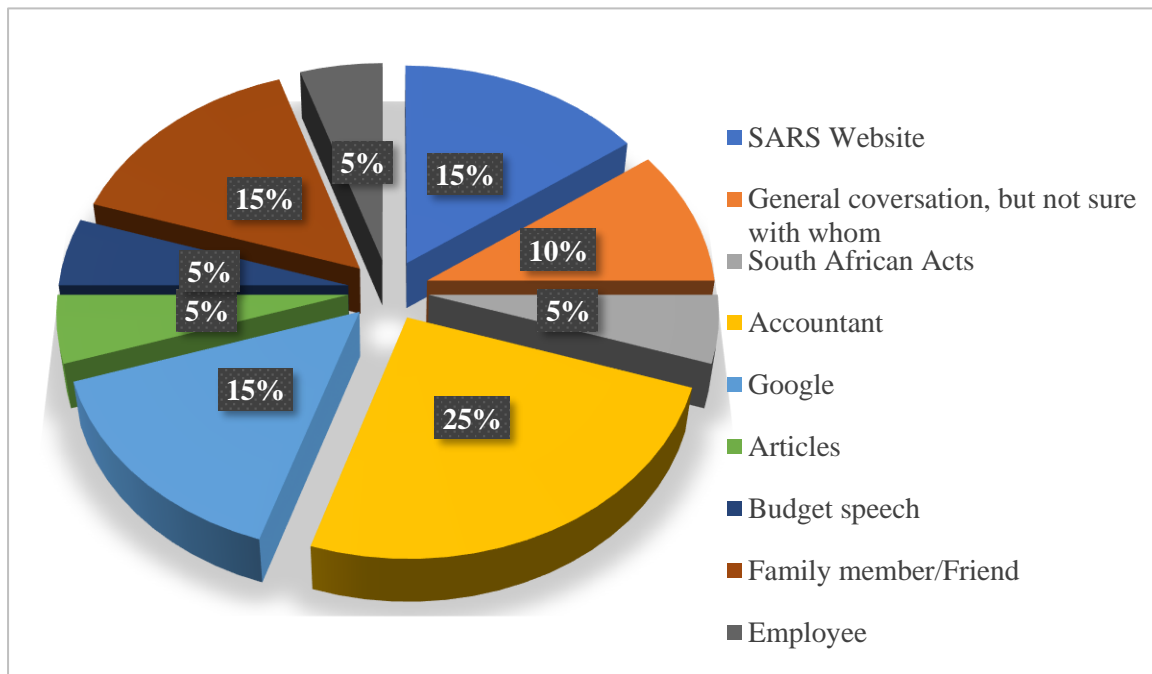
<b>Tax period</b>	<b>Workshops and seminars presented</b>	<b>Number of attendees</b>	<b>Other initiatives</b>	<b>Tax products presented</b>
2015/ 2016	No information available	217 257	SARS hosted tax education workshops, jointly with the Department of Education, for selected school learners, educating them about their moral and legal obligation as citizens to pay taxes (SARS, 2016:56).	Income Tax, PAYE, provisional tax, TTS and VAT (SARS, 2016:56)
2016/ 2017	No information available	215 230	SARS presented at multiple locations and conducted workplace visits (SARS, 2017:74).	No information available
2017/ 2018	No information available	9 825 SARS employees	SARS provided training to its employees on the recent economic and financial environment developments, including the new SARS curriculum on cryptocurrency to teach staff on how to administer tax implications and taxpayer queries (SARS, 2018:92).	No information available

Source: Extracted from SARS annual reports

From the aforementioned, it is evident that SARS presented numerous workshops and seminars, including additional campaigns to educate, train and make micro-businesses aware of the TTS. Indistinct from reports is the quantity of micro-business owner participants and the training focussed on the TTS. On SARS' upcoming workshop schedule (SARS, 2019c), no specific information could be established on TTS training; no information is available to assess if any workshops occurred during the year.

Participants were probed to establish the main information sources that they used to gain an understanding of the TTS. Figure 16 summarises the sources used by this study's participants.

**Figure 16: Sources participants used to gain an understanding of the TTS**



Source: Own compilation

Figure 16 indicates that most of the participants (25%) obtained information about the TTS from their accountants. The importance of the accountants for micro-businesses is evident from this finding and should be taken into consideration by SARS and NT when considering their marketing efforts for the TTS. The SARS' website (15%), Google (15%) or discussions with friends or family members (15%) were the next most popular methods used by the participants to source information about the TTS. On further investigation, if the TTS is Googled, the SARS' website appears at the top of the search results. From Figure 16, it seems that the tax legislation, articles published, and the budget speech were the less frequently used methods by respondents to advance their understanding of the TTS.

According to Lindeque (2012:59), 14,5% of (his study's) participants attended SARS workshops during which the TTS was explained. Most participants believed the workshop assisted them in gaining an improved understanding of the TTS. In the present study, participants (Figure 16) did not refer to workshops and/or seminars as information sources,

perhaps because they have not been offered, but this cannot be confirmed as no information on this is available on the SARS website as is depicted in Table 12.

The DTC (2014:30) established that taxpayers reflected SARS communication and information-sharing on the small business incentives, as deficient. Olla (2016:82-83) agrees by stating: “... SARS is in dire need of more campaigns and initiatives to inform SMEs of the concessions available to them...”

SARS (2014b:25) also raised their concern, in line with the DTC findings, that several of the interventions launched over the years, did not improve the compliance costs of small businesses. SARS also believed that the take up of the TTS is low, and that the system has weaknesses and deficiencies that need to be rectified (SARS, 2014b:25). Yet to date, no significant changes have been made to the TTS.

**5.3.4.1 Application of the tax canons to the awareness findings of the study**

SARS had implemented numerous initiatives to market and raise awareness of the TTS. SARS admitted that these interventions are ineffective. It is evident that these initiatives are generally unsuccessful, as most micro-business owners are still unaware of the TTS. Attributable to these indications, further research is required to establish and identify the most efficient and effective platforms SARS can use, conveying information and to educate micro-business owners on the TTS. Based on the data collected, the relevance of the tax canons to the participant’s awareness of the TTS are discussed in Table 11.

**Table 11: The tax canons addressed by the participants’ awareness of the TTS**

<b>Tax Canon</b>	<b>Met [Yes/No/ Partially]</b>	<b>Reason(s)</b>
Equity	No	Those micro-businesses registered on the normal income tax system, unaware that they might qualify for the TTS, may pay more tax than they are able to pay.
Certainty	N/A	Awareness of the TTS itself does not indicate whether a taxpayer knows how to calculate the tax they need to pay, and when the payments are due.



<b>Tax Canon</b>	<b>Met [Yes/No/ Partially]</b>	<b>Reason(s)</b>
Convenience	N/A	Awareness does not indicate whether the TTS is convenient for the taxpayer.
Economic efficiency	No	Certain micro-businesses are unaware of the TTS, SARS reduces the business productive capacity in the economy by charging more tax than if they were on the TTS, which may affect the taxpayer's economic decision making.
Effective tax administration	Partially	Those micro-businesses unaware of the TTS, incur more tax compliance costs than those registered on the TTS, due to the additional recordkeeping and allowable deduction disclosures on the income tax returns and the more stringent recordkeeping.  If aware of the TTS, the taxpayer incurs less tax compliance costs as they have to keep less records and disclose less on the TT returns.
Simplicity	N/A	Awareness does not indicate if the taxpayer finds the tax rules, calculations and application easy.
Transparency and visibility	No	As most micro-businesses are still unaware of the TTS, this indicates taxpayers are oblivious that the TTS exists (visibility) nor when this tax applies to them or others (transparency).
Productivity	N/A	However, non-compliant micro-business owners may become tax compliant and contribute to society if they are aware of the TTS, thus increasing the number of businesses on this system.
Flexibility	N/A	Awareness does not indicate if the TTS adapts to economic changes.

Source: Own Compilation

### **5.3.5 Understanding the TTS legislation**

Most participants initially confirmed they read and understood the TTS legislation. As interviews progressed, and subsequent information was obtained during the interview, that contradicted the participants' initial response. It was then confirmed that most participants did not read the TT legislation, and they were actually referring to the summarised information published on SARS' website. This indicated a potential challenge as information published on SARS' website is a summary of the TT legislation which does not disclose all relevant details regarding the practical application and impact of the TTS.

Five participants (2, 3, 8, 12 and 16), when probed as to why they did not read the TT legislation, responded, they were unaware of the existence of the TT legislation. Participant 5, however, felt it is too much information and too much effort to determine changes. Participant 5 emphasised: "... I actually want to carry on with my business and focus on the things I have knowledge about and leave the professionals to do what they do best..."

Olla's (2016:20) research had similar findings, establishing that some SMMEs are unaware of the tax legislation applicable to them. Lindeque (2012:24) also established that the TTS definitions and concepts still require interpretation and are not easy for business owners to comprehend without the assistance of a tax practitioner. The mere fact that there are numerous definitions for micro-businesses, in South Africa as well as internationally, may hinder the functionality of a simplified tax system, by indirectly increasing the complexity associated with the tax system (Freedman, 2009:153-178). This may result in confusion for the taxpayers.

The few participants (1, 6, 9, 14 and 17) that actually perused the TTS legislation (or parts of it), comprised participants registered on the TTS and/or those with an academic background, specialising in languages, law or accounting.

To determine the functionality of the tax legislation, consideration must be provided to the participants' comprehension thereof. This directly influences the implementation process on an operational level. Below are excerpts of some participants' commentary regarding the understandability of the tax legislation:

Participant 6: "... No, it was not easy to understand. Because all legal jargon is difficult to understand. It is written in an unhelpful and uncooperative English. A number of the words and writings do not make sense..."

Participant 14: "... It was not that understandable. I had to direct a number of questions about it, to get clarification on it. The information was more technical, and because I didn't have the background behind it, I didn't really grasp what's going on..."

Smulders and Naidoo (2013:268) found the tax legislation (even the supposedly simple TT legislation) is still written in a complex manner. Killian *et al.* (2007:33) assert in their findings, similar to this study participants' observations, that SMMEs struggle with complex legislation, resulting in an increased administrative burden. Based on these findings, participants in the current study were asked to provide suggestions to make the tax legislation more understandable for micro-business owners. Below are excerpts of some participants' suggestions regarding methods SARS can introduce to make the tax legislation more understandable:

Participant 5 suggests: "... Pitch it at a level, so that someone, that does not have an accounting or auditing background can understand it. Using terminology that the [average citizen] can understand. Break it down and explain, with the use of visual aids, what part of a form needs to be filled in for submission, what a person needs to have ready with the submission..."

Participant 6 suggests that SARS: "... should look at the level of the micro-entrepreneurs. It does not help to peg the legislation at the level of legal people, or legal draftsman. You must peg it at the level of the people who are going to read and use it..."

SEDA (2019b:21) report indicated that the majority of SMMEs have not completed a secondary education. Therefore, the readability of the tax legislation and related tax documents for SMMEs, become vital. If the tax legislation is too complex, it can escalate compliance costs and could result in taxpayers' non-compliance (Saad, 2014:1074). The readability of the tax legislation falls outside the scope of this study, but it is recommended as a definite area for future research as it does appear to be problematic for the respondents of this study.

### 5.3.6 Participants' knowledge about the TTS

The general impression obtained during interviews was that participants understood the basic elements about the TTS, whilst their knowledge-base was limited. In contrast, two participants registered on the TTS conducted extensive research, providing them with an in-depth understanding and knowledge of what the TTS entails. Intriguingly, Participant 13, registered on the TTS, fully relied on an accountant and held little knowledge of the TTS.

Ten participants (4, 5, 6, 8, 9, 10, 11, 13, 17 and 19) referred to the TTS as a simplified tax system. Only three of the ten participants (4, 5 and 6) were aware that the TTS replaced a number of taxes. Six participants (6, 7, 9, 11, 14 and 17) mentioned that the TT liability is calculated with significantly reduced tax rates compared to those of individuals, companies or trusts.

Participant 13 and 18 rely on their accountants for assistance, lacking the necessary tax knowledge or time to manage their own taxes. In contrast, Participant 9 and 17, conveyed that the TT calculation is easy, however, they still use an accountant for their statutory requirements and administrative ease (submit returns manually on behalf of client and resolve SARS queries). This contradicts the original intention of the TTS, aimed at enabling taxpayers to manage their own tax obligations.

Ten participants (1, 5, 6, 9, 10, 11, 14, 16, 17 and 18) mentioned that calculating the tax liability on the TTS is based on the micro-business turnover received and not the business profits. Only Participant 9 referred to the qualifying turnover, and that certain income sources are excluded from the turnover. Participant 9 elaborated that the income excluded from turnover is indicated separately on the taxpayer's personal income or corporate income tax return. This implies that not all income tax principles were replaced by the TTS, as SARS communicated. Participant 2, conversely, confused turnover with profits in their explanation, providing the impression of not fully understanding the perused information. This may emphasise a potential challenge, indicating that the tax terminology might be too complex for micro-business owners.

Nine participants (1, 4, 8, 9, 11, 13, 17, 18 and 19) explained the eligibility criteria of the TTS as being only applicable to micro-businesses with an annual turnover of R1 million or less. Besides the turnover threshold, the other most commonly referred to criterion was that of personal service providers, affecting most participants. As aforementioned, Killian *et al.*

(2007:33) reason that eligibility criteria and definitions are narrow and go against international best practices.

Participant 6 discussed the asset limitations, influencing their business. From the discussion, Participant 6 interpreted the legislation as the value of assets held may not exceed R1,5 million, rather than R1,5 million of assets may not be disposed of during a three-year period. Participant 9 also emphasised that the investment income exclusion is generic and that SARS officials employ a blanket approach to deny applications, rather than assessing each case on its own merits. In their case, SARS considered their property as investment income, where the business model is similar to a property management company. Participant 9 also communicated his frustration with completing his personal income tax return in addition to the TT return, to account for any investment income, thus increasing his tax administration burden and making the TTS more cumbersome.

Five participants (8, 9, 10, 13 and 19) were acquainted with the requirement that returns and payments had to be submitted three times in a tax period. Participant 8 stated that tax returns and recordkeeping criteria were reduced to assist micro-businesses. Participant 5 was of the opinion that the frequency of returns submitted by micro-businesses are less than those of a company registered on the income tax system. This is only partially true, as companies are required to submit two provisional tax returns and a final return, similar to returns submitted on the TTS. The major difference is the level of information to be submitted on returns. Micro-businesses only have to indicate the qualifying turnover; a company on the normal tax system must indicate all income earned, including allowable deductions. If referring to the VAT returns, the statement is true, as an additional administrative burden (frequency of returns) may be placed on a company, based on the company's VAT category. For example, if a business (VAT vendor) is categorised as a category A/B (turnover of R30 million or less), it is required to submit VAT returns every two months. Whereas, if a micro-business is categorised as a category D, it is only required to submit bi-annual VAT returns (SARS, 2019f). PAYE, SDL and UIF are the same, irrespective of the system a taxpayer is registered for; these taxes are excluded from the TTS.

Participant 5 and 9 also alluded that TT returns were simplified; only the turnover amount need to be captured. Participant 9, however, contended that the tax payment process is difficult as the payment must occur at the bank, and if unsuccessful, the taxpayer has to visit a SARS

branch for assistance. Participants' statements were partially confirmed by the SARS "Administration for TT" Guide (SARS, 2019b:25), stating that payment of TT can ensue through the following SARS channels: visiting a SARS branch; or through a bank or ATM (SARS, 2019d). The amendments made by SARS in 2019, identify and explain information to be captured in an electronic (online) payment.

Four participants (Participant 4, 9, 18 and 19) voiced their frustration with the returns, having to be submitted manually, whereas all other tax returns can be filed electronically (e-Filing). No further information was established on SARS' website (SARS, 2019a) or in the SARS TT Administration Guide (SARS, 2019b:10-11), contradicting the participants' statements. Two participants (9 and 17) also voiced their frustration of unnecessary objections and appeals and the associated time and costs, arising as SARS officials lack the required TTS knowledge and applied the TT tax rules incorrectly or subsequently amended their original decision.

Evident from responses from Participant 3 and 12, these taxpayers confused the turnover amount included in the VAT or the corporate income tax returns with the amount of taxable turnover to be included for the purposes of the TT return. These participants believed TT referred to the VAT and/or Income Tax paid on the revenue (turnover generated) of a business. This indicates that taxpayers find tax concepts difficult and diverse uses of similar terminology only confuses taxpayers.

Participant 6, however, raised an interesting point about the fact that SARS does not explain to micro-businesses the financial impact of the tax on the TTS versus another tax system, based on low or high-profit margins. Participant 14 raised a further concern that SARS does not allow micro-businesses to register on this system if they own more than one business. Neither of the participants who had more than one business, was registered on the TTS.

#### ***5.3.6.1 Application of the tax canons to the understanding and knowledge findings of the study***

It is clear that most participants do not comprehend or hold knowledge of the TT legislation. Those participants that understood the TT legislation, found technical and complex language is used, which made it difficult to understand. The mere fact that there are numerous definitions for micro-businesses, in South Africa as well as internationally, may hinder the functionality of a simplified tax system, increasing the complexity associated with the tax system and may

confuse the taxpayers. Most participants' knowledge of the TTS predominantly focused on the following broad points:

- The TTS is a simplified tax system;
- The turnover limit for micro-business is less than R1 million;
- The tax is calculated on the turnover and not the profit; or
- Personal service providers are specifically excluded.

Most participants lacked knowledge concerning the following TTS areas: that it replaces five other taxes; returns are manually submitted, three times in a tax period; the disposal limitation of assets of R1,5 million in a three-year period; how to calculate the taxable turnover (including the specific inclusions and exclusions) and the tax liability (including the reduced TTS tax table); that turnover is only taxed when received; that investment income of an individual is still taxed under their personal income tax return and that an individual/a company may not own more than one business on the TTS.

**Table 12: The tax canons addressed by the participants' understanding and knowledge of the TTS**

<b>Tax Canon</b>	<b>Met [Yes/No/Partially]</b>	<b>Reason(s)</b>
Equity	N/A	No data collected on the understanding of the TT legislation or the participants' knowledge of the TTS provided information on the equity of the system.
Certainty	Partially	Those taxpayers that understood the TT legislation, and had knowledge of the TTS, knew exactly how to calculate the TT and when the TT payment and returns are due.  For any taxpayer that does not understand the TT legislation or the tax rules and/or lacks knowledge on the TTS, uncertainty arise. When the TT legislation is too complex, taxpayers do not know or understand how the TT is calculated, when the payments and returns are due.
Convenience	Yes	SARS only taxes micro-businesses on turnover received, rendering the timing and payment of taxes more convenient

<b>Tax Canon</b>	<b>Met [Yes/No/ Partially]</b>	<b>Reason(s)</b>
		for the taxpayer as those on the normal tax system have to pay tax on amounts accrued (not yet received).
Economic efficiency	Partially	<p>Participants that understood the TT legislation and/or had knowledge of the TTS, elected to rather register on the TTS as they would pay less tax. Their knowledge about the TTS affected their economic decision making.</p> <p>For those micro-business owners not eligible to register on the TTS, they may be motivated to change their behaviour in order to avoid paying taxes as they do not benefit from the reduced rate of tax.</p>
Effective tax administration	Partially	<p>Participants registered on the TTS have minimal tax compliance cost (as long as they do it themselves) as less information needs to be disclosed on the TT return. However, for those participants with insufficient knowledge of the TTS or insufficient time, the use of a third party will increase the tax administration costs of the taxpayer.</p> <p>The lack of understanding the TT legislation and knowledge of TTS, results in unnecessary objections and appeals for taxpayers, as SARS officials appear to be applying the tax rules incorrectly. This increases the tax administration burden for both the taxpayer and SARS to resolve these matters.</p> <p>The TTS requires taxpayers to retain less records for audit purposes. Which will reduce SARS cost when an audit needs to be conducted.</p>
Simplicity	Partially	The complex and technical language used in the TT legislation lacks simplicity according to the participants.



<b>Tax Canon</b>	<b>Met [Yes/No/ Partially]</b>	<b>Reason(s)</b>
		<p>The TT return is much easier for the taxpayer to understand as only the taxable turnover is required for the tax calculation.</p> <p>The manual submission of the TT returns lacks simplicity and is not cost-efficient, as taxpayers have to physically visit a SARS branch to remain compliant. This is not as simplistic as e-filing (which taxpayers became accustomed to).</p>
Transparency and visibility	No	Most of the taxpayers had no prior knowledge that the TT legislation and the TTS existed (visibility), and they do not know how the tax will be imposed on them or others (transparency).
Productivity	N/A	No data collected on the understanding of the TT legislation or the participants' knowledge of the TTS provided information if the system generates ample taxable income for the government to administer the tax system efficiently.
Flexibility	N/A	No data collected on the understanding of the TT legislation or the participants' knowledge of the TTS provided information on the flexibility of the system.

Source: Own Compilation

### **5.3.7 Do you receive assistance with the TTS's compliance obligations?**

When this question was directed at the participants, most of them confirmed that they use an accountant or third party to assist them with their tax system compliance obligations. Twelve participants (1, 3, 5, 7, 8, 10, 11, 12, 13, 14, 16 and 18) indicated that they would rather outsource their tax compliance obligations to a third party with the relevant knowledge and expertise. In addition to the knowledge aspect, 11 participants (3, 4, 5, 8, 9, 11, 12, 14, 15, 17 and 18) also indicated they have insufficient time to perform these tasks; they use accountants to assist them with this and other accounting matters required by law; they prefer focussing on their niche areas of expertise. Two participants (13 and 18) are registered on the TTS and use a taxation specialist, as they do not have adequate knowledge and time to ensure complying

with the legislation. Participant 17 uses a third party, not for the TT, but rather to assist with general accounting matters, statutory requirements (for example CIPC submissions) and administrative ease (PAYE and tax calculations and submissions). Participant 9 uses a third party for convenience, and to make life easier. Participant 9 explained why he uses a third party for the following reasons:

“... at this stage there is a lot of confusion. If you phone SARS helpline number, they are totally confused, if you go to the helpdesk they are totally confused, with some of the requirements and definitions for the TTS. On the TTS ... you have to physically fill in the form and take it to a SARS branch ... Why do I use the accountant? to make my life easier. The accountant has someone that goes to SARS quite often and then I do not have to sit in the long queues and wait. There is always a query with the TTS, because the people at the SARS office do not understand the rules and forms of the TTS. So, my accountants can go and argue for me at SARS...”

#### ***5.3.7.1 Application of the tax canons to the TTS assistance findings of the study***

From the above, it is evident that two taxpayers on the TTS use third parties to assist them with their TTS compliance obligations as they lack the necessary knowledge and have insufficient time. Whilst, the other two taxpayers on the TTS use third parties to assist with general accounting matters, other statutory requirements, as well as, to deal with the unintended administrative burden associated with filing of TT returns and the related queries.

**Table 13: The tax canons addressed by the participants using assistance on the TTS**

<b>Tax Canon</b>	<b>Met [Yes/No/ Partially]</b>	<b>Reason(s)</b>
Equity	Partially	Being on the TTS allows a micro-business to pay less tax and also reduce its compliance costs (no tax advisor needed in theory).  However, it appears that certain micro-businesses on the TTS do still use tax advisors due to the complexity or lack of knowledge of the TTS, and this could reduce their ability to pay the tax due to them due to the additional advisor cost.

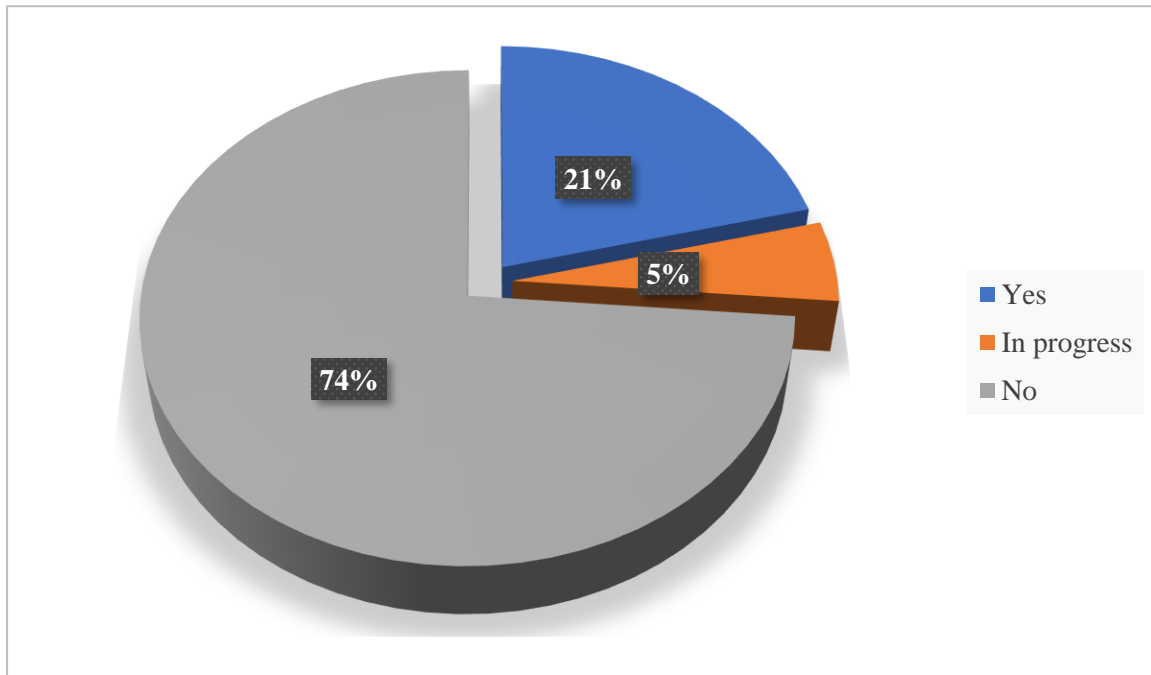
<b>Tax Canon</b>	<b>Met [Yes/No/ Partially]</b>	<b>Reason(s)</b>
Certainty	No	As the taxpayer lacks knowledge of the TTS and use a third party to assist, it implies the taxpayer is uncertain how the TT is calculated and when and how the payments are due.
Convenience	No	In some instances, micro-businesses have chosen to use third parties to assist them with their calculations and payments in respect of the TTS as it is not convenient for the taxpayers to do it themselves.
Economic efficiency	N/A	Whether taxpayers use third party assistance or not, provides no information on whether the TTS unduly taxes micro-businesses.
Effective tax administration	No	Due to the unintended administrative burden associated with the manual TT return submission and the SARS queries as a result of incompetent SARS officials, taxpayers need to spend more costs on third party assistance. This results in the TTS becoming administratively inefficient.
Simplicity	No	Taxpayers outsource their tax compliance obligations due to lack of knowledge and not understanding the TTS. This implies the TTS is not as easy as it is portrayed.
Transparency and visibility	No	Taxpayers on the TTS using assistance are aware that the TTS exist, and it is therefore visible. However, as some taxpayers use third parties to do the TT calculation, return submissions and payments, this shows these taxpayers do not know and understand, how and when the TT is imposed on them or others. This shows the TTS tax rules are not transparent and therefore based on the assistance aspect, this tax canon is not met.
Productivity	N/A	Third party assistance provides no information as to whether the TTS is a productive tax system or not.
Flexibility	N/A	Third party assistance provides no information as to whether the TTS adapts to economic changes or not.

Source: Own Compilation

### 5.3.8 Reasons why micro-businesses are/not registered on the TTS

Figure 17 illustrates that 74% (14 micro-businesses) were not registered on the TTS; 5% (one participant) is busy with the turnover registration process, waiting for feedback from SARS, whilst the remaining 21% (four micro-businesses) are registered on the TTS.

**Figure 17: Participants registered on the TTS**



Source: Own compilation

Participants not registered on the TTS (74%) were requested to provide reasons for not being registered on the TTS. The most common reasons provided, were that participants (1, 2, 3, 4, 5, 7, 12, 15 and 16) were unaware of the TTS' existence; participants (8, 10 and 11) were discouraged by their accountant to register; the micro-business is not eligible to register (Participant 1, 6, 7 and 16), and/or the micro-business is making a loss or has a low-profit margin (Participant 8, 10, 11 and 14). This study's findings are corroborated by other academic research that has established similar reasons as to why taxpayers are not adopting the TTS (Labuschagne, 2018:43; Stols, 2014:48; Smulders *et al.*, 2012:212; Lindeque, 2012:11).

Participant 7 stated that manually submitting TT returns and queueing at SARS offices for lengthy periods, is unappealing; therefore, the participant does not want to register on this system. Labuschagne (2018:43) reveals that (his study's) participants, similarly noted, that the

administrative burden is too high and therefore, they did not apply for the TTS. Participant 9 contradicted Labuschagne's finding, explaining that the TTS effectively reduces the administrative burden as follow:

Participant 9 states: "... it is quite simple, if you are renting out properties, on the normal tax system you have to indicate each property separately... If you have 13 properties, you indicate the income and expenses for each property separately. And since we are married in community of property, we must do the same on my wife's personal income tax return as well. This is a lot of paperwork ... when you get audited you must submit all the documents. As we had 10 (and three in the trust) rental properties, we ended up with 1 000 pages (500 pages each) that had to be submitted every time SARS audited us ... This was a time-consuming and administrative process ... So, the two reasons, the reduction in admin hours to a minimum and not needing an accountant..."

Participants registered on the TTS, provided the following as main reasons for registering on the TTS: reducing the business tax liability (Participant 9, 17 and 18); reducing tax administration hours, including reduced recordkeeping (Participant 9 and 19); advised by their accountant to register (Participant 13 and 18); they do not have to appoint an accountant anymore to assist with tax compliance matters (Participant 9).

Participant 9 made a bold statement relating to accountants, discouraging clients to register on the TTS, as per the excerpt below:

"... When you do the TT, there's little input required from the accountant ... So, I think it's a conflict of interest for the accountants as well, so they are not keen on the system... generally they themselves, do not want to sell the concept to their clients ... they currently do their books and their taxes, which is not actually really[sic] necessary..."

The interviewer communicated with various accountants to identify participants registered on the TTS. During these interactions, two accountants admitted that from a fee perspective, it is to their disadvantage to advise their clients to register on the TTS.

Based on the aforementioned features, participants registered on the TTS, adopted the system as it is more tax-efficient, whereas those not registered, were either unaware of the system, or discouraged to register, as it would be less beneficial for them from a tax payable and/or tax administrative perspective.

### **5.3.9 Participants' perceptions on the success of the TTS**

From the data, it was clear that participants' perceptions of how successful the TTS is included both their perception of what they considered successful and what they considered failed. The most grounded perceptions (both successes and failures) of the TTS are summarised in the next section.

The participants not registered on the TTS perceived the TTS could be successful in the following instances:

- If it simplifies processes, rendering it affordable for micro-businesses.
- If it is user-friendly and reduces the paperwork, allows for e-filing of returns, has less restrictive eligibility criteria and explains information with basic non-accounting language.
- If it can persuade unregistered micro-businesses to start contributing to the economy.

Most participants (whether registered/not on the TTS) perceived that the TTS is unsuccessful due to the following:

- Few micro-businesses are aware of it or are using this tax system.
- SARS officials lack appropriate knowledge concerning the TTS to assist taxpayers and to resolve queries.
- SARS officials applying the tax rules incorrectly, resulting in an increased number of objections.
- The eligibility criteria are too narrow, specifically excluding professionals from registering on this system.
- The tax legislation and other SARS documents are too difficult to understand.
- It fails to reduce the administrative burden, as returns need to be filed manually.
- Micro-businesses pay more tax on the TTS if they have losses or low-profit margins.
- The TTS thresholds has not updated since its inception date.
- TTS is only keeping the TTS as window dressing to show how they assist SMMEs.

- SARS lacks the appropriate controls or checks to ensure that all partners in a partnership is registered on the TTS after being transitioned from the normal tax system.

Participants registered on the TTS, identified the system and the concept as being a good one and, in some instances, having achieved its objectives. These participants registered on the TTS found the TTS is successful, as it simplified the TT calculation, simplified the TT return by reducing the information disclosed, decreased the recordkeeping requirements and tax micro-business at reduced tax rates, reducing their tax liability to assist them to grow. However, the TTS administration and the SARS officials' knowledge, (their lack of an understanding of the TTS), were considered major shortcomings. Participants not registered on the TTS, generally perceived that the TTS could be successful if areas of improvement as aforementioned, were to be rectified.

#### **5.3.10 Suggested changes to the TTS**

Participants generally believed the TTS could be successful if SARS would implement the suggested changes. Participants in this study suggested the following main areas, requiring crucial changes in order to improve the TTS:

- Improve the TTS marketing, to raise better awareness amongst micro-businesses.
- Simplify the tax legislation and SARS documents, by constructing them in a language that the ordinary man on the street can understand.
- Create a document, explaining the TTS, including advantages and disadvantages, and practical implications for a business.
- Improve the education and training of SARS officials at the branches, concerning the functioning of the TTS.
- Make e-filing available for the TT returns.
- Improve the TTS administration and small business assistance at SARS branches.
- Amend the TTS thresholds to align with economic changes.

#### **5.3.11 Application of the tax canons to findings of the study**

The participants generally felt that the TTS is not entirely a good tax system (see Paragraphs 5.3.3 to 5.3.10). The majority of the tax canons (equity, certainty, convenience, economic efficiency, effective tax administration, simplicity) were only partially met, whilst the transparency and visibility tax canon relating to the TTS was not met.

However, considering the participants' comment that they perceive the TTS can be successful if unregistered micro-businesses start paying tax and the TTS thresholds has not updated since its inception date. These links closely to the productivity and flexibility tax canons. However, as the participants have not provided sufficient information to assess these tax canons effectively, further information was sourced from literature to get a more holistic picture. The productivity and flexibility tax canons additional findings are discussed below:

**Productivity:**

According to SEDA (2019b:1), approximately 2,5 million formal and informal SMMEs exist in South Africa. This figure includes small and medium-sized businesses that would not be eligible for the TTS as their turnover exceeds the R1 million threshold. Table 14 summarises revenue collected from the TTS, according to published SARS financial performance reports (SARS, 2013:93; SARS, 2011:71).

**Table 14: Extract from the SARS Statement of Financial Performance**

<b>Statement of Financial Performance line item</b>	<b>2010 R</b>	<b>2011 R</b>	<b>2012 R</b>	<b>2013 R</b>	<b>2014-2018 R</b>
TT	6 493 000  (SARS, 2011:71)	2 802 000  (SARS, 2011:71)	5 703 000  (SARS, 2013:93)	11 319 000  (SARS, 2013:93)	No information available in the annual reports

Source: SARS Annual Reports (2013:93 and 2011:71)

Based on the revenue generated for the 2010 to 2013 tax periods, the TTS appears to be productive, generating ample taxable income for Government. As no TT financial information was disclosed in the Annual Reports from 2014 to 2018, as was presented during the initial periods, it is uncertain whether this system still generates similar revenue, as reported in 2013. To determine how productive the TTS is, the tax revenue forgone and the costs associated with administrating the TTS need to be calculated and lastly, the TTS should disclose how much is used for the welfare of the people.



As the targeted group for the TTS was mainly SMMEs in the informal sector or individuals, not registered for tax, there may be no revenue forgone, with only an increase in income. Costs associated with administrating the TTS might be high as SARS implemented numerous initiatives to create awareness in the informal sector, whilst also educating SMME owners and also it is a largely manual process. As no information regarding the number of taxpayers registered and/or eligible to register is available on the TTS, it is difficult to determine the impact to assess if the TTS is efficiently administrated. It is evident that the information regarding the revenue forgone, administration costs and the tax collected from the TTS, require further scrutiny.

### **Flexibility:**

Even though South Africa experienced an economic recession, the TTS had minimal changes since its implementation. Changes effected to the TTS are as follows:

- The restrictive requirement, requiring taxpayers to be registered for at least three years on the TTS before they can voluntarily deregister, was retracted (DTC, 2016:15).
- The Government also introduced another reform, allowing taxpayers on the TTS to voluntarily deregister from the TTS annually (DTC, 2016:15).
- The TTS permits two annual payments on an optional basis (DTC, 2016:15).
- The micro-businesses tax tables thresholds were amended in 2016, ensuring that businesses earning a taxable turnover of R335 000 or less (previously R150 000 or less) will be exempted from tax (SARS, 2019a).
- The micro-businesses tax tables maximum tax rate was initially 6%, but it changed in 2015 to a maximum rate of 3% (SARS, 2019a).

The aforementioned indicates that no adjustment was made to the TTS to account for inflation. Budak and James (2018:27) contend that although flexibility may be necessary, it may lead to complexity. Based on the aforementioned, the flexibility tax canon may be necessary, but is not vital in a simplified tax system, as changes to the system may reduce its simplicity.

Considering the additional information relating to the productivity and flexibility it seems that the flexibility tax canon is partially met. Due to the elements of uncertainty in relation to the productivity tax canon, is not met as currently no predictable and reliable information is currently available to show the revenue generated versus revenue forgone on the other tax

systems. It most likely that Government has foregone more revenue or spent more costs on the TTS in order to achieve their objective of growing SMMEs.

### **5.3.12 Application of structural functionalism to findings of the study**

Following on the tax canons, structural functionalism contends that systems are logical and purposeful, enabling practical and worthwhile functions and benefits to society. Taxation is such a system. The tax canons are part of the system in that they are the qualities to ensure a good, stable and secure tax system.

The data indicate that the TTS to an extent, partially meets the functional prerequisites of the tax canons; the data also indicate that participants' observations of TTS is that the TTS moves along a continuum concerning the tax canons. The tax canons are not applied fully in their purist and ideal form. They are more often optimised and less efficiently/effectively applied.

This study highlights the existence of *functional adaptation* of the tax canons where the Government attempts implementation/optimisation within the constraints of a tax administration, indicating over-stretched and under capacitated (SARS officials do not have the resources or knowledge) and also *functional adaptation* on behalf of micro-businesses, pursuing ways to make this tax work for them; or pursue ways to benefit from this tax, amidst their constraints in an emerging and struggling economy. This could be observed from one participant using the TTS to increase their retirement income, by registering on the TTS or, alternatively where taxpayers administer their businesses lean on obtaining a similar tax benefit on another tax system.

Structural-functionalism and the tax canons suggest adaptation and change to achieve the best outcomes for society and the tax system. The data suggest a need to improve towards socio-economic justice for micro-businesses in an improved fulfilment and implementation of the tax canons within the TT sub-system. This indicates that NT needs to improve its efforts towards achieving socio-economic justice, through improved procedural and substantive fulfilment of the TTS. Tax beneficiaries also have to respond with more active and honest agency to best use the TTS.

#### **5.4 Chapter conclusion**

Chapter 5 summarises the analysis process followed after the interviews were completed. Based on the emerging themes identified during the coding process the findings based on the most grounded or interesting codes in this study was summarised in this chapter.

In this study, the collected data was examined based on the structural-functionalism principles and the tax canons of a good effective tax system. The data highlighted copious concerns about the TTS operational aspects, as is evident from the findings showing that only the flexibility tax canon was met; majority of the tax canons was only partially met and the transparency and visibility and productivity tax canons, which were not met. Structural-functionalism and the tax canons suggest that the role players (the Government and micro-businesses) adapted the implementation aspects of the TTS to achieve the best outcomes for society and the tax system. The data highlighted that improved fulfilment and implementation of the tax canons within the TTS is required to achieve socio-economic justice for micro-businesses. This indicates that NT needs to improve its efforts towards achieving socio-economic justice, through improved procedural and substantive fulfilment of the TTS and that the taxpayers also have to be more active and honest in their use of the TTS.

Following the data analysis and interpretation of the results described in this chapter, the summary, conclusions and recommendations drawn from the findings are discussed in Chapter 6.

## **CHAPTER 6: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 Introduction**

The study's main purpose was to identify whether the TTS is functioning as intended by the Government. As emphasised in Chapter 1, the South African Government specifically introduced the TTS to decrease the high compliance costs of micro-businesses, simplifying the process for these businesses to become and remain tax compliant.

This chapter summarises the crucial findings established in previous chapters and the study's contribution to the body of knowledge. It provides recommendations to improve the TTS and it highlights areas for future research.

### **6.2 Research objectives**

This section explains the primary research objective and it explains how this objective and the sub-objectives mentioned in Paragraph 1.4 have been addressed in the study.

#### **6.2.1 Primary research objective**

The primary research question of this study is: Is the TTS functioning as intended and if not why not? To answer this question, consideration was provided to the various components of the TTS. To determine the functionality of each component, information from the secondary research questions was used to obtain more in-depth knowledge of each component.

Based on the link between the structural-functionalism and tax canon theories, as discussed in Chapter 5, the secondary research questions' findings are vital in assessing the functionality of the TTS.

#### **6.2.2 Secondary research questions**

To answer the primary research question, the following sub-research questions were posed to the participants and their responses and analysis thereof are summarised in the subsequent subsections.

### ***6.2.2.1 Are you aware of the TTS?***

Although SARS had implemented numerous initiatives to market and raise awareness of the TTS, it is evident that these initiatives are generally unsuccessful, as most micro-business owners are still unaware of the TTS. SARS openly admitted in their report that these interventions are ineffective. From the data collected from the participants, certain tax canons were not functioning effectively, regarding the awareness of the TTS. These are briefly discussed in the next paragraph.

Micro-businesses not being aware of the TTS, affects the equity, economic efficiency, effective tax administration, transparency and visibility and productivity tax canons. Micro-businesses are paying more tax on the normal tax system, which imposes a greater tax burden on micro-businesses based on their economic capacity (equity) and may unduly influence the taxpayer's economic decision making (for example evading tax) (economic efficiency and productivity). This further impacts the effective tax administration as the tax return and recordkeeping requirements are more extensive. The TTS is not visible, nor transparent as micro-business are unaware of the TTS and how it works. Lastly, it affects the TTS possible productivity as non-compliant micro-business are not registering for tax. See Paragraph 5.3.4.1 for more detail.

### ***6.2.2.2 Do you understand the TT legislation?***

Most participants lacked an understanding or knowledge of the TT legislation. The mere fact that the micro-business definition differed between the Income Tax Act and the National Small Enterprises Act and NDP hinders the functionality of a simplified tax system, by indirectly increasing the complexity associated with the tax system and confusing taxpayers.

Those participants that understood the TT legislation, the tax rules, TT calculations and returns and payments believed it made the TTS more certain (except for the complex TT legislation language), simplistic and convenient (except for the manual submission). Most taxpayers did not know the TT legislation existed, which indicates the TT legislation which is the foundation of the TTS is not visible. See Paragraph 5.3.6.1 for more detail.

### ***6.2.2.3 What do you know about the TTS?***

The participants' main knowledge revolved around the fact that TTS is a simplified tax system, it is applicable to micro-businesses with a turnover of R1 million or less, the tax is calculated on turnover and personal service providers are not allowed to adopt the TTS.

In contrast, most participants lacked detailed knowledge about the TTS. Some of the areas of the TTS where they lacked knowledge included: The fact that the TT replaced five other taxes, returns are submitted manually, the other eligibility criteria (micro-businesses may only own one business and may not dispose of more than R1,5 million assets within three years), the calculation of ‘taxable turnover’ (including taxable and qualifying turnover) based on the TT legislation and that micro-businesses use a reduced tax table. In addition, it was also apparent that certain participants lacked the knowledge that micro-business are only taxed once turnover (cash) is received, and that certain sources of income are excluded from the turnover and taxed under their personal income tax return.

The data suggested that the participants believed that the TTS is more equitable and economically efficient than the normal tax system, as micro-business are tax less based on their economic capacity, keeping more in the taxpayers’ pockets to help them grow. Certain participants using the TTS found the TT calculations, completion of TT returns, and recordkeeping is more certain, convenient, administratively efficient and simplistic (except for the manual TT return submission, SARS officials incompetence resulting in increased queries and additional statutory recordkeeping requirements). Most participants lacked knowledge on the TTS and how the tax rules work, prior to the interviews, which indicates the transparency and visibility tax canon regarding the TTS is not met. See Paragraph 5.3.6.1 for more detail.

#### ***6.2.2.4 Do you receive assistance with your TTS compliance obligations?***

It is evident that most taxpayers use third parties, as they lack the necessary knowledge and have insufficient time to perform their compliance activities themselves. Some taxpayers use third parties to assist with unintended administrative burden associated with the filing of TT returns and SARS queries. The data suggests that participants receive assistance with the TTS, as participants found the system is uncertain and not transparent (participants lack TT knowledge). The system is also considered inconvenient and administratively inefficient (due to the unintended administrative burden and SARS queries). The participants using third parties to assist with the TTS obligations are aware that the TTS exist, and therefore the visibility tax canon is met.

#### ***6.2.2.5 What are the reasons that you are/not registered on the TTS?***

The participants, registered on the TTS, adopted the system because it is more tax-efficient and more time-efficient (less administration hours and recordkeeping). Those participants not

registered were either unaware of the system, or were discouraged to register as it would result in a higher tax liability. Refer to Paragraph 5.3.8 for further details.

#### ***6.2.2.6 How successful do you perceive the TTS to be?***

Participants registered on the TTS, considered the system and the concept to be a good one, believing SARS would achieve its objective (introducing a simplified tax system) 90% of the time. Participants not registered on the TTS, generally perceived that the TTS could be successful if areas of improvement as discussed in Paragraph 5.3.9 were addressed. The TTS administration and SARS officials, lacking an understanding of the system and resulting in more objections, were considered as the most significant shortcomings of the system.

#### ***6.2.2.7 What changes, in your opinion, does the TTS need?***

Participants generally believed that the TTS could be successful if the following areas are adapted and/or improved for the TTS to function as intended: creating better awareness of the TTS; change the tax legislation and SARS documents that an average citizen can understand it; make the practical implications for a business more transparent; improve SARS knowledge and administration processes; implement e-filing for the TTS returns and amend the TTS thresholds to align with economic changes. Refer to Paragraph 5.3.10 for further details.

#### ***6.2.2.8 Summary of the tax canons to the findings of the study***

The participants' responses will now be summarised in the context of the tax canons, highlighting the areas where they are met or not met.

**Table 15: Summary of the tax canons to the findings of the study**

Tax canon	Met/Not met	Reason(s)	Emerging themes
Equity (the ability-to-pay principle)	Partially Met	<p>The following are the areas where this tax canon was not met:</p> <ul style="list-style-type: none"> <li>• Micro-businesses, unaware that they might qualify for the TTS and registered on the normal income tax system, may pay more tax than they need to pay.</li> <li>• Some micro-businesses registered on the TTS use tax advisors as the TTS is too complicated or they lack the knowledge. This may affect their tax paying ability due to the extra advisor cost.</li> </ul> <p>The following are the areas where the tax canon was met:</p> <ul style="list-style-type: none"> <li>• Micro-businesses on the TTS pay less tax, as the TTS tax rates are significantly lower than tax rates under the normal tax system (corporate tax rate of 28% or the individual/special trusts tax rate that ranges from 18% to 45% and trusts of 45%). The TTS also reduce these businesses compliance costs as no tax advice is necessary in theory.</li> </ul>	<p>Awareness and Challenges</p> <p>Assistance and Benefits</p>
Certainty (taxpayers must know how to calculate the tax they	Partially Met	The following are the areas where the tax canon was not met:	



Tax canon	Met/Not met	Reason(s)	Emerging themes
need to pay, and when the payments are due)		<ul style="list-style-type: none"> <li>• The understandability of the TT legislation and/or not being knowledgeable about the TTS requirements creates uncertainty amongst taxpayers as to how to calculate the TT and when the payments are due.</li> <li>• Certain taxpayers use a third party to assist with the TTS because they are uncertain how the TT is calculated and when and how the payments are due.</li> </ul> <p>The following is the area where the tax canon was met:</p> <ul style="list-style-type: none"> <li>• Some micro-business owners know exactly how to calculate the tax they need to pay (they find it easy) and were certain about the payment of the tax too – that is, when and how to pay.</li> </ul>	<p>Knowledge and Understanding</p> <p>Assistance, Knowledge</p> <p>Knowledge and Benefit</p>
Convenience (is the tax system convenient for the taxpayer, referring to the timing and manner that taxes are levied)	Partially Met	<p>The following is the area where the tax canon was not met:</p> <ul style="list-style-type: none"> <li>• Certain micro-businesses obtain assistance with their TTS obligations (the TT calculations and payments) as it is inconvenient for the taxpayers to do it themselves.</li> </ul> <p>The tax canon was met in the following area:</p> <ul style="list-style-type: none"> <li>• The TTS system is convenient as it only levies tax once the micro-business has actually received the money.</li> </ul>	<p>Assistance</p> <p>Knowledge and Benefits</p>

Tax canon	Met/Not met	Reason(s)	Emerging themes
Economic efficiency (does not affect a taxpayer's economic decision-making)	Partially met	<p>The following is the area where the tax canon was not met:</p> <ul style="list-style-type: none"> <li>• Most micro-business owners are still unaware or not eligible to adopt the TTS, resulting in these taxpayers being charged more tax than if they were registered on the TTS. This reduces the businesses' economic productivity and may motivate taxpayers to change their economic behaviour by avoiding tax payments.</li> </ul> <p>The following is the area where the tax canon was met:</p> <ul style="list-style-type: none"> <li>• Micro-businesses elected to rather register on the TTS as they would pay less tax. Their knowledge about the TTS affected their economic decision making.</li> </ul>	<p>Awareness, Understanding, Knowledge and Challenges</p> <p>Understanding, Knowledge and Benefits</p>
Effective tax administration (limit the tax administrative burden (tax collection costs) for revenue authorities and taxpayers)	Partially Met	<p>The following is the area where this tax canon was not met:</p> <p>SARS perspective:</p> <ul style="list-style-type: none"> <li>• Less resources should be used to audit and collect this tax, however, this does not appear to materialise as taxpayers are having to object to incorrect assessments due to lack of knowledge on the SARS officials part. This increases the tax administration costs for SARS (and taxpayers).</li> </ul> <p>Taxpayer perspective:</p>	<p>Assistance and Challenges</p>

Tax canon	Met/Not met	Reason(s)	Emerging themes
		<ul style="list-style-type: none"> <li>• Unawareness of the TTS increases the tax administration costs required to remain compliant, as more time is spent on remaining tax compliant on the normal tax system than on the TTS.</li> <li>• Taxpayers prefer outsourcing tax compliance, as the taxpayer lacks the required knowledge or time to be compliant. Others outsource their TT due to the inconvenience of having to stand in line at a SARS branch to manually submit the returns and to deal with queries/objections due to SARS officials' lack of knowledge or applying the tax rules incorrectly.</li> <li>• The TTS language is difficult and/or too technical to understand forcing taxpayers to use a third party, which increases their tax compliance costs.</li> </ul> <p>The following are the areas where the tax canon was met:</p> <p>SARS perspective:</p> <ul style="list-style-type: none"> <li>• Less information has to be reviewed during a tax audit.</li> </ul> <p>Taxpayer perspective:</p> <ul style="list-style-type: none"> <li>• The TTS reduces tax administration costs for the taxpayer as the TT calculation is easy, the TT return is simpler to complete than a normal tax</li> </ul>	<p>Awareness</p> <p>Assistance, Knowledge and Challenges</p> <p>Understanding, Knowledge and Assistance</p> <p>Knowledge</p> <p>Knowledge, Benefits and Awareness</p>

Tax canon	Met/Not met	Reason(s)	Emerging themes
		return, the number of returns to be submitted are less (if registered for VAT), and less information has to be retained for audit purposes.	
Simplicity (the tax legislation must be simple and easy for taxpayers to understand, whilst remaining compliant in a cost-efficient manner)	Partially Met	<p>The following areas are where the tax canon was not met:</p> <ul style="list-style-type: none"> <li>• Tax legislation and other SARS documents are too technical/difficult for the micro-business owners to understand.</li> <li>• Although the TT calculation should be relatively ‘simple’, the manual submission of the TT returns is not a cost-efficient manner to remain compliant, as taxpayers have to physically visit a SARS branch.</li> <li>• The TTS is not easy for the taxpayers to understand as is evident from the taxpayers' lack of knowledge and understanding of the TTS, forcing them to use third parties to assist them with their compliance.</li> </ul> <p>The following area is where the tax canon was met:</p> <ul style="list-style-type: none"> <li>• The calculation of the tax liability is much easier than on the normal tax system as the taxpayer only needs to input the taxable turnover and any income adjustments.</li> </ul>	<p>Understanding and Challenges</p> <p>Knowledge and Challenges</p> <p>Knowledge and Assistance</p> <p>Knowledge and Benefits</p>

Tax canon	Met/Not met	Reason(s)	Emerging themes
<p>Transparency and visibility (taxpayers' awareness of the tax and of when it applies to them or others)</p>	<p>Not Met</p>	<p>The following are areas where the tax canon was not met:</p> <ul style="list-style-type: none"> <li>• The majority of micro-business owners are still unaware of the TTS or how it applies to them or other taxpayers.</li> <li>• Some micro-business owners use third parties to do the TT calculation, return submissions and payments, this shows these taxpayers do not know and understand, how and when the TT is imposed on them or others.</li> <li>• Taxpayers were unaware of the TTS legislation contained in the Income Tax Act.</li> </ul>	<p>Awareness and Knowledge</p> <p>Assistance</p> <p>Understanding</p>
<p>Productivity (a tax system should generate ample taxable income for the government to administer the tax system efficiently and care for the welfare of its citizens)</p>	<p>Not Met</p>	<p>The following are areas where the tax canon was not met:</p> <ul style="list-style-type: none"> <li>• Many micro-businesses in the informal sector are not paying tax, and should start contributing to the economy.</li> <li>• No TTS financial information was disclosed in the SARS Annual Reports from 2014 to 2018 and it is uncertain whether this system still generates similar revenue, as reported in 2013. The productivity of the TTS is influenced by the revenue generated, the tax revenue forgone and the costs associated with administering it. However, as this information is not available it is uncertain whether this tax canon has been met in this regard (see Paragraph 5.3.9).</li> </ul>	<p>Challenges</p>

Tax canon	Met/Not met	Reason(s)	Emerging themes
Flexibility (a tax system should be able to speedily adapt to new economic or technological conditions)	Partially Met	<p>The following is an area where the tax canon was not met:</p> <ul style="list-style-type: none"> <li>• The TT thresholds (qualifying turnover and dividend thresholds) have not been increased annually to account for inflation.</li> </ul> <p>The following is an area where the tax canon was met:</p> <ul style="list-style-type: none"> <li>• Even though the system has not been adapted to account for economic changes, there were other changes, that adapted the TTS on an operational level (see Paragraph 5.3.9).</li> </ul>	Knowledge

Source: Own Compilation

### **6.2.2.9 Primary research question conclusion**

Based on the secondary research questions findings, the following tax canons were partially met in respect of the TTS: equity, certainty, convenience, economic efficiency, effective tax administration, simplicity and flexibility. The productivity and transparency and visibility tax canons were not met. In the opinions of the participants, the TTS is not regarded as being as simple as it was made out to be and it also does not always result in reduced compliance costs for all micro-enterprises. In the view of most of the participants, the TTS is generally not functioning as the Government intended it to function. Structural functionalism contends that the tax canons are the qualities in a system that ensure a good, stable and secure tax system. The data indicated that the tax canons are not always applied in their purest practical application, and that rules are adapted to optimise the taxpayers or Government tax benefit, even if the application may be less effective. As the majority of tax canons were partially met, the TTS is then not considered completely to be a good tax system. Furthermore, structural functionalism suggests a system maintains an equilibrium and will change as required to function and to achieve the best outcomes for society and the tax system. The data showed a need exists to improve the socio-economic justice for micro-businesses, and that both Government and the taxpayers need to drive this.

### **6.3 Research limitations**

- As non-probability sampling techniques were used in selecting participants, the researcher's personal judgement determined the initial participants, providing the most appropriate and rich data. To mitigate the researcher's bias as far as possible, the snowball sampling technique was also used to compliment the convenience sampling technique.
- The absence of an exact population and sample size was an unavoidable limitation in this study; however, the study does not seek to represent a sample or section of micro-businesses, but it intended to present the observations obtained directly from an acceptable number of these entities, or from advisors. This limitation is regarded as acceptable for qualitative studies of this nature. It is submitted that it does not detract from the value of the study.
- Despite using snowball sampling and because of the absence of an exact population, an unavoidable limitation in this study indicated that no perspectives were obtained from African, Indian or Mixed-race owners.

- Despite using a second coder during the data analysis process, the likelihood of possible observer bias and error during the recording and interpreting of individual interviews could not be excluded.
- The level of readability of the TT legislation and supplementary SARS documentation were not considered in-depth for this study as this was outside the study scope.
- Only changes effected to the legislation or statistical data, published up to 30 September 2019, were incorporated into this study.

#### **6.4 Recommendations to improve the TTS**

Based on the data analysis, interpretation and findings in this study, some recommendations to improve the TTS are emphasised below:

- Certain participants were unaware of the TTS or the TT legislation; it is recommended that SARS should improve the marketing strategy of the TTS and raise more awareness of the system. [This links to the equity, economic efficiency, effective tax administration, transparency and visibility tax canons].
- Participants believed that eligibility criteria are narrow. It is recommended that SARS should align the eligibility criteria with international best practices, by not specifically excluding professional service providers (that do not employ three or more full-time employees) from adopting this system. [This links to the economic efficiency tax canon].
- Participants believed the various thresholds have not been adapted for economic change or inflation. It is recommended that qualifying turnover and dividend thresholds be increased annually to account for inflation. [This links to the flexibility tax canon].
- Participants believed that the SARS officials should be better trained and educated on the TTS, to ensure the TTS tax rules are applied correctly. [This links to the effective tax administration tax canon].
- Participants established tax legislation and supplementary documents as too complex and technical, so it is recommended that the law and documentation dealing with the TTS should be written on a language level that the average citizen can understand. [This links to the equity, certainty, effective tax administration and simplicity tax canons].
- Participants established that the SARS documents should better explain the TTS (including the pros and cons) and the practical implications on a business tax and the calculation thereof. [This links with the certainty and the transparency and visibility tax canons].



- The TTS should change to be similar to the normal tax system, that allows taxpayers to file their TT returns electronically, making it more convenient for taxpayers to do it themselves. [This links to the effective tax administration and convenience tax canons].
- The Income Tax Act definition for a micro-business should be aligned with the other South African legislation definitions, to eliminate any confusion. [This links to the simplicity tax canon].
- It is recommended that SARS should implement internal controls/checks to identify registration discrepancies (refer to Paragraph 5.3.9) when taxpayers transition from the normal tax system to the TTS. [This links to the effective tax administration tax canon].
- From the financial information disclosed in the SARS annual reports, it is unclear if the TTS is in fact productive. It is recommended that NT and SARS disclose the TTS revenue collected, the revenue forgone from taxpayers adopting the TTS and the administration costs incurred in collecting the tax to determine the productivity thereof. [This links to the productivity tax canon].

## **6.5 Recommendations for future research**

Based on the data analysis, interpretation and findings in this study, areas of future research are evident. Further research is required:

- Concerning the size and scope of the SMME sector in South Africa (specifically in relation to micro-businesses) as there appears to be contradictory evidence on the number of these entities;
- Concerning the impact that Government initiatives implemented (in Table 1) and other economic influences have had on the number of start-ups, and the survival rates, for the formal and informal SMMEs (specifically those on the TTS). This research is necessary to assist the Government to determine the effectiveness of their initiatives and to highlight areas needing improvement and to align their SMME strategies.
- To determine the sectors employing the most individuals, and whether employment is driven by the nature of the business, or rather the funds generated. This will inform what incentives need to be implemented to create sustainable growth and motivate micro-business owners to employ more people.
- Determine if the eligibility criteria should either be scrapped or made less stringent, specifically with regard to the professional services sector.

- To calculate the forgone revenue resulting from the implementation of the TTS and the administration costs incurred in collecting the tax. These amounts need to be set off against the TT revenue collected, to determine if the TTS is indeed productive.
- Certain participants were unaware of the TTS; further research is proposed to assess the effectiveness of SARS initiatives to market the TTS. Supplementary/alternative platforms should be identified, where information and training about the TTS can be effectively implemented by SARS.
- Further research is proposed to re-evaluate the TTS design, improving its alignment with the micro-business sector in South Africa and global best practices.
- Further research is required on the micro-business owner's educational level in the context of the readability and complexity of the TT legislation and supplementary SARS documentation.

## **6.6 Chapter conclusion**

This study embarked on investigating whether the TTS functions as intended by the Government, as the literature was silent on this matter. To achieve this objective, semi-structured interviews were held with micro-businesses owners and tax practitioners (assisting micro-businesses with their tax affairs). The tax canons and structural functionalism underpinned the theoretical framework used to guide the questionnaire design, data collection process, indentation of the overarching themes and the data analysis. The confluence of the tax canons concerning structural functionalism, formed the theoretical foundation for the study in order to establish if the TTS is functioning as intended.

In the participants' views, the TTS is not functioning as a fully effective tax system or as intended. This perception is confirmed by the data as not all the tax canons and structural-functionalism principles were met. Participants, however, believed that the TTS is a good concept, despite the administration thereof and SARS officials' knowledge on the TTS being critiqued.

Much of the data revolved around the TTS procedural processes. The concerns around these processes include inconvenience in using the system, uncertainty, lack of simplicity, lack transparency and visibility and created a sense of being inequitable as tax was payable even when losses were incurred. The data also emphasised a lack of fundamental knowledge of

micro-business owners of the TTS and the corresponding legislation. Taxpayers did not understand and/or had no certainty of how the TTS worked. They sensed that it was not simple or economical and perceived areas of inequity. This demonstrates that the Government is, both procedurally and substantively, lacking in fulfilling its role in providing an effective TTS within parameters of the tax canons and structural functionalism.

The main improvements to the TTS as suggested by participants (and supported by the researcher) are that the TTS awareness campaigns, conducted by SARS, need improvement, whilst further consideration is needed on the methods used to reach its intended targets (qualifying micro-businesses in the informal and formal sectors); SARS documents should be simplified (to a level that the ordinary citizen can understand); Government should provide guidance on the practical implications (benefits and disadvantages) of adopting the TTS for a micro-business. For example, none of SARS' brochures mention the possibility of a business having to pay tax if it was registered on the TTS, but it would not have to pay tax if it was registered on the normal tax system (this occurs when the micro-business is in a loss-making position). In addition, SARS officials should be thoroughly educated and trained on the TTS and an electronic filing process for the TTS returns should be implemented.

In conclusion, this study provides insights into the underlying reasons why micro-businesses do/not adopt the TTS, and whether it is functioning as intended. Data identified areas where the TTS is not functioning as intended, whilst various recommendations for improvement were suggested, as aforementioned. These suggestions should guide the Government in identifying areas of the TTS that need prioritisation concerning revision and/or improvement. These concerns hinder the uptake of the TTS by micro-businesses. Ultimately, this defeats the purpose for introducing the TTS. Further research involving dysfunctional areas of the TTS, should be conducted and, ultimately, the viability of the entire TTS (considering the tax canons and structural functionalism) should be contemplated.

## LIST OF REFERENCES

- Adom, D., Hussein, E.K. & Agyem, J.A. 2018. Theoretical and conceptual framework: mandatory ingredients of a quality research. *International Journal of Scientific Research*, 7(1):438-441.
- American Institute of Certified Professional Accountants. 2017. *Guiding principles of good tax policy: a framework for evaluating tax proposals* [online]. Washington, DC: AICPA. Available from: <https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf> [Accessed on 13 August 2019].
- Anney, V.N. 2014. Ensuring the quality of the findings of qualitative research: looking at trustworthiness criteria. *Journal of Emerging Trends in Educational Research and Policy Studies*, 5(2):272-281.
- Arendse, J.A. 2017. An investigation into the introduction of a new wealth tax in South Africa. PhD (Taxation) thesis. Rhodes University, Grahamstown.
- Aucamp, J. 2010. A comparative study of tax relief measures for small, medium and micro-enterprises in South Africa and Australia. M.Com (Taxation) thesis. University of Pretoria, Pretoria.
- Babbie, E.R. 2017. *The basics of social research*. 17th ed. Boston: Cengage Learning.
- Bengtsson, M. 2016. How to plan and perform a qualitative study using content analysis. *NursingPlus Open*, 2:8-14. doi.org/10.1016/j.npls.2016.01.001.
- Bertaux, D. 1981. *Biography and society: the life history approach in the social sciences*. California: Sage.
- Bin Hashim, N.A., Raza, S. & Minai, M.S. 2018. Relationship between entrepreneurial competencies and small firm performance: are dynamic capabilities the missing link? *Academy of Strategic Management Journal*, 17(2):1-10.
- Bitsch, V. 2005. Qualitative research: a grounded theory example and evaluation criteria. *Journal of Agribusiness*, 23(1):75-91.

- Boothby, T.E. & Clough, S. 2017. Empiricist and rationalist approaches to the design of concrete structures. *APT Bulletin: The Journal of Preservation Technology*, 48(1):6-14.
- Budak, T. & James, S. 2018. The level of tax complexity: a comparative analysis between the UK and Turkey based on the OTS index. *International Tax Journal*, 44(1):23-36.
- Budak, T. & James, S. 2016. The applicability of the OTS complexity index to comparative analysis between countries: Australia, New Zealand, Turkey and the UK. *eJournal of Tax Research*, 14(2):426-454.
- Creswell, J.W. 2018. *Research design: qualitative, quantitative, and mixed methods approaches*. 5th ed. Thousand Oaks: Sage.
- Creswell, J.W. & Poth, C.N. 2018. *Qualitative inquiry and research design: choosing among five approaches*. 4th ed. Los Angeles: Sage.
- Davis Tax Committee. 2014. *First interim report on small and medium business* [online]. South Africa: DTC. Available from: <https://www.taxcom.org.za/docs/20150806%20DTC%20First%20Interim%20Report%20on%20SMEs.pdf> [Downloaded 8 November 2017].
- Davis Tax Committee. 2016. *Second and final report on small and medium business* [online]. South Africa: DTC. Available from: <https://www.taxcom.org.za/docs/20160414%20DTC%20Final%20SME%20Report.pdf> [Downloaded 8 November 2017].
- Denzin, N.K. & Lincoln, Y.S. 2018. *The Sage handbook of qualitative research*. 5th ed. Los Angeles: Sage.
- Denzin, N.K. & Lincoln, Y.S. 2017. *The Sage handbook of qualitative research*. 4th ed. Los Angeles: Sage.
- Department of Innovation Industry, Science and Research. 2011. *Key statistics - Australian small business* [online]. Canberra, ACT: Department of Innovation Industry, Science and Research. Available from: <https://static.treasury.gov.au/uploads/sites/1/2017/06/SmallBusinessPublication.rtf> [Downloaded 9 September 2018].

- Department of Small Business Development. 2014. *Review of small businesses in South Africa report* [online]. Pretoria: DSBD. Available from: <http://www.dsbd.gov.za/wp-content/uploads/2019/03/Final-2014-SME-Review.pdf> [Accessed 14 August 2019].
- Department of Trade and Industry. 2016. *SMMEs key in job creation and economic growth* [online]. Pretoria: DTI. Available from: <http://www.thedti.gov.za/editmedia.jsp?id=3655> [Accessed 27 May 2019].
- Department of Trade and Industry. 1995. *The white paper on national strategy for the development and promotion of small business in South Africa* [online]. Pretoria: DTI. Available from: [https://www.thedti.gov.za/sme\\_development/docs/White\\_paper.pdf](https://www.thedti.gov.za/sme_development/docs/White_paper.pdf) [Accessed 10 July 2019].
- Doody, O. & Noonan, M. 2013. Preparing and conducting interviews to collect data. *Nurse Researcher*, 20(5):28-32. doi.org/10.7748/nr2013.05.20.5.28.e327.
- Downer, P. 2016. Taxation of electronic commerce (e-comm): examination of Canadian government tax policies and directives application of Adam Smith's canons of taxation. *Journal of Financial Management and Analysis*, 29(1):1-14.
- Dudovskiy, J. 2019. Exploratory research [online]. Research Methodology. Available from: <https://research-methodology.net/research-methodology/research-design/exploratory-research/> [Accessed 20 October 2019].
- Du Toit, C. 2012. A comparative study of tax incentives available for small businesses in South Africa, Australia and Canada. MA (Taxation) thesis. Stellenbosch University, Cape Town.
- Economic Development Department. 2011. *The new growth path framework* [online]. Pretoria: Economic Development Department. Available from: <https://www.gov.za/about-government/government-programmes/new-growth-path> [Downloaded 15 July 2019].
- Elo, S., Kääriäinen, M., Kanste, O., Pölkki, T., Utriainen, K. & Kyngäs, H. 2014. Qualitative content analysis: a focus on trustworthiness. *SAGE Open*, 4(1):1-10. doi.org/10.1177/2158244014522633.

- Erlingsson, C. & Brysiewicz, P. 2017. A hands-on guide to doing content analysis. *African Journal of Emergency Medicine*, 7(3):93-99. doi.org/10.1016/j.afjem.2017.08.001.
- Etikan, I., Musa, S. & Alkassim, R. 2016. Comparison of convenience sampling and purposive sampling. *American Journal of Theoretical and Applied Statistics*, 5(1):1-4. doi.org/10.11648/j.ajtas.20160501.11.
- Evans, C., Hansford, A., Hasseldine, J., Lignier, P., Smulders, S.A. & Vaillancourt, F. 2014. Small business and tax compliance costs: a cross-country study of managerial benefits and tax concessions. *eJournal of Tax Research*, 12(2):453-482.
- Fakhfakh, M. 2016. An empirical investigation of readability and communicative performance of auditor's report post-ISA 700. *IUP Journal of Accounting Research and Audit Practices*, 15(4):64-96.
- Fatoki, O. 2018. The impact of entrepreneurial resilience on the success of small and medium enterprises in South Africa. *Sustainability*, 10(7):1-12. doi.org/10.3390/su10072527.
- Finscope. 2010. *FinScope South Africa small business survey 2010* [online]. Johannesburg: Finmark Trust. Available from: <http://www.finmark.org.za/wp-content/uploads/2016/02/FinScope-Brochure-final-28-09-2010.pdf> [Accessed 25 June 2019].
- Freedman, J. 2009. Reforming the business tax system: does size matter? Fundamental issues in small business taxation. In: Krever, R. & Evans, C. eds. *Australian business tax reform in retrospect and prospect*. Sydney: The Institute of Chartered Accountants in Australia/ Thomson Reuters Professional.
- Friese, S. 2019. *Qualitative data analysis with ATLAS.ti*. 3rd ed. Los Angeles: Sage.
- Gale, W. & Brown, S. 2013. Small business, innovation, and tax policy review. *National Tax Journal*, 66(4):871-892. doi.org/10.1017310/ntj.2013.4.05.
- Gluckman, A. & Turner, M. 2018. The perceived fairness of turnover tax. *Journal of Economic and Financial Sciences*, 11(1):1-10. doi.org/10.4102/jef.v11i1.174.

- Gopaul, M. & Manley, L.L. 2015. SME perception of government assistance within South Africa. *Journal of Governance and Regulation*, 4(4):306-314. doi.org/10.22495/jgr\_v4\_i4\_c2\_p2.
- Gracia, L. & Oats, L. 2015. Taxation as social and institutional practice. *Wiley Encyclopaedia of Management*, 1:1-3. doi.org/10.1002/9781118785317.weom010008.
- Gregory, A. 2019. *How is a micro business different from a small business?* [online]. New York: The Balance Small Business. Available from: <https://www.thebalancesmb.com/differences-between-micro-business-and-small-business-4159188> [Accessed 4 October 2019].
- Guest, G., Bunce, A. & Johnson, L. 2006. How many interviews are enough? An experiment with data saturation and variability. *Field Methods*, 18(1):59-82. doi.org/10.1177/1525822X05279903.
- Haupt, P. 2019. Notes on South African income tax. 38th ed. Roggebaai: Hedron Tax Consulting and Publishing.
- Hefer, L. 2014. The future of close corporations: update [online]. Cape Town: Online Memorandum of Incorporation. Available from: <http://www.onlinemoi.co.za/the-future-of-close-corporations-update> [Accessed 12 September 2019].
- Hennink, M.M., Kaiser, B.N. & Marconi, V.C. 2017. Code saturation versus meaning saturation: how many interviews are enough? *Qualitative Health Research*, 27(4):591-608. doi.org/10.1177/1049732316665344.
- Jarczok-Guzy, M. 2017. The principles of tax law equality in the context of direct taxation. *Journal of Economics and Management*, 30(4):70-84. doi.org/10.22367/jem.2017.30.04.
- Jones, S.S. 2013. *Durkheim reconsidered*. New Jersey: John Wiley and Sons.
- Joubert, I., Hartell, C. & Lombard, K. 2016. *Navorsing: 'n gids vir die beginnervorsers*. Pretoria: Van Schaik [online]. Available from: <http://0-search.ebscohost.com.oasis.unisa.ac.za/login.aspx?direct=true&db=nlebk&AN=1242960&site=ehost-live&scope=site> [Accessed 13 January 2019].



- Kaiser, K. 2009. Protecting respondent confidentiality in qualitative research. *Qualitative Health Research*, 19(11):1632-1641. doi.org/10.1177/1049732309350879.
- Kgatla, M.D. 2016. An alternative approach to the integration of the informal sector into the South African tax base. M.Com (African and International Taxation) thesis. North-West University, Potchefstroom.
- Khula Enterprise. 2019. *About - Khula Enterprise Finance Limited* [online]. Pretoria: Loansfind. Available from: <https://loansfind.co.za/business/khula-enterprise-finance-limited> [Accessed 21 July 2019].
- Killian, S., Karlinsky, S.S., Payne, G. & Arendse, J. 2007. Mixed blessing of being designated a small business: a four country comparison. *ATA Journal of Legal Tax Research*, 5(1):1-34. doi.org/10.2308/jltr.2007.5.1.16.
- Korstjens, I. & Moser, A. 2018. Series: practical guidance to qualitative research. Part 4: trustworthiness and publishing. *European Journal of General Practice*, 24(1):120-124. doi.org/10.1080/13814788.2017.1375092.
- Kuada, J.E. 2012. *Research methodology: a project guide for university students*. Frederiksberg C: Samfundslitteratur [online]. Available from: <http://0-web.b.ebscohost.com.oasis.unisa.ac.za/ehost/ebookviewer/ebook/bmxlYmtfXzUwMzYzMI9fQU41?sid=ea9d02b3-40d6-4e27-874d-76211f773984@pdc-v-sessmgr05&vid=0&format=EB&rid=1> [Accessed 6 March 2019].
- Kuhn, A. & Wolpe, A. 2013. *Feminism and materialism: women and modes of production*. London: Routledge [online]. Available from: <https://0-www-taylorfrancis-com.oasis.unisa.ac.za/books/9780203094082> [Accessed 5 August 2019].
- Labuschagne, D. 2018. An analysis of the turnover tax relief available to micro-enterprises in the North West province. M.Com (South African and International Taxation) thesis. North-West University, Potchefstroom.
- Lamidi, K.O. 2015. Theories of public administration: an anthology of essays. *International Journal of Politics & Good Governance*, 6(6.3): 1-35.

- Lapan, S.D., Quartaroli, M.T. & Riemer F.J. 2012. *Qualitative research an introduction to methods and design*. San Francisco: Johan Wiley and Sons.
- Lincoln, Y. & Guba, E. 1985. *Naturalistic inquiry*. California: Sage.
- Lindeque, B. 2012. Turnover tax: is it too good to be true for micro businesses in South Africa? an exploratory study. M.Com (Taxation) thesis. University of Pretoria, Pretoria.
- Llewelyn, S. 2003. What counts as "theory" in qualitative management and accounting research? Introducing five levels of theorizing. *Accounting, Auditing & Accountability Journal*, 16(4):662-708. doi.org/10.1108/09513570310492344.
- Mackenzie, N. & Knipe, S. 2006. Research dilemmas: paradigms, methods and methodology. *Issues in Educational Research*, 16(2):193-205.
- MacPhail, C., Khoza, N., Abler, L. & Ranganathan, M. 2016 Process guidelines for establishing Inter-coder Reliability in qualitative studies. *Qualitative research*, 16(2):198-212.
- Marshall, B., Cardon, P., Poddar, A. & Fontenot, R. 2013. Does sample size matter in qualitative research? A review of qualitative interviews in IS research. *Journal of Computer Information Systems*, 54(1):11-22. doi.org/10.1080/08874417.2013.11645667.
- Mason, J. 2017. *Qualitative researching*. 3rd ed. London: Sage.
- Mason, M. 2010. Sample size and saturation in PhD studies using qualitative interviews. *Forum: Qualitative Social Research*, 11(3):1-19. doi.org/10.17169/fqs-11.3.1428.
- Mertens, D.M. 2015. *Research methods in education and psychology: integrating diversity with quantitative and qualitative approaches*. 4th ed. Thousand Oaks: Sage.
- Mohajan, H.K. 2018. Qualitative research methodology in social sciences and related subjects. *Journal of Economic Development, Environment and People*, 7(1):23-48. doi.org/10.26458/jedep.v7i1.571.
- Naicker, Y. & Rajaram, R. 2019. The effectiveness of tax relief initiatives on SMEs in South Africa. *Acta Universitatis Danubius. Œconomica*, 15(4):125-137.

- National Treasury. 2012. *Explanatory memorandum on the taxation laws amendment bill, 2011* [online]. Pretoria: National Treasury. Available from: <https://www.sars.gov.za/AllDocs/LegalDoclib/ExplMemo/LAPD-LPrep-EM-2011-02%20-%20Explanatory%20Memorandum%20Taxation%20Laws%20Amendment%20Bill%202011.pdf> [Accessed 17 April 2019].
- National Treasury & South African Revenue Services. 2018. *2018 Tax statistics* [online]. Pretoria: National Treasury and SARS. Available from: <https://www.sars.gov.za/AllDocs/Documents/Tax%20Stats/Tax%20Stats%202018/Tax%20Statistics%202018.pdf> [Accessed 7 October 2019].
- National Treasury & South African Revenue Services. 2010. *Explanatory memorandum on the taxation laws amendment bill, 2010* [online]. Pretoria: National Treasury and SARS. Available from: <http://www.sars.gov.za/Legal/Preparation-of-Legislation/Pages/Explanatory-Memoranda.aspx> [Accessed 9 July 2018].
- National Treasury & South African Revenue Services. 2008. *Explanatory memorandum on the revenue laws amendment bill, 2008* [online]. Pretoria: National Treasury and SARS. Available from: <http://www.sars.gov.za/AllDocs/LegalDoclib/ExplMemo/LAPD-LPrep-EM-2008-01%20-%20Explanatory%20Memorandum%20Revenue%20Laws%20Amendment%20Bill%202008.pdf> [Accessed 25 March 2019].
- Ndlovu, M. 2015. A comparative study on the tax compliance burden and tax incentives for SMMEs in South Africa. M.Com (Taxation) thesis. University of the Witwatersrand, Johannesburg.
- Nelson, J.S. 2017. Humanism, materialism, and epistemology: rhetoric of economics as styles in action. In: Floud, R., Hejeebu, S. & Mitch, D. eds. *Humanism challenges materialism in economics and economic history*. Chicago: University of Chicago Press. 224-255.
- Neuman, W.L. 2014. *Social research methods: qualitative and quantitative approaches*. 7th ed. Harlow: Pearson.
- Newby, P. 2014. *Research methods for education*. 2nd ed. New York: Routledge.

- Office of the Tax Ombud. 2019. *About us* [online]. Pretoria: OTO. Available from: <http://www.taxombud.gov.za/AboutUs/Pages/default.aspx> [Accessed 5 July 2019].
- Office of the Tax Ombud. 2018. *Tax Ombud strategic performance plan 2018-2023* [online]. Pretoria: OTO. Available from: [http://pmg-assets.s3-website-eu-west-1.amazonaws.com/Tax\\_Ombud\\_Strategic\\_Plan\\_2018\\_to\\_2023\\_BURO.pdf](http://pmg-assets.s3-website-eu-west-1.amazonaws.com/Tax_Ombud_Strategic_Plan_2018_to_2023_BURO.pdf) [Accessed 10 June 2018].
- Olla, R. 2016. A discussion of the tax burden on SMEs in South Africa. M.Com (South African and International Taxation) thesis. North-West University, Potchefstroom.
- Organisation for Economic Co-operation and Development. 2017. *Entrepreneurship at a glance 2017* [online]. Paris: OECD Publishing. Available from: [https://doi.org/10.1787/entrepreneur\\_aag-2017-en](https://doi.org/10.1787/entrepreneur_aag-2017-en) [Accessed 25 June 2019].
- Organisation for Economic Co-operation and Development. 2015. *Taxation of SMEs in OECD and G20 countries* [online]. Paris: OECD Publishing. Available from: <http://dx.doi.org/10.1787/9789264243507-en> [Accessed 19 July 2018].
- Paterson, B.L., Thorne, S.E., Canam, C. and Jillings, C. 2001. *Meta-study of qualitative health research: a practical guide to meta-analysis and meta-synthesis (Vol. 3)*. Los Angeles: Sage.
- Portfolio Committee on Finance. 2008. *Report-back hearings on 21 October 2008, revenue laws amendment bills, 2008 response document* [online]. PCOF. Available from: <https://www.sars.gov.za/AllDocs/LegalDoclib/RespDocs/LAPD-LPrep-Resp-2008-02%20-%20Response%20Document%20Revenue%20Laws%20Amendment%20Bills%20to%20PCoF.pdf> [Accessed 17 September 2018].
- Rabie, C., Cant, M.C. & Wiid, J.A. 2016. Training and development in SMEs: South Africa's key to survival and success? *Journal of Applied Business Research*, 32(4):1009-1024. DOI:10.19030/jabr.v32i4.9717.
- Radcliffe-Brown, A.R. 1949. Functionalism: a protest. *American Anthropologist*, 51(2):320-321.

- Rahim, A. 2015. *A comparative study of South African small business corporation tax and turnover tax*. M.Com (Accounting) thesis. University of South Africa, Pretoria.
- Ramli, A. & Razali, Z.L. 2019. Women's micro-enterprises: factors influencing business performance. *Archives of Business Research*, 7(9):268-283. <https://doi.org/10.14738/abr.79.7161>.
- Rena, R. & Msoni, M. 2014. Global financial crises and its impact on the South African economy: a further update. *Journal of Economics*, 5(1):17-25. [doi.org/10.1080/09765239.2014.11884980](https://doi.org/10.1080/09765239.2014.11884980).
- Republic of South Africa. 1962. *Income Tax Act, No.58 of 1962*. Pretoria: Government Printer.
- Republic of South Africa. 1996. *National Small Business Act, No. 102 of 1996*. Pretoria: Government Printer.
- Republic of South Africa. 1994. *The white paper on reconstruction and development*. Government Gazette, 353(16085):1-81 [online]. Cape Town: RSA. Available from: <https://www.gov.za/sites/default/files/governmentgazetteid16085.pdf> [Downloaded 17 July 2019].
- Republic of South Africa. 2002. *Budget speech, Minister of Finance, T.A. Manuel, 20 February 2002*. [online]. Cape Town: RSA. Available from: <http://www.treasury.gov.za/documents/national%20budget/2002/speech/speech.pdf> [Accessed 7 March 2019].
- Republic of South Africa. 2012a. *National Development Plan 2030* [online]. Pretoria: National Planning Commission. Available from: <https://www.gov.za/issues/national-development-plan-2030> [Downloaded 12 July 2018].
- Republic of South Africa. 2012b. *Determination of a date by which a person may elect to be registered as a micro-business in terms of the sixth schedule to the Income Tax Act, 1962 (Act No. 58 of 1962)*. Government Gazette, 289 (35228):3-9 [online] Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/LegalDoclib/SecLegis/LAPD-LSec-IT-GN-2012-05%20-%20Notice%20289%20GG%2035228%204%20April%202012.pdf> [Accessed 13 June 2019].

- Republic of South Africa. 2018. *Call for written submissions from stakeholder bodies and members of the public on the updating of schedule 1 of the national definition for small enterprises in South Africa*. Government Gazette, 640 (41970):94-98 [online]. Pretoria: DSBD. Available from: <https://archive.opengazettes.org.za/archive/ZA/2018/government-gazette-ZA-vol-640-no-41970-dated-2018-10-12.pdf> [Downloaded: 20 July 2019].
- Republic of South Africa. 2019. *Revised schedule 1 of the national definition of small enterprise in South Africa*. Government Gazette, 399 (42304):110-111 [online]. Pretoria: DSBD. Available from: <https://www.gov.za/documents/national-small-enterprise-act-schedule-1-amendment-15-mar-2019-0000> [Downloaded 11 October 2019].
- Saad, N. 2014. Tax knowledge, tax complexity and tax compliance: taxpayers' view. *Procedia - Social and Behavioral Sciences*, 109:1069-1075. doi.org/10.1016/j.sbspro.2013.12.590.
- Saldaña, J. 2016. *The coding manual for qualitative researchers*. 3rd ed. Los Angeles: Sage.
- Sanchez, R. & Heene, A. 2017. Building theory for management science and practice: an epistemological perspective from competence-based management theory. *Research in Competence-based Management*, 8:1-23. doi.org/10.1108/s1744-211720170000008001.
- South African Qualifications Authority. 2018. *What is the NQF?* [online]. Portal Publishing CC. Available from: <https://www.skillsportal.co.za/content/nqf-levels> [Accessed 3 November 2019].
- Schmidt, K. 2018. Practice theory: a critique. In: Wulf, V., Pipek, V., Randall, D., Rohde, M., Schmidt, K. & Stevens, G. (eds). *Socio-informatics: a practice-based perspective on the design and use of IT artifacts*. United Kingdom: Oxford University Press. 105-137.
- Shenton, A.K. 2004. Strategies for ensuring trustworthiness in qualitative research projects. *Education for Information*, 22:63-75. doi.org/10.1111/j.1744-618X.2000.tb00391.x.
- Small Business Institute and Small Business Project. 2019. *The number of formal micro, small & medium businesses in South Africa* [online]. Pretoria: The Small Business Institute. Available from: <https://www.smallbusinessinstitute.co.za/wp-content/uploads/2019/01/SBIbaselineStudyAlertfinal.pdf> [Accessed 14 August 2019].

- Small Enterprise Development Agency. 2018. *Incubation Policy* [online]. Pretoria: SEDA. Available from: <http://www.seda.org.za/Programmes/HighImpact/Incubation/Shared%20Documents/Incubation%20policy-%20reviewed%202018%20board%20approved.pdf> [Accessed 15 July 2019].
- Small Enterprise Development Agency. 2019a. *About us* [online]. Pretoria: SEDA. Available from: <http://www.seda.org.za/AboutUs/Pages/Home.aspx> [Accessed 17 July 2019].
- Small Enterprise Development Agency. 2019b. *SMME quarterly update 1st quarter 2019* [online]. Pretoria: SEDA. Available from: <http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202019-Q1.pdf> [Accessed 23 September 2019].
- Smith, A. 1776. *An inquiry into the nature and causes of the wealth of nations*. London: Strahan, W. and Cadell, T.
- Smith, B. & McGannon, K.R. 2018. Developing rigour in qualitative research: problems and opportunities within sport and exercise psychology. *International review of sport and exercise psychology*, 11(1):101-121.
- Smulders, S.A. 2006. Taxation compliance burden for small business in South Africa. M.Com (Taxation) thesis. University of Pretoria, Pretoria.
- Smulders, S.A. & Naidoo, G. 2013. Addressing the small business tax compliance burden - evidence from South Africa. *Journal of Economic and Financial Sciences*, 6(1):33-54.
- Smulders, S.A., Stiglingh, M., Franzsen, R. & Fletcher, L. 2017. Determinants of external tax compliance costs: evidence from South Africa. *South African Journal of Accounting Research*, 31(2):134-150. doi.org/10.1080/10291954.2016.1160175.
- Smulders, S.A., Stiglingh, M., Franzsen, R. & Fletcher, L. 2016. Determinants of internal tax compliance costs: evidence from South Africa. *Journal of Economic and Financial Sciences*, 9(3):714-729.
- Smulders, S.; Stiglingh, M., Franzsen, R., & Fetcher, L. 2012. Tax compliance costs for the small business sector in South Africa - establishing a baseline. *eJournal of Tax Research*, 10(2):184-226.

- South African Institute of Chartered Accountants. 2016. *Guide on the retention of records* [online]. Johannesburg: SAICA. Available from: [http://www.mdacc.co.za/wp-content/uploads/2016/06/Retention\\_of\\_Records\\_guide\\_2016.pdf](http://www.mdacc.co.za/wp-content/uploads/2016/06/Retention_of_Records_guide_2016.pdf) [Accessed 5 August 2019].
- South African Institute of Tax Professionals. 2018. *South African tax legislation* [online]. Johannesburg: SAIT. Available from: [https://www.thesait.org.za/page/tax\\_legislation](https://www.thesait.org.za/page/tax_legislation) [Accessed 24 June 2018].
- South African Market Insights. 2019. *South Africa's GDP page* [online]. South African Market Insights. Available from: <https://www.southafricanmi.com/south-africas-gdp.html> [Accessed 15 July 2019].
- South African Revenue Services. 2010. *Annual report 2009/2010* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-14%20-%20Annual%20Report%202009-2010.pdf> [Accessed 13 September 2019].
- South African Revenue Services. 2011. *Annual report 2010/2011* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-15%20-%20Annual%20Report%202010-2011.pdf> [Accessed 13 September 2019].
- South African Revenue Services. 2012. *Annual report 2011/2012* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-16%20-%20Annual%20Report%202011-2012.pdf> [Accessed 13 September 2019].
- South African Revenue Services. 2013. *Annual report 2012/2013* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-17%20-%20Annual%20Report%202012-2013.pdf> [Accessed 13 September 2019].
- South African Revenue Services. 2014a. *Annual report 2013/2014* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-19%20-%20Annual%20Report%202013-2014.pdf> [Downloaded 13 September 2019].
- South African Revenue Service. 2014b. *Annual performance plan 2013/14* [online]. Pretoria: SARS. Available from: [130](https://www.sars.gov.za/AllDocs/SARSEntDoclib/Ent/SARS-</a></p></div><div data-bbox=)



- Strat-09%20-%20Annual%20Performance%20Plan%202013-14.pdf [Accessed 13 September 2019].
- South African Revenue Services. 2015. *Annual report 2014/2015* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-20%20-%20Annual%20Report%202014-2015.pdf>. [Accessed 13 September 2019].
- South African Revenue Services. 2016. *Annual Report 2015/2016* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-21%20-%20Annual%20Report%202015-2016.pdf>. [Accessed 14 September 2019].
- South African Revenue Services. 2017. *Annual Report 2016/2017* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/AnnualReports/SARS-AR-22%20-%20Annual%20Report%202016-2017.pdf>. [Accessed 14 September 2019].
- South African Revenue Services. 2018. *Annual performance plan 2018/19* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/SARSEntDoclib/Ent/SARS-Strat-20%20-%20SARS%20Annual%20Performance%20Plan%202018-2019%20-%2024%20January%202019.pdf> [Accessed 14 September 2019].
- South African Revenue Services. 2019a. *Turnover tax* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/TaxTypes/TT/Pages/default.aspx> [Accessed 20 January 2019].
- South African Revenue Services. 2019b. *External guide - administration for turnover tax* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/OpsDocs/Guides/TTS-GEN-01-G01%20-%20Administration%20of%20Turnover%20Tax%20-%20External%20Guide.pdf> [Accessed 15 September 2019].
- South African Revenue Services. 2019c. *Free tax workshops* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/AllDocs/Documents/TaxEducationWorkshop/Tax%20workshops%20Oct%20to%20Dec%202019/WC%20Workshop%20Schedule%20October%20To%20December%202019.pdf> [Accessed 20 October 2019].


- South African Revenue Services. 2019d. *How to register for turnover tax* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/TaxTypes/TT/How-Register/Pages/default.aspx> [Accessed 20 October 2019].
- South African Revenue Services. 2019e. *Quick test for individuals and companies* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/TaxTypes/TT/How-Register/Pages/Quick-test-for-individuals-and-companies.aspx> [Accessed 20 October 2019].
- South African Revenue Services. 2019f. *Tax periods for VAT vendors* [online]. Pretoria: SARS. Available from: <https://www.sars.gov.za/TaxTypes/VAT/Pages/Tax-periods-for-vat-vendors.aspx> [Accessed 11 November 2019].
- Statistics South Africa. 2019a. *Quarter 2: 2019 quarterly labour force survey* [online]. Pretoria: Stats SA. Available from: [http://www.statssa.gov.za/?page\\_id=1859](http://www.statssa.gov.za/?page_id=1859) [Accessed 20 October 2019].
- Statistics South Africa. 2019b. *Economy dodges recession as GDP climbs 3,1%* [online]. Pretoria: Stats SA. Available from: <http://www.statssa.gov.za/?p=12471> [Accessed 20 October 2019].
- Stiglingh, M., Koekemoer, A.D., Van Heerden, L., Wilcocks, J.S., De Swardt, R.D. & Van der Zwan, P. 2019. *SILKE: South African income tax 2019*. Durban: LexisNexis.
- Stols, J.A. 2014. Review of small business tax relief measures in South Africa. M.Com (Taxation) thesis. University of Pretoria, Pretoria.
- Thanh, N.C. and Thanh, T.T.L. 2015. The interconnection between interpretivist paradigm and qualitative methods in education. *American Journal of Educational Science*, 1(2):24-27.
- The Presidency Republic of South Africa. 2007. *Accelerated and shared growth initiative for South Africa* [online]. Pretoria: The Presidency RSA. Available from: [https://www.gov.za/sites/default/files/gcis\\_document/201409/asgisa-2007.pdf](https://www.gov.za/sites/default/files/gcis_document/201409/asgisa-2007.pdf) [Accessed: 20 September 2018].
- The Presidency Republic of South Africa. 2018. *State of the Nation Address by President of the Republic of South Africa, Mr Cyril Ramaphosa* [online]. Pretoria: The Presidency RSA.

- Available from: <http://www.thepresidency.gov.za/state-of-the-nation-address/state-nation-address-president-republic-south-africa%2C-mr-cyril-ramaphosa> [Accessed: 20 June 2018].
- The Presidency Republic of South Africa. 2019. *President Cyril Ramaphosa: 2019 State of the Nation Address* [online]. Pretoria: The Presidency RSA. Available from: <https://www.gov.za/speeches/president-cyril-ramaphosa-2019-state-nation-address-7-feb-2019-0000> [Accessed: 29 March 2019].
- The University of Chicago. 2019. *Confidentiality agreement for transcriptionists (sample)* [online]. Available from: <https://sbsirb.uchicago.edu/page/confidentiality-agreement-transcriptionists-sample> [Accessed 31 March 2019].
- Trading Economics. 2019. *South Africa GDP annual growth rate* [online]. Statistics South Africa. Available from: <https://tradingeconomics.com/south-africa/gdp-growth-annual> [Accessed 15 October 2019].
- Tran-Nam, B., Lignier, P. & Evans, C. 2016. The impact of recent tax changes on tax complexity and compliance costs: the tax practitioners' perspective. *Australian Tax Forum*, 31(3):455-479.
- Tobin, G.A. & Begley, C.M. 2004. Methodological rigour within a qualitative framework. *Journal of Advanced Nursing*, 48(4):388-396. doi.org/10.1111/j.1365-2648.2004.03207.x\_
- Turner, J.H. 1990. The misuse and use of metatheory. *Sociological Forum*, 5(1):37-53.
- University of the Western Cape. 2013. *How can South African entrepreneurs succeed?* [online]. Belville: University of the Western Cape. Available from: <https://www.uwc.ac.za/News/Pages/How-Can-South-African-Entrepreneurs-Succeed.aspx> [Accessed 15 August 2019].
- Van Schalkwyk, E. 2017. *Tax incentives for small businesses - give the little guy a (tax) break* [online]. Cape Town: BDO South Africa. Available from: <https://www.bdo.co.za/en-za/insights/2017/tax/tax-incentives-for-small-businesses-give-the-little-guy-a-tax-break> [Accessed 7 June 2019].

- Venter, J. & De Clercq, B. 2007. A three-sector comparative study of the impact of taxation on small and medium enterprises. *Meditari Accountancy Research*, 15(2):131-151. doi.org/10.1108/10222529200700015.
- Visser, A. 2016. *Turnover tax harms SMEs* [online]. Cape Town: Independent Media. Available from: <https://www.iol.co.za/business-report/companies/turnover-tax-harms-smes-2076476> [Accessed 26 March 2019].
- Walker, L.O. & Avant, K.C. 2019. *Strategies for theory construction in nursing*. 6th ed. New York: Pearson.
- Walliman, N. 2011. *Research methods the basics*. New York: Routledge. [online]. New York: Routledge. Available from: [https://edisciplinas.usp.br/pluginfile.php/2317618/mod\\_resource/content/1/BLOCO%20\\_Research%20Methods%20The%20Basics.pdf](https://edisciplinas.usp.br/pluginfile.php/2317618/mod_resource/content/1/BLOCO%20_Research%20Methods%20The%20Basics.pdf) [Downloaded: 25 March 2018].
- Walle, A.F. 2015. *Qualitative research in business: a practical overview*. Newcastle, UK: Cambridge Scholars Publishing [online]. Newcastle, UK: Cambridge Scholars Publishing. Available from: <https://www.cambridgescholars.com/download/sample/62000> [Downloaded 18 February 2018].
- Walter, M. 2006. *Social science methods: an Australian perspective*. Oxford: Oxford University Press.
- Wiese, J.S. 2014. *Factors determining the sustainability of selected small and medium-sized enterprises*. MBA thesis. North-West University, Potchefstroom.
- Yin, R.K. 2016. *Qualitative research from start to finish*. 2nd ed. New York: The Guilford Press.
- Your Business Magazine. 2018. *Why SA businesses have a high failure rate* [online]. Bizmag. Available from: <https://bizmag.co.za/sa-businesses-high-failure-rate/> [Accessed 13 August 2019].

## ANNEXURES

### ANNEXURE A: ETHICAL CLEARANCE CERTIFICATE



**UNISA COLLEGE OF ACCOUNTING SCIENCES ETHICS REVIEW COMMITTEE**

Date 2019-04-10

Dear Ms Astrid Hellberg,

ERC reference :  
2019\_CAS\_014  
Name: A Hellberg  
Student/ Staff #: 64108872

**Decision: Ethics Approval from  
2019-04-10 to 2022-04-09**

---

**Researcher:** Astrid Hellberg  
[aeshellberg@gmail.com](mailto:aeshellberg@gmail.com)

**Working title of research:**

Why are micro-business owners adopting or rejecting the turnover tax? – An exploratory study

**Qualification:** MPhil in Accounting Sciences


---

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee for of the abovementioned research. Ethics approval is granted for the period indicated above.

*The application was reviewed by the College of Accounting Sciences Research Ethics Review Committee on **9 April 2019** in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment, and approved.*

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the College of Accounting Sciences Research Ethics Review Committee.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.
4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of



University of South Africa  
Pretorius Street, Mucklenek-Ridge, City of Tshwane  
PO Box 392, UNISA 0003 South Africa  
Telephone: +27 12 429 3111 Facsimile: +27 12 429 4150  
[www.unisa.ac.za](http://www.unisa.ac.za)

participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.

5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, if applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data require additional ethics clearance.
7. No field work activities may continue after the expiry date of this certificate.

*Note:*

*The reference number of this certificate should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.*

Yours sincerely,



Prof L J Erasmus  
Chair of CAS RERC  
E-mail: [erasmlj1@unisa.ac.za](mailto:erasmlj1@unisa.ac.za)  
Tel: 012 429 8844



Prof L Ntsalaze  
Acting Executive Dean CAS

## **ANNEXURE B: THE INTRODUCTORY EMAIL SENT TO PARTICIPANTS**

Subject: Reasons why micro-business owners are/not using the turnover tax? - an exploratory study

Dear prospective participant

You are invited to participate in a study conducted by Astrid Hellberg a Master's student from UNISA. The purpose of the study is to determine the reasons why micro-business owners are adopting or rejecting the turnover tax regime. The outcome of this study will be used to identify the main reasons why micro-businesses are/not using the turnover tax regime. In addition to providing insight to the reasons, the information collected will also inform the Government of what is working and what potentially needs to be changed.

The invitation is extended for you to take part in an individual interview to determine what your underlying reasons are for using/not using the turnover tax regime, as well as provide us with some suggestions on how to improve the turnover tax system.

The date and time of the individual interview will be scheduled, at a convenient time for you, on acceptance to participate in this study. The interview will be held at your office unless requested otherwise.

Please accept the electronic diary entry to confirm that you are prepared to attend the interview on a voluntary basis.

Please note the following:

- An information letter attached to this email (Participants information sheet) will give you all the information regarding this study.
- Your support and participation in this study is important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please participate in this study with open-mindedness and honesty.
- The results of the study will be used for academic purposes and may be published locally or internationally. The results of the study may also be considered for future research purposes. We will provide you with a summary of the findings on request.

If you have any further enquiries or questions regarding the interview you can contact either me or my supervisor through email: xxx.

## **ANNEXURE C: INTERVIEW QUESTIONS**

### **Part A: General information about micro-business and owner**

1. What is your academic and professional background?
2. What is the legal form of your business?
3. How long has your business been trading and what does your business do?
5. Are you aware of the turnover tax system?
6. Who is responsible for completing and submitting any tax-related calculations or documents?

### **Part B: General information and perceptions about turnover tax**

7. Please explain what you know about the turnover tax system?
8. Please provide reasons why you are (or are not) registered on the turnover tax system?
9. How successful do you perceive the turnover system tax to be?
10. What changes to the turnover tax do you believe are needed?



## **ANNEXURE D: CONSENT TO PARTICIPATE IN THIS STUDY**

I, \_\_\_\_\_ (participant name), confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits and anticipated inconvenience of participation.

I have read (or had explained to me) and understood the study as explained in the information sheet.

I have had sufficient opportunity to direct questions and am prepared to participate in the study.

I understand that my participation is voluntary and that I am free to withdraw at any time without penalty (if applicable).

I am aware that the findings of this study will be processed into a research report, journal publications and/or conference proceedings, but that my participation will be kept confidential unless otherwise specified.

I agree to the recording of the semi-structured interview.

I have received a signed copy of the informed consent agreement.

Participant Name & Surname (please print)

Participant Signature Date 2019

Researcher's Name & Surname (please print)

Researcher's signature Date 2019

## **ANNEXURE E: CONFIDENTIALITY AGREEMENT**

I, \_\_\_\_\_ transcriptionist/co-coder, agree to maintain full confidentiality in regard to any and all audiotapes and documentations received from Astrid Hellberg related to her study on: Is the turnover tax functioning? - An exploratory study. Furthermore, I agree:

1. To hold in strictest confidence the identification of any individual that may be inadvertently revealed during the transcription of recorded interviews, or in any associated documents.
2. To not make copies of any recordings or computerised titles of the transcribed interviews texts, unless specifically requested to do so by the researcher, Astrid Hellberg.
3. To store all study-related electronic recordings and materials in a safe, secure password protected location as long as they are in my possession.
4. To return all transcriptions to Astrid Hellberg in a complete and punctual manner.
5. To delete all electronic files containing study-related documents and recordings from my computer hard drive and any back-up devices.

I am aware that I can be held legally responsible for any breach of this confidentiality agreement, and for any harm incurred to individuals if I disclose identifiable information contained in the files to which I will have access.

Transcriber's/Co-coder's name (printed) \_\_\_\_\_

Transcriber's /Co-coder's signature \_\_\_\_\_

Date \_\_\_\_\_

(University of Chicago (2019) adapted)

**ANNEXURE F: FULL TEXT OF THE SIXTH SCHEDULE OF THE INCOME TAX ACT 58 OF 1962**

**DETERMINATION OF TURNOVER TAX PAYABLE BY MICRO BUSINESSES**

**PART I**

**INTERPRETATION**

**DEFINITIONS**

In this Schedule, unless the context indicates otherwise, any meaning ascribed to a word or expression in this Act must bear the meaning so ascribed and—

“investment income” means— any income in the form of annuities, dividends, foreign dividends, interest, rental derived in respect of immovable property, royalties, or income of a similar nature; and any proceeds derived from the disposal of financial instruments;

“micro business” means a person that meets the requirements set out in Part II of this Schedule;

“professional service” means a service in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, consulting, draftsmanship, education, engineering, financial service broking, health, information technology, journalism, law, management, real estate broking, research, sport, surveying, translation, valuation or veterinary science;

“qualifying turnover” means the total receipts from carrying on business activities, excluding any—

(a) amount of a capital nature; and

(b) amount exempt from normal tax in terms of section 10 (1) (zK) or 12P;

“registered micro business” means a micro-business that is registered in terms of paragraph 8;

“taxable turnover” means the amount determined in terms of paragraph 5 of this Schedule.

## **PART II**

### **APPLICATION OF SCHEDULE**

#### **PERSONS THAT QUALIFY AS MICRO BUSINESSES**

2. (1) A person qualifies as a micro business if that person is a—

(a) natural person (or the deceased or insolvent estate of a natural person that was a registered micro business at the time of death or insolvency); or

(b) company,

where the qualifying turnover of that person for the year of assessment does not exceed an amount of R1 million.

(2) If a person described in subparagraph (1) carries on a business during the relevant year of assessment for a period which is less than 12 months, the amount described in subparagraph (1) is reduced proportionally taking into account the number of full months that it did not carry on business during that year.

#### **PERSONS THAT DO NOT QUALIFY AS MICRO BUSINESSES**

3. A person does not qualify as a micro business for a year of assessment where—

(a) that person at any time during that year of assessment holds any shares or has any interest in the equity of a company other than a share or interest described in paragraph 4;

(b) more than 20 per cent of that person's total receipts during that year of assessment consists of—

(i) where that person is a natural person (or the deceased or insolvent estate of a natural person that was a registered micro business at the time of death or insolvency), income from the rendering of a professional service; and

(ii) where that person is a company, investment income and income from the rendering of a professional service;

(c) at any time during that year of assessment that person is a “personal service provider” or a “labour broker”, as defined in the Fourth Schedule, other than a labour broker in respect of which a certificate of exemption has been issued in terms of paragraph 2 (5) of that Schedule;

(d).....

(e) the total of all amounts received by that person from the disposal of—

(i) immovable property used mainly for business purposes; and

(ii) any other asset of a capital nature used mainly for business purposes, other than any financial instrument,

exceeds R1,5 million over a period of three years comprising the current year of assessment and the immediately preceding two years of assessment, or such shorter period during which that person was a registered micro business;

(f) in the case of a company—

(i) its year of assessment ends on a date other than the last day of February;

(ii) at any time during its year of assessment, any holder of shares in that micro business is a person other than a natural person (or the deceased or insolvent estate of a natural person);

(iii) at any time during its year of assessment, any holder of shares in that micro-business holds any shares or has any interest in the equity of any other company other than a share or interest described in paragraph 4: Provided that the provisions of this item do not apply to the holding of any shares in or interest in the equity of a company, if the company—

(aa) has not during any year of assessment—

(A) carried on any trade; and

(B) owned assets, the total market value of which exceeds R5 000; or

(bb) has taken the steps contemplated in section 41 (4) to liquidate, wind up or deregister: Provided further that this paragraph ceases to apply if the company has at any stage withdrawn any step so taken or does anything to invalidate any step so taken, with the result that the company will not be liquidated, wound up or deregistered;

(iv) it is a public benefit organisation approved by the Commissioner in terms of section 30;

(v) it is a recreational club approved by the Commissioner in terms of section 30A;

(vi) it is an association approved by the Commissioner in terms of section 30B; or

(vii) it is a small business funding entity approved by the Commissioner in terms of section 30C;

(g) in the case of a person that is a partner in a partnership during that year of assessment—

(i) any of the partners in that partnership is not a natural person;

(ii) that person is a partner in more than one partnership at any time during that year of assessment; or

(iii) the qualifying turnover of that partnership for that year of assessment exceeds the amount described in paragraph 2.

(iv).....

(h).....

## **PERMISSIBLE SHARES AND INTERESTS**

4. The disqualification in terms of paragraph 3 (a) or 3 ( f ) (iii) does not apply to a share or interest—

(a) in a company as described in paragraph (a) of the definition of a “listed company”;

(b) in a portfolio in a collective investment scheme as described in paragraph (e) of the definition of a company;

(c) in a company as described in section 10 (1) (e);

(d) in a venture capital company as defined in section 12J;

(e) that constitutes less than 5 per cent of the interest in a social or consumer co-operative or a co-operative burial society as defined in section 1 of the Co-operatives Act, 2005 (Act No. 14 of 2005), or any other similar co-operative if all of the income derived from the trade of that co-operative during any year of assessment is solely derived from its members;

(f) that constitutes less than 5 per cent of the interest in a primary savings co-operative bank or a primary savings and loans co-operative bank as defined in the Co-operative Banks Act, 2007 (Act No. 40 of 2007), that may provide, participate in or undertake only banking services as described in section 14 (2) (a) or (b) of that Act; or

(g) in any friendly society as defined in section 1 of the Friendly Societies Act, 1956 (Act No. 25 of 1956).

### **PART III**

#### **TAXABLE TURNOVER**

#### **TAXABLE TURNOVER**

5. The taxable turnover of a registered micro business in relation to any year of assessment consists of all amounts not of a capital nature received by that registered micro business during that year of assessment from carrying on business activities in the Republic, including amounts described in paragraph 6 and excluding amounts described in paragraph 7, less any amounts refunded to any person by that registered micro business in respect of goods or services supplied by that registered micro business to that person during that year of assessment or any previous year of assessment.

#### **INCLUSIONS IN TAXABLE TURNOVER**

6. The taxable turnover of a registered micro business includes—

(a) 50 per cent of all receipts of a capital nature from the disposal of—

(i) immovable property mainly used for business purposes, other than trading stock; and

(ii) any other asset used mainly for business purposes, other than any financial instrument; and

(b) in the case of a company, investment income (other than dividends and foreign dividends).

(c).....

## **EXCLUSIONS FROM TAXABLE TURNOVER**

7. The taxable turnover of a registered micro business does not include—

(a) in the case of a natural person, investment income;

(b) any amount exempt from normal tax in terms of section 10 (1) (zK) or 12P;

(c) any amount received by that registered micro business where that amount accrued to it prior to its registration as a micro business and that amount accrued was subject to tax in terms of this Act; and

(d) any amount received by that registered micro business from any person by way of a refund in respect of goods or services supplied by that person to that registered micro business.

## **PART IV**

### **REGISTRATION**

### **REGISTRATION**

8. (1) A person that meets the requirements set out in Part II may elect to be registered as a micro business—



(a) before the beginning of a year of assessment or such later date during that year of assessment as the Commissioner may prescribe by notice in the Gazette; or

(b) in the case of a person that commenced business activities during a year of assessment, within two months from the date of commencement of business activities.

(2) A person that elected to be registered in terms of subparagraph (1) must be registered by the Commissioner with effect from the beginning of that year of assessment.

(3) A person that is deregistered in terms of paragraph 9 or 10 may not again be registered as a micro business.

### **VOLUNTARY DEREGISTRATION**

9. (1) A registered micro business may elect to be deregistered before the beginning of a year of assessment or such later date during that year of assessment as the Commissioner may prescribe by notice in the Gazette.

(2) A registered micro business that elects to be deregistered under subparagraph (1) must be deregistered by the Commissioner with effect from the beginning of that year of assessment.

(3).....

### **COMPULSORY DEREGISTRATION**

10. (1) A registered micro business must notify the Commissioner within 21 days from the date on which—

(a) the qualifying turnover of that registered micro business for a year of assessment exceeds the amount described in paragraph 2, or there are reasonable grounds for believing that the qualifying turnover will exceed that amount; or

(b) that registered micro business is disqualified in terms of paragraph 3.

(2) The Commissioner must, subject to subparagraph (3), deregister a registered micro business with effect from the beginning of the month following the month during which the event as described in subparagraph (1) (a) or (1) (b) occurred.

(3) If the increase in the qualifying turnover of that person to an amount greater than the amount described in paragraph 2 is of a nominal and temporary nature, the person must apply to the Commissioner for a decision whether the person must remain a registered micro business or not.

(4).....

## **PART V**

### **ADMINISTRATION**

#### **INTERIM PAYMENTS**

11. (1) A registered micro business must, within six calendar months from the first day of the year of assessment—

(a) estimate the taxable turnover for the year of assessment;

(b) calculate the amount of tax payable on the estimated taxable turnover; and

(c) pay an amount equal to 50 per cent of the amount of tax so calculated.

(2) The estimate described in paragraph (1) (a) may not be less than the taxable turnover of the previous year of assessment unless the Commissioner, on application by the taxpayer and having regard to the circumstances, approves a lower estimate.

(3) Where full payment of the amount described in subparagraph (1) (c) is not received by the Commissioner within six calendar months from the first day of the year of assessment, interest at the prescribed rate is payable from the first day after the six calendar months to the earlier of the date on which the shortfall is received and the last day of the year of assessment.

(3).....

(Pending amendment: Sub-para. (3) to be deleted by s. 271 read with para. 99 (a) of Sch. 1 of Act No. 28 of 2011 with effect from a date to be determined by the President by proclamation in the Gazette – date not determined to the extent that Sch. 1 amends or repeals a provision relating to interest: Proclamation No. 51 in Government Gazette 35687 of 14 September 2012.)

(4) A registered micro business must, by the last day of the year of assessment—

(a) estimate the taxable turnover for the year of assessment;

(b) calculate the amount of tax payable on the estimated taxable turnover; and

(c) pay an amount equal to the amount of tax so calculated less the amount paid in terms of subparagraph (1).

(4A) For the purposes of paragraph 2 (1) of the Fourth Schedule, section 89bis (2), section 6 of the Skills Development Levies Act, 1999 (Act No. 9 of 1999), and section 8 of the Unemployment Insurance Contributions Act, 2002 (Act No. 4 of 2002), a registered micro business may elect to pay the amounts deducted or withheld in terms of that paragraph or those sections to the Commissioner—

(i) with regard to amounts deducted or withheld during the first six calendar months from the first day of the year of assessment, within seven days after the end of such period; and

(ii) with regard to amounts deducted or withheld within the next six calendar months following the period in item (i), within seven days after the end of such period.

(4B) If a registered micro business has made an election in terms of subparagraph (4A), the election must apply to all amounts deducted or withheld in terms of the applicable provisions referred to in that subparagraph.

(5) Where full payment of the amount described in subparagraph (4) (c) is not received by the Commissioner by the last day of the year of assessment, interest at the prescribed rate is payable from the day following the last day of the year of assessment to the earlier of the date on which the shortfall is received and the due date of the assessment for that year of assessment.

(6) Where the estimate described in subparagraph 4 (a) is less than 80 per cent of the taxable turnover for the year of assessment, a penalty, which is deemed to be a percentage based penalty imposed under Chapter 15 of the Tax Administration Act, equal to 20 per cent of the difference between the tax payable on 80 per cent of the taxable turnover for the year of assessment and the tax payable on that estimate must be charged.

(7) Where the Commissioner is satisfied that the estimate described in subparagraph (4) (a) was not deliberately or negligently understated and was seriously made based on the information available, or is partly so satisfied, the Commissioner must waive the penalty charged in terms of subparagraph (6) in full or in part.

(8) Where the Commissioner has issued an assessment in respect of the payment required in terms of subparagraph (4), a penalty must not be imposed in terms of subparagraph (6).

12.....

## **PART VI**

### **MISCELLANEOUS**

#### **AMOUNTS RECEIVED BY A CONNECTED PERSON MAY BE INCLUDED IN QUALIFYING TURNOVER**

13. The total amount received from carrying on business activities by a connected person in relation to a person described in paragraph 2 (1) (a) or (b) must be included in the qualifying turnover of that person for purposes of applying paragraph 2, where—

(a) the connected person carries on business activities that should properly be regarded as forming part of the business activities carried on by that person; and

(b) the main reason or one of the main reasons for the connected person carrying on business activities in the way that the connected person does is to ensure that the qualifying turnover of that person does not exceed the amount as described in that paragraph.

### **RECORD KEEPING**

14. Notwithstanding the provisions of Part A of Chapter 4 of the Tax Administration Act, a registered micro business must only retain a record of—

(a) amounts received by that registered micro business during a year of assessment;

(b) dividends declared by that registered micro business during a year of assessment;

(c) each asset of that registered micro business as at the end of a year of assessment with a cost price of more than R10 000; and

(d) each liability of that registered micro business as at the end of a year of assessment that exceeded R10 000.

15.....

**ANNEXURE G: EXTRACT OF THE GROUNDED CODES FROM ATLAS.TI™8**

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Assistance: Insufficient knowledge	23	Assistance
Awareness: Unaware of TTS	18	Awareness
Recommendation: Awareness of the TTS	17	Recommendation for improvements
Assistance: 3rd party did not tell client about TTS	16	Assistance
Assistance: Use 3rd party for convenience	16	Assistance
Assistance: Use 3rd party for tax and statutory matters	16	Assistance
Awareness: Knowledge source _SARS website	14	Awareness
Challenges: Confidence in SARS branch/officials	14	Challenges
Challenges: TT legislation is difficult to understand	13	Challenges
Awareness: Unaware of TTS	13	Awareness
Assistance: Use 3rd party due to time constraints	12	Assistance
Challenges: SARS officials do not understand TTS	12	Challenges
Knowledge: Simplified tax system	12	Knowledge
Knowledge: TT calculation - Based on turnover and not profit	12	Knowledge
Understanding: Have read and understood TT legislation or parts of it	12	Understanding
Knowledge: Aware of eligibility criteria	11	Knowledge
Knowledge: Returns and payments	11	Knowledge

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Recommendation: Document that clearly explains TTS and practical implications	11	Recommendation for improvements
Recommendation: Language level - average citizen	11	Recommendation for improvements
Awareness: Aware of TTS	10	Awareness
Awareness: Not aware of TTS - Read about TTS before interview	10	Awareness
Knowledge: Eligibility criteria – Turnover less than R1 million	10	Knowledge
Knowledge: TTS eligibility criteria	10	Knowledge
Assistance: Use 3rd party as taxpayer lacks confidence	9	Assistance
Challenges: Not registered as not aware of TTS	9	Challenges
Awareness: Unaware of the TT legislation	9	Awareness
Challenges: Have to pay TT even if business making a loss	8	Challenges
Challenges: Not eligible to register - Service provider	8	Challenges
Challenges: TTS not properly promoted	8	Challenges
Knowledge: Don't fully understand TTS	8	Knowledge
Knowledge: TT calculation and tax tables	8	Knowledge
Understanding: Participants confused TT legislation with SARS website information	8	Understanding
Assistance: 3rd party told taxpayer about TTS	7	Assistance
Awareness: Knowledge source Google, other websites or blogs	7	Awareness

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Challenges: No confidence in SARS official's ability to answer questions and resolve problems	7	Challenges
Knowledge: Eligible to register for TTS	7	Knowledge
Recommendation: Amended eligibility criteria/thresholds	7	Recommendation for improvements
Recommendation: Explain TT legislation in easier terminology	7	Recommendation for improvements
Recommendation: Make filing as easy as possible [e-filing]	7	Recommendation for improvements
Understanding: TT Legislation too technical or difficult to understand	7	Understanding
Challenges: Registered only one of the two partners on the TTS	6	Challenges
Knowledge: Eligibility to register - Service provider with three employees	6	Knowledge
Knowledge: Returns manual submission	6	Knowledge
Benefits: SARS general documents/information easy to understand	5	Benefits
Challenges: Payment of TT liability difficult	5	Challenges
Recommendation: Educate business owners – provide basic tax and accounting knowledge	5	Recommendation for improvements
Recommendation: Promote/market TTS - Create better awareness of TTS	5	Recommendation for improvements
Assistance: Use 3rd party for legal or statutory requirements	4	Assistance
Assistance: Use 3rd party to resolve SARS queries	4	Assistance



<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Awareness: Knowledge source Accountant	4	Awareness
Benefits: Takes less time and requires less documents than the normal tax system	4	Benefits
Benefits: TTS is easy and convenient	4	Benefits
Challenges: Are taxpayers aware of the TTS	4	Challenges
Challenges: Documents do not spell out the practical implications (pros and cons)	4	Challenges
Challenges: Excessive tax prevents small businesses to grow	4	Challenges
Challenges: Had to object to get incorrect decision overturned	4	Challenges
Challenges: Not registered for TTS - Business makes losses	4	Challenges
Challenges: Not registered on TTS - Unsure if eligible	4	Challenges
Challenges: SARS officials confused and frustrates taxpayers	4	Challenges
Challenges: TTS conflict of interest for accountants	4	Challenges
Knowledge: Aware/understood TTS eligibility criteria	4	Knowledge
Knowledge: Returns and reduced recordkeeping	4	Knowledge
Knowledge: Unaware of TTS eligibility criteria	4	Knowledge
Recommendation: Explain TTS better to public	4	Recommendation for improvements
Recommendation: Unsure as not familiar with TTS	4	Recommendation for improvements

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Understanding: Why person did not read TT legislation	4	Understanding
Assistance: Not Registered for TTS - Accountant advised against it	3	Challenges
Assistance: Participant do own tax	3	Assistance
Assistance: Taxpayer told 3rd party about TTS	3	Assistance
Assistance: Use 3rd party as tax difficult and/or confusing	3	Assistance
Benefits: Eligible to register for TTS - Sells products	3	Benefits
Benefits: Not much work for accountants and reduce fees earned	3	Benefits
Benefits: TT returns easy to complete	3	Benefits
Benefits: TTS could be successful	3	Benefits
Benefits: TTS simplify things as intended	3	Benefits
Challenge: Uncertain how partnership should be dealt with on the TTS	3	Challenges
Challenges: Administration issues on registration, preparation and submission	3	Challenges
Challenges: Eligibility criteria too restrictive	3	Challenges
Challenges: No assistance at SARS branches for small businesses	3	Challenges
Challenges: Not eligible for TTS - Personal service provider	3	Challenges
Challenges: Not registered for TTS - Income of business too low	3	Challenges
Challenges: Objections cost taxpayer money even if SARS made the mistake	3	Challenges

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Challenges: Registration process problematic	3	Challenges
Challenges: Returns manual	3	Challenges
Challenges: Visiting SARS office takes a long time	3	Challenges
Knowledge: TT liability and reduction in taxes paid	3	Knowledge
Knowledge: TTS registration process	3	Knowledge
Knowledge: TTS returns/forms simplified	3	Knowledge
Recommendation: Educate SARS officials on TTS	3	Recommendation for improvements
Recommendation: Educate students at school/university on tax	3	Recommendation for improvements
Understanding: TT legislation understandable	3	Understanding
Awareness: Knowledge source _General conversation	2	Awareness
Awareness: Knowledge source _Not sure where I heard about it	2	Awareness
Awareness: Knowledge source _SARS official	2	Awareness
Benefits: Good to get businesses to contribute to economy	2	Benefits
Benefits: Less recordkeeping	2	Benefits
Benefits: More simplified documents	2	Benefits
Benefits: Registered - Lower tax liability	2	Benefits
Benefits: SARS assistance/service delivery over telephone more effective	2	Benefits

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Benefits: SARS documents more in-depth	2	Benefits
Benefits: SARS supplementary document provided more detail	2	Benefits
Benefits: Small businesses pay less tax	2	Benefits
Benefits: Supplementary SARS documents provide more detail	2	Benefits
Benefits: TT concept is excellent	2	Benefits
Benefits: TTS sounds positive	2	Benefits
Benefits: TTS successful if micro-business allowed to register	2	Benefits
Benefits: TTS successful if user-friendly	2	Benefits
Challenges: Accountants do not want to sell TTS to clients	2	Assistance
Challenges: Do not see the point in charging small businesses	2	Challenges
Challenges: Eligibility criteria have further exclusions in the in-depth SARS documents	2	Challenges
Challenges: Even if registered on TTS still have to do personal income tax return for income excluded	2	Challenges
Challenges: Micro-businesses do not understand the TTS	2	Challenges
Challenges: Not eligible for TTS - Labour broker	2	Challenges
Challenges: Not eligible to register on TTS - Asset limitations	2	Challenges
Challenges: Not registered on TTS - Accountant believed she would not qualify	2	Challenges

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Challenges: Pay more tax on TTS if business has low-profit margins	2	Challenges
Challenges: SARS documentation too difficult for the intended target group to understand	2	Challenges
Challenges: SARS forgot about the system	2	Challenges
Challenges: SARS Information not transparent	2	Challenges
Challenges: SARS service delivery (Poor)	2	Challenges
Challenges: TT not commonly used	2	Challenges
Challenges: TT results in cash flow issues if companies running at a loss	2	Challenges
Challenges: TT Return Submission is Manual	2	Challenges
Challenges: TTS eligibility narrow and do not consider the intent of business	2	Challenges
Challenges: TTS not good when business has low-profit margins	2	Challenges
Challenges: TTS objection process works but people too scared to use it	2	Challenges
Challenges: TTS unsuccessful	2	Challenges
Knowledge: Difficult to comment as I only pay tax and don't understand details	2	Knowledge
Knowledge: Eligibility criteria - Asset limitations	2	Knowledge
Knowledge: SARS information helpful	2	Knowledge
Knowledge: TTS exclusions from qualifying turnover	2	Knowledge

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Recommendation: Accountants should promote TTS	2	Recommendation for improvements
Recommendation: Change eligibility - Include service providers	2	Recommendation for improvements
Recommendation: Use visual aids/explanatory videos	2	Recommendation for improvements
Assistance: 3rd party only told client about TTS after enquiry	1	Assistance
Assistance: Accountant told client about TTS - thought might be a more beneficial tax system	1	Assistance
Assistance: Accountant would have registered me if needed	1	Assistance
Assistance: Do not use an accountant for TT purposes but rather for general accounting	1	Assistance
Assistance: TTS objections not to bad when accountant deals with it	1	Assistance
Assistance: Use 3rd party as I do not enjoy tax or accounting tasks	1	Assistance
Assistance: Use 3rd party to lighten the administrative burden	1	Assistance
Awareness: Knowledge source _Another TTS user	1	Awareness
Awareness: Knowledge source _Articles	1	Awareness
Awareness: Knowledge source _Budget address	1	Awareness
Awareness: Knowledge source _Employee/Friend aware of TT	1	Awareness
Awareness: Knowledge source _None	1	Awareness

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Awareness: Knowledge source _Tax Act	1	Awareness
Awareness: SARS officials haven't processed an application/registration in years	1	Awareness
Benefit: No supporting documentation was required	1	Benefits
Benefits: Reduction in administration hours	1	Benefits
Benefits: A lot of businesses really struggling could benefit from this	1	Benefits
Benefits: Better to reduce tax and use money to grow business	1	Benefits
Benefits: Companies run at low profit or loss to avoid tax	1	Benefits
Benefits: Good tax system if I get money back	1	Benefits
Benefits: No support need to be submitted with returns	1	Benefits
Benefits: Normal tax systems became too complicated for running business	1	Benefits
Benefits: Reduced number of return submissions	1	Benefits
Benefits: Reduction in tax payable	1	Benefits
Benefits: Registered - Accountant advised it is the best option	1	Benefits
Benefits: The system is very successful and will achieve its objective 90% of the time	1	Benefits
Benefits: TT forms easy to complete	1	Benefits
Benefits: TTS - Lower tax rates is great	1	Benefits

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Benefits: TTS easy - Do not need an accountant	1	Benefits
Benefits: TTS registration process was easy	1	Benefits
Benefits: TTS successful if documents simplified and make it more affordable for micro-enterprise	1	Benefits
Benefits: TTS successful if taxpayers are aware of it	1	Benefits
Benefits: TTS successful once your business grows to a certain point	1	Benefits
Challenge: Normal tax too cumbersome/excessive when you are retired	1	Challenges
Challenge: Uncertain is taxable turnover is inclusive of VAT	1	Challenges
Challenges: A lot of paperwork for VAT, audits, accountants etc.	1	Challenges
Challenges: Appeals create administrative burden when 1st decision was incorrect	1	Challenges
Challenges: Companies structure revenue streams in such a manner to not breach R1 million	1	Challenges
Challenges: Counterproductive to refer queries between various branches	1	Challenges
Recommendation: Documents must assist the taxpayer to understand what to do	1	Recommendation for improvements
Challenges: Exclusions applied incorrectly by SARS on registration	1	Challenges
Challenges: How should owners quickly adapt tax if they do not have assistance/knowledge	1	Challenges



<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Challenges: If you have more than one business you cannot register for the TTS	1	Challenges
Challenges: Initial assessments on TTS had issues	1	Challenges
Challenges: Language not simplified enough	1	Challenges
Challenges: Legislation changes difficult to identify	1	Challenges
Challenges: Little/no changes to TTS since inception	1	Challenges
Challenges: Lodge appeal and received no response	1	Challenges
Challenges: Misperception about the amount of paperwork	1	Challenges
Challenges: No queries from SARS in relation to partnership registration issues	1	Challenges
Challenges: Not registered as administrative burden (manual submission)	1	Challenges
Challenges: Not registered on TTS - Consortium give BEE benefits and VAT benefits for clients	1	Challenges
Challenges: Not registered on TTS - Starting company have many other challenges to deal with	1	Challenges
Challenges: Other websites explained TTS better than SARS	1	Challenges
Challenges: Registration - Submitted documents and awaiting SARS feedback	1	Challenges
Challenges: Reliant on accountant to advise them	1	Challenges

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Challenges: SARS documents complex - even accountants do not understand all the requirements	1	Challenges
Challenges: SARS guideline documents don't clearly list all exclusions on the same page	1	Challenges
Challenges: SARS issued back taxes even though registered on TTS	1	Challenges
Challenges: SARS not helpful	1	Challenges
Challenges: SARS officials do not know how to deal with marriages in community of property on TTS	1	Challenges
Challenges: SARS only keeping TT system for window dressing	1	Challenges
Challenges: SARS system do not cater for TT registration side of it	1	Challenges
Challenges: SARS TTS documents have conflicting statements	1	Challenges
Challenges: SARS website is not user-friendly	1	Challenges
Challenges: SMEs taxed when individuals are trying to get back on their feet	1	Challenges
Challenges: Starting a business is very hard and do not have time to determine the best tax system	1	Challenges
Challenges: Start-ups those people who were retrenched	1	Challenges
Challenges: Struggle to get all the information to get things done	1	Challenges
Challenges: Taxpayer misconception of paperwork on TTS	1	Challenges

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Challenges: Taxpayers uncertain what they can/cannot do for tax	1	Challenges
Challenges: The TT liability does not have a separate assessment which is very confusing	1	Challenges
Challenges: There is too much legislation to read	1	Challenges
Challenges: Thought auditors advised me on the best option for my business	1	Challenges
Challenges: Transition from TTS to the normal tax system	1	Challenges
Challenges: TT limit of R1 million too small	1	Challenges
Challenges: TT limits have not been adjusted for inflation	1	Challenges
Challenges: TTS administration problematic	1	Challenges
Challenges: TTS affect cash flows drastically if business has a small margin	1	Challenges
Challenges: TTS payment process difficult	1	Challenges
Challenges: Unsure how one transition from income tax to TTS	1	Challenges
Challenges: Unsure how TTS differ from other tax system	1	Challenges
Challenges: Unsure what documents need to be submitted in the transition process	1	Challenges
Knowledge: Aware documents available online	1	Knowledge
Knowledge: Can't comment as I have not started using the system yet	1	Knowledge

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Knowledge: Eligible for TTS	1	Knowledge
Knowledge: Registered on TTS	1	Knowledge
Knowledge: TT liability - Taxpayer and accountant different views	1	Knowledge
Knowledge: TT liability unsure as 3rd party responsible	1	Knowledge
Knowledge: TTS returns completed and submitted by accountant	1	Knowledge
Recommendation: Better awareness of how TTS operate	1	Recommendation for improvements
Recommendation: Business categories should be expanded to stimulate growth in all business areas	1	Recommendation for improvements
Recommendation: Change eligibility - Expand the allowed business categories	1	Recommendation for improvements
Recommendation: Explain better why service providers excluded from TTS	1	Recommendation for improvements
Recommendation: Increase TT threshold	1	Recommendation for improvements
Recommendation: Make micro-business owners aware TTS can be done by them	1	Recommendation for improvements
Recommendation: Make SMMEs aware of all options available to them	1	Recommendation for improvements
Recommendation: Make the tax system more user-friendly	1	Recommendation for improvements
Recommendation: Provide clear instructions for partnerships TT liability calculation	1	Recommendation for improvements
Recommendation: Reduce small business tax implications to stimulate growth	1	Recommendation for improvements

<b>Code</b>	<b>Grounded</b>	<b>Emerging Theme(s)</b>
Recommendation: SARS must manage TTS better	1	Recommendation for improvements
Recommendation: SARS should have identified not both partners were registered	1	Recommendation for improvements
Recommendation: Simplify documents and make it more affordable for micro-enterprises	1	Recommendation for improvements
Recommendation: Teach accounting at school/university	1	Recommendation for improvements