

**AN ASSESSMENT OF THE TAX COMPLIANCE COSTS
OF SMALL, MEDIUM AND MICRO ENTERPRISES
IN SOUTH AFRICA**

by

HEINRICH JOHANNES DIXON

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SUPERVISOR: DR S.A. SMULDERS

CO-SUPERVISOR: PROF. E.M. ODENDAAL

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ABSTRACT

AN ASSESSMENT OF THE TAX COMPLIANCE COSTS OF SMALL, MEDIUM AND MICRO ENTERPRISES IN SOUTH AFRICA

This study assesses the tax compliance costs of small, medium and micro enterprises (SMMEs) in South Africa. In this study, SMMEs are defined as businesses with a turnover of R250 million or less. Understanding the level of tax compliance costs for SMMEs is vital, because such costs can affect the economy negatively if they are high and the underlying factors are not addressed. One factor may be a revenue authority's behaviour, which could affect SMMEs' tax compliance costs significantly.

The study established a comprehensive baseline regarding SMMEs' tax compliance costs in South Africa following a quantitative research design. The study also considered the effects on these costs of the South African Revenue Service's (SARS's) power over and its ability to build trust with taxpayers. The study fills lacunae in the literature on SMMEs' tax compliance costs and determinants of such costs, including the effects of SMMEs' interaction with a tax authority.

Using data collected from an online survey conducted among SMMEs registered with SARS, SMMEs' tax compliance costs for the financial year ending between 1 April 2018 and 31 March 2019 were estimated at R105 609 (5% trimmed mean). Tax compliance costs per turnover group were also estimated: micro businesses spent R43 226 on tax compliance costs, small businesses R158 383 and medium businesses R254 589.

Determinants of tax compliance costs were established using a regression analysis. Statistically significant determinants of tax compliance costs are the number of employees an SMME employs, its risk score, its incurring of tax-related penalties and interest, and the sector in which the SMME operates. Several constructs identified from the interaction between SMMEs and SARS were also identified as determinants of these costs. Structural Equation Modelling (SEM) analysis demonstrated that SARS's power affects SMMEs' tax compliance costs, but not significantly. However, trust in SARS has a significant impact, and

was found to reduce tax compliance costs.

KEY TERMS

Determinants of tax compliance costs

Power

Slippery Slope Framework (SSF)

Structural Equation Modelling (SEM)

Small, Medium and Micro Enterprises (SMMEs)

South African Revenue Service (SARS)

Tax compliance behaviour

Tax compliance burden

Tax compliance costs

Trust

ABSTRAK

ASSESSERING VAN DIE BELASTINGVOLDOENINGSKOSTE VAN KLEIN, MEDIUM EN MIKRO-ONDERNEMINGS IN SUID-AFRIKA

In hierdie studie is die belastingvoldoeningskoste van klein, medium en mikro-ondernemings (KMMO's) in Suid-Afrika ge-assesseeer. 'n KMMO is in hierdie studie 'n onderneming met 'n omset van R250 miljoen of minder. Dit is noodsaaklik om die belastingvoldoeningskoste van KMMO's te bereken, want indien die aanleidende oorsake daarvan nie aangepak word nie, kan hulle hoë belastingvoldoeningskoste die ekonomie skade berokken. 'n Belastingowerheid se gedrag kan 'n oorsaak hiervan wees omrede dit KMMO's se belastingvoldoeningskoste kan beïnvloed.

'n Omvattende aanvangsmeting vir die berekening van Suid-Afrikaanse KMMO's se die belastingvoldoeningskoste is aan die hand van 'n kwantitatiewe navorsingsontwerp saamgestel. Die gevolge wat hierdie koste het op die Suid-Afrikaanse Inkomstediens (SAID) se mag oor belastingbetalers en sy vermoë om hulle vertrou te wen is eweneens in hierdie studie ondersoek. Hierdie studie vul 'n leemte aan in die literatuur oor KMMO's se belastingvoldoeningskoste, die determinante daarvan, en die effek van KMMO's se interaksie met 'n belastingowerheid.

Op grond van data uit 'n aanlyn meningsopname onder KMMO's wat by die SAID geregistreer is, is KMMO's se belastingvoldoeningskoste vir die boekjaar geëindig tussen 1 April 2018 en 31 Maart 2019 op R105 609 (5% geknipte gemiddelde) beraam. Die belastingvoldoeningskoste per omsetgroep is ook beraam. Hulle belastingvoldoening het mikro-ondernemings R43 226, klein ondernemings R158 383, en medium ondernemings R254 589 gekos.

Die determinante van KMMO's se belastingvoldoeningskoste is aan die hand van 'n regressieanalise bepaal. Onder die statisties betekenisvolle determinate van hulle belastingvoldoeningskoste tel die aantal werknemers in diens van 'n KMMO; sy risikotelling; sy belastingboetes en -rente; en die sektor waarin 'n KMMO bedrywig is. Verskeie

konstrukte wat afgelei is uit die interaksie tussen KMMO's en die SAID, is as determinante van hulle voldoeningskoste aangetoon. 'n Ontleding volgens Strukturele Vergelykingsmodellering (SVM) dui aan dat die invloed van die SAID se mag op KMMO's se belastingvoldoeningskoste onbeduidend is. KMMO'S se vertrouwe in die SAID het egter 'n beduidende invloed uitgeoefen en hulle belastingvoldoeningskoste verminder.

ISIFINYEZO ESISUKETHE UMONGO WOCWANINGO

UHLOLO LWEZINDLEKO ZOKULANDELA IMITHETHO YEZENTELA KUMABHIZINSI AMANCANE, APHAKATHI-NAPHAKATHI KANYE NAMANCANYANA ENINGIZIMU AFRIKA

Lolu hlolo luhlola izindleko zokulandela imithetho yezentela kumabhizinisi amancane, aphakathi-naphakathi kanye namancanyana ama-small, medium and micro enterprises (SMMEs) eNingizimu Afrika. Kulolu cwawingo ama-SMMEs achazwa njengamabhizinisi anembuyekezo elingana uR250miliyoni noma ngaphansi kwaleli nani. Ukuqondisa izindleko zokulandelwa kwemithetho yezentela ngama-SMMEs kubalulekile ngoba izindleko ezinjalo zingachaphazela umnotho kabi uma ziphezulu kanti amafektha abangela lokhu engaqashelwa. Enye ifektha kungaba ukuziphatha kwabeziphathimandla zengeniso, okungachaphazela kabi izindleko zokulandelwa kwemithetho yezentela ngama-SMMEs.

Ucwawingo luthole izindleko eziyisisekelo zokulandelwa kwemithetho yezentela ngama-SMMEs eNingizimu Afrika ngokulandela idizayini yocwawingo lwe-quantitative. Ucwawingo luphinde lwabheka imiphumela kulezi zindleko ngamandla abe-South African Revenue Services (SARS) kwikhono lokwakha ukuthemba kwabakhokhintela. Ucwawingo luthasisela kwimibhalo yama-SMMEs ngezindleko zokulandelwa kwemithetho yezentela kanye nezinto ezinomthelela kulezo zindleko, ezibandakanya imiphumela yokuxhumana kwama-SMMEs neziphathimandla zezentela.

Ngokusebenzisa ulwazi oluqokelelwe ngesavheyi ye-online kuma-SMMEs abhalise nabe-SARS, izindleko zokulandelwa kwemithetho yezentela ekupheleni konyaka wezimali phakathi komhla ka 1 Epreli 2018 kanye no 31 Mashi 2019, zalinganiselwa ku R105 609 (5% trimmed mean). Izindleko zokulandelwa kwemithetho yezentela ngamaqembu e-turnover zazilinganiselwa ku: kumabhizinisi amancanyana asebenzisa u R43 226 ngezindleko zokulandela imithetho yezentela, amabhizinisi amancane R158 383 kanti amabhizinisi aphakathi-naphakathi R254 589.

Izinto ezinomthelela kwizindleko zokulandelwa kwemithetho yezentela zatholakala ngokusetshenziswa kohlaziyo lwe-regression analysis. Izinto ezinomthelela kakhulu

ngokwamastatistiki ngezindleko zokulandelwa kwemithetho yezentela yinani labasebenzi ama-SMMEs abawaqashayo, isikoro sobungozi, kanye nezijeziso zezentela kanye nenzalo, kanye nesektha i-SMME esebenza kuyo. Ukuxhumana okuboniwe phakathi kwama-SMMEs kanye nabe-SARS nakho kwabonwa njengento enomthelela kulezi zindleko. Uhlaziyo lwe-Structural Equation Modelling (SEM) lukhombise ukuthi amandla abe-SARS achaphezela izindleko zokulandelwa kwemithetho yezentela kuma-SMMEs, kodwa hhayi kakhulu. Kodwa, ukuthemba abe-SARS kunomthelela kakhulu nakhona kutholakala ukuthi kuphungula izindleko zokulandelwa kwemithetho yezentela.

DECLARATION

Name: Heinrich Johannes Dixon

Student number: 32079923

Degree: Doctor of Philosophy in Accounting Science

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I declare that the above thesis 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.

I further declare that I submitted the thesis to originality checking software and that it falls within the accepted requirements for originality.

I further declare that I have not previously submitted this work, or part of it, for examination at UNISA for another qualification or at any other higher education institution.



SIGNATURE

2022/03/28

DATE

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ABBREVIATIONS AND ACRONYMS USED IN THIS REPORT

Abbreviation/Acronym	Meaning
ATR	Advanced Tax Ruling
B-BBEE	Broad Based Black Economic Empowerment
CC	Close Corporation
CGT	Capital Gains Tax
DSBD	Department of Small Business Development
DTI	Department of Trade and Industry
ETI	Employment Tax Incentive
EU	European Union
FIAS	Facility for Investment Climate Advisory Services
GDP	Gross Domestic Product
GST	General Sales Tax
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprise
NDP	National Development Plan
NPC	National Planning Commission
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay As You Earn
RSA	Republic of South Africa
SAICA	South African Institute of Chartered Accountants
SARS	South African Revenue Service
SBC	Small Business Corporation
SDL	Skills Development Levy
SEM	Structural Equation Modelling
SIC	Standard Industrial Classification
SME	Small and Medium Enterprise
SMME	Small, Medium and Micro Enterprise
SSF	Slippery Slope Framework
UDZ	Urban Development Zone
UIF	Unemployment Insurance Fund
UNISA	University of South Africa
US	United States of America
VAT	Value-added Tax

CHAPTER 1: INTRODUCTION

1.1. Background

Small, Medium and Micro Enterprises (SMMEs) are internationally acknowledged as the lifeblood of modern economies, so the importance of these enterprises to the industrialised world cannot be overemphasised (Ungureanu & Ungureanu 2020: 81; OECD 2017a: 3; Bureau for Economic Research 2016: 5; Robu 2013: 86; Antony, Kumar & Madu 2005: 861). The literature often refers interchangeably to small enterprises as Small and Medium Enterprises (SMEs) or Small, Medium and Micro Enterprises (SMMEs) (Abrie & Doussy 2006: 1) or Micro, Small and Medium Enterprises (MSMEs) (Kushnir, Mirmulstein & Ramalho 2010: 1). In this study, the term SMME is used as an encompassing term to describe the entities that the research focuses on. However, where applicable, reference is made to SMEs or MSMEs when the literature reviewed uses that term.

SMMEs are responsible for a large percentage of total employment in economies across the globe, and therefore contribute significantly to economic growth in economies (Erdin & Ozkaya 2020: 1; Cusmano, Koreen & Pissareva 2018: 6; OECD 2015: 13). Moreover, SMMEs' flexibility, adaptability, mobility, and creative potential are essential traits required for developing sound, growing businesses that can assist with job creation and economic growth in any country (Erdin & Ozkaya 2020: 1; Ciubotariu 2013: 201).

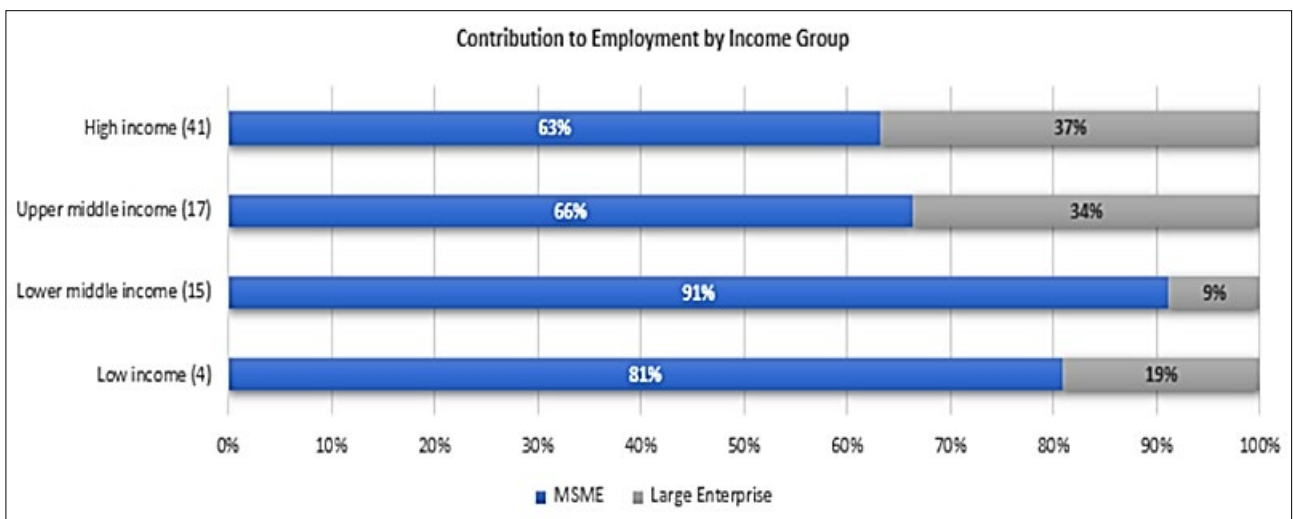
In 2014, SMEs accounted for 99.8% of all enterprises in the non-financial business sector¹ in the European Union (EU) and employed almost 90 million people, which accounts for 67% of the sector's employment (Muller et al. 2015: 7). A comprehensive study by the International Finance Corporation (IFC) of 176 economies worldwide revealed that there were 322 million formal MSMEs in the economies surveyed, and these MSMEs employed almost 72% of these countries' private sector labour forces (IFC 2019: 5). According to the

¹ The non-financial business sector consists of all sectors of the economies of the EU28 or Member States, except for financial services, government services, education, health, arts and culture, agriculture, forestry, and fishing (Muller et al. 2015: 3).

Organisation for Economic Co-operation and Development² (OECD) (OECD 2015: 13), SMEs represented more than 95% of all enterprises in most countries in 2015. Two years later, in 2017, the World Bank confirmed that SMEs represented more than 90% of businesses in the private sector of developing countries and was responsible for more than 50% of jobs in their respective economies (Kumar 2017: 5). The World Bank (2020) estimates that SMEs account for seven out of ten formal jobs in emerging markets. SMEs generate jobs, assist in expanding a country's economic base, promote creativity, and have the potential to integrate women and young people into the economy (Alibhai, Bell & Conner 2017: iii).

The importance of SMMEs to provide employment opportunities for the labour force can therefore not be denied. It is even more important in countries with a low gross domestic product (GDP) per capita. The IFC study mentioned above found a negative association between the different income groups and MSMEs' contribution to employment (IFC 2019: 17). This negative association implies that MSMEs' contribution to employment is higher in lower-income economies. Figure 1.1 indicates the contribution of MSMEs to the employment rate in the 176 countries surveyed by the IFC, categorised by income group.

Figure 1.1: Employment contribution by MSMEs by income group



Source: IFC (2019: 17)

In addition to job creation and economic growth, SMEs generate significant taxable revenue

² The OECD is an international organisation with 37 member countries across the globe that strives for better institutional policies for all (OECD 2020a).

in most economies (OECD 2020b: 3; Muller et al. 2019: 17), since governments tax the profits of SMMEs in the form of income tax. Individuals in the employment of SMMEs pay some form of payroll-related and/or other related taxes, resulting in considerable revenue from the largest employer group in those economies. SMEs also contribute to indirect taxes such as value-added tax (VAT) – all this implies that if there is SME growth, it increases government income (Steering Group 2011: 15). Worldwide, SMMEs are therefore the true bedrock of the economy. They are the dominant form of business organisation in most countries, represent between 90% to 99% of all active enterprises worldwide, and are responsible for creating between 50% and 70% of employment opportunities (Kumar 2017: 5; OECD 2015: 13; Robu 2013). Moreover, the contribution of SMEs to GDP increases as economies develop, with SMEs in the developed world contributing well over 50% of GDP (OECD 2017b: 6).

Given the importance of SMMEs as the heart and foundation of the economy, the growth and survival of SMMEs must be a top priority for any country (Erdin & Ozkaya 2020: 1; National Treasury 2019: 16; DSBD 2017: 7). In a report prepared for the European Commission in 2013, Gagliardi et al. (2013: 11) state:

The role of SMEs is crucial for the European economic recovery – their number, employment capacity and value added constitute a large share of the European economy. Providing the right conditions in which SMEs can flourish is paramount for ensuring a sustained recovery and achieving prosperity for all EU citizens.

Also, in Australia, SMEs are regarded as the backbone in creating new business and employment (Bloch & Bhattacharya 2016: 10). Therefore, SMMEs must have the opportunity to grow into stable, productive units and must be encouraged to grow to provide stable employment opportunities for the ever-growing workforce. Similarly, medium enterprises need to be sustained and, if possible, supported to grow into large enterprises (Alibhai et al. 2017: iii). Therefore, it is of the utmost importance to realise the role of SMEs for the economic wellbeing and growth of any country (Ayandibu & Houghton 2017: 134).

It is estimated that SMMEs account for 64% of employment in South Africa (Small Enterprise Development Agency 2021: 20). The Department of Trade and Industry (DTI)³ has

³ The DTI is a department of the South African government responsible for commercial and industrial policy (DTI No date(a)). The DTI changed its name to Department of Trade, Industry and Competition in April 2020. Documents published and websites accessed under the old name are cited as being authored by the DTI.

prioritised entrepreneurship and the advancement of SMMEs as the catalyst to achieving economic growth and development (DTI No date(a)). According to Fatoki (2014: 922), SMEs are expected to promote economic growth in South Africa. This expectation is not new – since the advent of democracy in South Africa, the development of SMMEs has been prioritised. The Reconstruction and Development Plan, which was gazetted in 1994, already encouraged support to SMMEs for the purposes of employment creation, income distribution and growth (Amra, Hlatshwayo & Mcmillan 2013: 2; Parliament of the Republic of South Africa 1994: 4). More recently, the South African government introduced the National Development Plan (NDP), prepared by the National Planning Commission (NPC) to eliminate poverty by 2030 (NPC 2012a). According to the NPC, South Africa must, and can, create 11 million jobs by 2030. These new jobs are likely to be located in domestic-oriented businesses and in growing SMMEs (NPC 2012a: 140). To achieve the objectives of the NDP, the NPC (2012b: 17) emphasises three priorities: increasing employment through faster economic growth; improving the quality of education, skills development and innovation; and lastly, building the capability of the state to play a developmental, transformative role.

In 2014 the Department of Small Business Development (DSBD) was established as a standalone department, which further demonstrates the government's commitment to placing SMMEs at the centre of economic growth and job creation. The DSBD's mandate is “[t]o lead and coordinate an integrated approach to the promotion and development of entrepreneurship, Small, Micro and Medium Enterprises (SMMEs) and Co-operatives, and to ensure an enabling legislative and policy environment to support their growth and sustainability” (DSBD No date). The South African government has thus demonstrated that the development and advancement of SMMEs form part of its plans to promote and achieve economic growth for the country.

In the 2017 medium-term budget presented in Parliament, Malusi Gigaba, then the South African Minister of Finance, stressed that the most urgent task for South Africa is to ignite inclusive job-creating economic growth (National Treasury 2017a: iii). Given that the number of people unemployed in South Africa is increasing, and the unemployment rate was 34.9%⁴

⁴ Unemployment under the narrow definition refers to all those members of the potentially economically active population who are seeking employment (Statistics South Africa 2021: 12).

in the third quarter of 2021 (Statistics South Africa 2021: 2) (see Figure 1.2), it is clear why increasing employment is such a critical objective for the South African government.

Figure 1.2: South Africa's unemployment rate (2012 to 2021)⁵



Source: Trading Economics (2021)

Under the expanded definition of unemployment, which includes people who have stopped looking for work, the unemployment rate of South Africa was 46.6% for the third quarter of 2021 (Statistics South Africa 2021: 13). Given the aim of the NDP, introduced in 2011, it is therefore a matter of serious concern that the unemployment rate has increased between 2011 and 2021, from 25% to 34.9%. It should also be noted that the sharp increase of the unemployment rate since 2020 may be attributable to the economic impact of the COVID-19 pandemic.

The unemployment problem was again addressed in the 2017/18 budget prepared for South Africa, in which the Director-General of the National Treasury of South Africa emphasised that the level of economic growth was insufficient to tackle poverty and unemployment (National Treasury 2017b: vii). In August 2017, Cabinet approved a Mandate Paper with the objective of establishing a strategic framework for decision-making on the budget priorities that are required to advance the goals of the NDP. Recommendations were also made to

⁵ South Africa's unemployment rate fell to 23.3% in the second quarter of 2020. This may be ascribed to the government's strict lockdown regulations in response to the outbreak of the COVID-19 pandemic, as fewer people looked for employment due to lockdown regulations.

guide the spending choices of the national government (Department: Planning, Monitoring and Evaluation 2017: 3). The spending priorities in the 2018/2019 budget can be summarised as follows: job creation and small business development; youth development; infrastructure expansion and maintenance; land reform, smallholder farmer and agriculture development; comprehensive social security; education and skills; integrated plan to fight crime and finally advancing the national interest in the South African Development Community, on the African Continent, and in the BRICS (Brazil, Russia, India, China and South Africa) and Indian Ocean Rim Association.

This trend continues in comments by the authorities – according to an economic policy paper issued by the National Treasury (2019: 3):

[t]he government should urgently implement a series of reforms that can boost South Africa's growth in the short term, while also creating the conditions for higher long-term sustainable growth. These growth reforms should promote economic transformation, support labour-intensive growth, and create a globally competitive economy.

Even though it is clear that the top priorities for the government still include job creation and small business development, the unemployment rate in South Africa has steadily increased (see Figure 1.2). Due to the high failure rate of SMMEs in South Africa,⁶ the expectation placed on SMMEs to create employment has not been realised (Botha, Smulders, Combrink & Meiring 2020: 1; DSBD 2017: 7).

Given the importance of SMMEs in the economy, it is a concern that this sector faces several challenges to grow and create jobs. The DSBD (2017: 10) has identified six critical areas that hinder the promotion and development of SMMEs: access to finance, access to markets, technology, infrastructure, management and technical skills, and specifically the regulatory environment (regulations). The OECD (2003: 14) defines “regulation” as the diverse set of instruments by which governments set requirements on businesses and citizens. These requirements fall into three categories: economic, social and administrative regulations (OECD 2003: 14). Taxation is one of the regulations that SMMEs have to contend with. Whilst taxation falls under the economic regulations category, the collection of taxes and the administrative burden regarding the collection of taxes falls under the administrative regulations category (OECD 2003: 14). In an online survey conducted by the

⁶ According to the National Treasury (2019: 16), citing statistics from the DSBD, only 37% of SMMEs survive the first four years and only 9% will still be in existence ten years after start-up.

DSBD, SMMEs indicated that the following fundamental business problems (barriers) were of serious concern to them: cash flow concerns, capital or access to funding, marketing and sales, infrastructure and, finally, tax requirements (DSBD 2017: 15). Botha et al. (2020: 14-15) also confirm that SMMEs struggle to comply with regulations (including administrative tax regulations) and note that these barriers differ between micro, very small, small and medium enterprises.

The collection of taxes by governments is as old as history itself (Winer, Profeta & Hettich 2014: 8). Governments require economic resources to provide a safe refuge and services for the population, and imposing taxes in one or other form is necessary to fund such obligations. Thus, irrespective of the challenges faced by the SMME sector, the collection of tax from SMMEs as important role players in the economy is still critical. One of the reasons underlying the taxing of SMMEs is to increase the possibility of long-term revenue growth due to a broader tax base (James 2008: 4). It is clear that, given growing populations and costs to the fiscus, because of this possibility for revenue increase, most governments have no option but to collect tax from SMMEs. However, from the business sector's perspective, the collection of taxes from business imposes a heavy burden (Coolidge & Ilic 2009: 4). According to Evans (2008: 449), the tax burden is made up of three elements, namely the taxes themselves (taxes on the profits, products or employees of the taxpayer); efficiency costs (the excess burden or deadweight costs)⁷ and the operating costs of the tax system. The operating costs of the tax system in turn consist firstly of the costs to the government (ultimately borne by taxpayers) of administering and collecting the taxes (administrative costs), and secondly of the costs expended by taxpayers in complying with the tax laws, commonly referred to as tax compliance costs (for a detailed discussion of tax compliance costs see Section 2.3.1).

This study considers the tax compliance costs incurred by SMMEs and therefore ignores the cost of the various taxes themselves, efficiency costs, and administrative costs. Taxes as such are set in legislation, and efficiency costs are challenging to quantify, so they tend to be ignored in the literature (Smulders & Stiglingh 2008: 356). However, tax system

⁷ Efficiency costs (also called excess burden or deadweight costs) result from tax-induced changes in relative prices, and these changes alter consumer and producer choices or decisions (Tran-Nam, Evans, Walpole & Ritchie 2000: 229). An additional tax cost added to the cost of a product or service (for example an increase in VAT on certain products) may force consumers to buy products that are taxed at a lower rate (Slemrod & Gillitzer 2013: 7).

complexity and tax changes result in high costs to businesses due to displaced resources and management time (OECD 2010: 9; Colmar Brunton Social Research 2009: 2). Therefore, this compliance time and the compliance costs incurred by SMMEs are considered in detail in the context of this study.

In Evans's (2003: 69) review of international research conducted on tax compliance costs up to 2003, he cites the climbing burden of tax compliance costs on taxpayers as the reason for growing awareness and research interest in these costs. As a response to the increased attention drawn by researchers to the topic of SMMEs' tax compliance costs, governments have attempted to lighten the tax burden on this sector. Governments across the globe have introduced small business tax concessions to reduce this crucial economic sector's tax and tax compliance cost burden (OECD 2010: 7). South Africa also introduced concessions to reduce the tax compliance cost burden for SMMEs. On the website of the South African Revenue Service (SARS),⁸ the following statement appears under the small business section: "Complying with your tax obligations as a small business has been made a lot easier over the past few years" (SARS 2021). Thus, according to SARS, the tax compliance burden has been lightened over the last few years for small businesses by the introduction of tax concessions for small businesses.⁹ However, various researchers question whether the introduction of such small business tax concessions do in fact reduce tax compliance costs, or at least they suggest further investigation into this claim (Bergner 2017: 2; Smulders, Stiglingh, Franzsen & Fletcher 2017: 144; Lignier & Evans 2012: 656). Therefore, there has been a call for governments to continue and encourage unbiased research on tax compliance costs and their determinants to ensure that tax compliance costs are reduced and that small business tax concessions fulfil their role in assisting SMMEs to reduce their tax compliance burden (Smulders et al. 2017: 147). The current study takes up this call.

For revenue authorities to collect taxes from taxpayers, they need taxpayers to comply with relevant tax regulations. Taxpayers can either comply voluntarily or they must be forced to comply with tax regulations (Kirchler 2007: 22)¹⁰. Such tax compliance behaviour from taxpayers is recognised to be a complicated phenomenon, considering that various factors

⁸ SARS is an autonomous agency of the South African government and is responsible for administering South Africa's tax system (SARS No date(a)).

⁹ Not all small business tax concessions aim to reduce tax compliance costs. Some, like the small business corporation (SBC) regime, reduce the tax paid.

¹⁰ For more details on how revenue authorities address tax compliance see Braithwaite (2002: 15-39).

may influence taxpayer compliance decisions (Yong, Lo, Freudenberg & Sawyer 2019: 808). There is a vast body of international research (Okpeyo, Musah & Gakpetor 2019; Yong et al. 2019; Alasfour Al-Ahliyya, Samy & Bampton 2016; Palil, Hamid & Hanafiah 2013; Bărbuță-Mișu 2011) on taxpayer behaviour and how it affects tax compliance (see Section 2.3.2). Taxpayer behaviour must be taken into account when revenue authorities formulate an approach for collecting taxes. It has been suggested that this is why in recent years revenue authorities have moved from merely enforcing tax laws to receive tax returns to becoming a service provider to facilitate tax compliance by taxpayers (OECD 2014: 12).

This recognition that taxpayers behave in a certain way is made clear in the South African context when one looks at SARS's Strategic Plan 2020/2021 to 2024/2025, which states:

The behaviour of taxpayers and traders may range from willing and intentional compliance to non-compliance largely because of a lack of knowledge or means. We are also aware though, that some taxpayers and traders consciously choose not to comply, and will engage in aggressive planning or even criminal behaviour. (SARS 2020a: 8)

SARS hopes to achieve voluntary compliance from taxpayers by making taxpayers aware of their tax obligations, making it as easy as possible and less costly for taxpayers to comply, but non-compliance will be detected, and will have costly consequences for delinquent taxpayers (SARS 2020a: 8). In short, if taxpayers are willing to comply (voluntarily), SARS will make it easy for them to comply, but conversely, if taxpayers decide not to comply they will be met by the full force of the law and will be forced to comply.

This response from revenue authorities (SARS in the South African context) forms part of a complex interaction between taxpayers and revenue authorities: revenue authorities behave in a certain way to ensure tax compliance (Feld & Frey 2007: 115). Revenue authority behaviour can take two forms: a customer service-oriented approach (based on trust between the taxpayer and revenue authority) or an enforcement approach (where the revenue authority uses its power over taxpayers) to ensure compliance. The delicate balance in this power/trust nexus may influence the tax compliance cost burden of SMMEs (Eichfelder & Kegels 2014: 212). A critical factor in this interaction is that the actions by revenue authorities can reduce overall tax compliance costs and thus improve tax compliance by SMMEs (Eichfelder, Kegels & Schorn 2010: 59). Conversely, revenue authority behaviour can also increase tax compliance costs and reduce tax compliance by SMMEs. Therefore, the effect of revenue authority behaviour (wielding power or establishing

trust) on tax compliance costs needs to be investigated. Answers on whether and how power and/or trust influence tax compliance costs may assist in finding ways to reduce the tax compliance costs for SMMEs. This is important because reduced tax compliance costs may provide tangible benefits to SMMEs, allowing them to become more tax compliant (Lewis & Alton 2015: 19), which will also ultimately benefit the fiscus.

1.2. Rationale for the study

To collect taxes, SARS incurs costs. These costs are referred to in Section 1.1 as administrative costs (although in SARS's annual reports, these costs are referred to as operating costs) that form part of the total tax burden. SARS reported the cost of tax collections in their 2021 Tax Statistics as being 0.85% of tax collections for the 2020/21 year (National Treasury & SARS 2021: 18), which, according to the report, compares favourably internationally. In the last five years (2016/17 to 2020/21), this percentage of the cost of collections has fallen from 0.93% to 0.85%, as indicated in Table 1.1.

Table 1.1: Cost of revenue collections: 2016/17 – 2020/21

R million	Tax revenue collected	Operating costs ¹	Cost of collection ²
2016/17	1 144 081	10 696	0.93%
2017/18	1 216 464	10 795	0.89%
2018/19	1 287 690	10 792	0.84%
2019/20	1 355 766	10 841	0.80%
2020/21	1 249 711	10 666	0.85%

1. Operating costs, as disclosed in the Statement of Financial Performance for the controlling entity in the SARS: Own Accounts Annual Financial Statements.
2. Operating costs as a percentage of tax revenue.

Source: National Treasury and SARS (2021: 18)

The operating costs indicated in Table 1.1 only represents SARS's cost relating to tax collection, however, and not the cost to taxpayers of tax compliance and the taxpayers' collection of taxes on behalf of SARS (for instance, in the case of VAT). Members of the

South African Institute of Chartered Accountants (SAICA)¹¹ have indicated that they have observed an increase in taxpayers' costs of tax compliance and tax collection on behalf of SARS over the past decade. They argue that this increase, especially since 2008, is due to additional compliance and disclosure procedures implemented by SARS (SAICA 2016).

Like most revenue authorities worldwide, SARS is under pressure to reduce its tax operating costs. It was evident that the revenue authority is aware of this pressure: SARS announced that it planned to reduce its operating costs from 0.96% of tax revenue collected in 2015/16 to 0.8% by 2018/19 (Ensor 2016). The operating costs were reduced to 0.84% in 2018/19; according to SARS, this reduction was achieved by containing costs and increasing revenues (National Treasury & SARS 2021: 17), and SARS did indeed achieve this target, but only in the 2019/20 year. However, it may be that some of the functions previously performed by SARS were shifted to taxpayers, thereby reducing SARS's operating costs, but increasing the tax compliance costs of the taxpayers. This transfer of costs is a matter for concern, because if costs are just rolled over from the revenue authority to the taxpayer, the strategy does not meet the purpose of effective cost-saving (Eichfelder & Kegels 2014: 212). SARS is also under pressure to collect additional revenue. According to tax practitioners and taxpayers, SARS uses procedural tactics to collect additional revenue (Lamprecht 2017; Office of the Tax Ombud 2017: 76-77). These procedural tactics include instances where the SARS system allows a delay in paying out refunds¹² to taxpayers (Office of the Tax Ombud 2017: 76-77), and SARS places additional administrative burdens on taxpayers by using a burden-of-proof strategy to put the onus on taxpayers to prove their innocence (Lamprecht 2017).

Researchers, businesses and revenue authorities should take into consideration the measurement of tax compliance costs for SMMEs and the evaluation of the tax concessions introduced to reduce these costs, because tax compliance costs may be a waste of economic resources if they increase the effective tax burden on SMMEs without increasing the income collected by revenue authorities (Eichfelder & Vaillancourt 2014: 112).

¹¹ SAICA is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 48 000 members and associates, who are chartered accountants, associate general accountants, and accounting technicians (SAICA 2021).

¹² For a discussion of the delay of refunds and other systematic issues, consult the detailed report from the Office of the Tax Ombud (2017).

Furthermore, tax compliance costs have been found to be regressive, which means that smaller businesses feel the effect of tax compliance costs more than larger businesses (OECD 2016: 48). Finally, tax compliance costs affect the economic behaviour of individuals and businesses and may even be linked to the level of tax compliance, because high tax compliance costs may elicit tax evasion or dishonesty (Okpeyo et al. 2019: 12; OECD 2015: 124; Klun & Blažić 2005: 419; Erard & Ho 2003: 101).

Given these effects of tax compliance costs on taxpayer behaviour, it is interesting that in the 2017 medium-term budget presented in Parliament, the then Minister of Finance, Malusi Gigaba, acknowledged that compliance concerns are mounting in the context of tax administration challenges for SARS and a weakening tax morality on the taxpayers' side (National Treasury 2017a: 22). A sound tax system, especially in developing and transitional economies, is essential to increase government revenue, encourage investment, reduce the unemployment rate, and stimulate growth of a country's economy (Leicester, Levell & Rasul 2012: 42; Steering Group 2011: 15).

According to the OECD (2016: 48), tax compliance costs are one of SMEs' main challenges in maintaining their viability and growth. Therefore, the efficiency of a tax regime – one of the four criteria set out in the maxims of a fair tax system, according to a seminal work on taxation, Smith's ([1776] 2007) *An inquiry into the nature and causes of the wealth of nations* – should be assessed by reviewing quantifiable data from tax compliance costs surveys, because policymakers need to know which measures are possible causes for most of the tax compliance burden for businesses. These measures should be targeted for reform (Coolidge 2010: 1). Also, tax compliance costs surveys can identify problems in tax systems and assist in establishing a baseline against which progress in reducing the tax compliance burden can be monitored and measured (Coolidge 2010: 2). Because of this, reviews of tax compliance costs can no longer merely be an academic, theoretical endeavour, but should attract the attention of governments as well (Adam & Yusof 2018: 38; Coolidge 2010: 2; Richardson & Sawyer 2001: 255). Not knowing the level of tax compliance costs for SMMEs, especially in South Africa, could affect the economy if these costs are high, and if the reasons for these high costs are not addressed. Given the importance of SMMEs for economic growth, it is a concern that a number of studies have confirmed that tax compliance costs for this sector are relatively high, compared to those for the large business

sector (Yesegat, Coolidge & Corthay 2017: 98; OECD 2016: 48), confirming that tax compliance costs are regressive (Adam & Yusof 2018: 37; Yesegat et al. 2017: 98; Eichfelder & Vaillancourt 2014: 134; Smulders, Stiglingh, Franszen & Fletcher 2012: 215).

Research into tax compliance costs and tax compliance behaviour as separate research areas has increased significantly, but the relationship between tax compliance costs and taxpayer behaviour still needs to be addressed more fully (Adam & Yusof 2018: 37; Richardson & Sawyer 2001: 207). For example, a study on businesses based in Belgium found that a revenue authority's behaviour (which in turn influences taxpayers' perceptions and behaviour) has a significant impact on the effective cost burden of complying with tax laws (Eichfelder & Kegels 2014: 212). Hence, the impact of a revenue authority's behaviour (using their power over taxpayers or building trust with taxpayers) on tax compliance costs needs to be investigated from an SMME perspective when tax compliance costs are assessed.

1.3. Problem statement

Although several studies touching on aspects of tax compliance costs have been conducted in South Africa (Matarirano, Chiloane-Tsoka & Makina 2019a; Smulders et al. 2017, Smulders & Naidoo 2013; Smulders et al. 2012; Smulders 2012; Govender & Citizen Surveys 2008; FIAS 2007; Smulders 2006), an analysis of these studies shows that none of them has attempted to measure SMMEs tax compliance costs (see Section 3.3). These studies were limited to small businesses, with a turnover of R14 million or less¹³ (Matarirano et al. 2019a: 2; Smulders et al. 2012: 188; Govender & Citizen Surveys 2008: 17; FIAS 2007: 7). No publicly available South African study has been found that measures the tax compliance costs (in Rand values) for medium businesses. This study therefore focuses on small and medium businesses to address this research gap, because medium enterprises (like micro, small and large enterprises) form an integral part of the “ecosystem of enterprises” in the economy (Ciani et al. 2020: 2) and because the successful growth of an SMME (from micro to small and from small to medium) could increase employment creation (Sulla & Zikhali 2018: 88).

¹³ The Govender and Citizen Surveys (2008) defines SMMEs as small businesses with a turnover of between R70 000 and R14 million, registered with SARS. It excluded businesses with a turnover below R70 000.

Prior South African studies, including the studies by the Facility for Investment Climate Advisory Services (FIAS) (2007) and Smulders et al. (2012), focused on filing and pre-filing tax compliance costs. The Govender and Citizen Surveys (2008) measured objection and appeal costs, and the Matarirano et al. (2019a) study considered audits and inspection costs but again only for small businesses. No research could be identified where post-filing tax compliance costs (for example, costs related to the following up on tax refunds, reviews, audits, objections and appeals, etc.) for SMMEs were measured. For many businesses, post-filing activities can represent the most complex interactions with a revenue authority, and, in many economies, the process of agreeing on the final tax liabilities and, potentially, obtaining refunds of taxes paid can be complicated and time-consuming (PwC 2017: 2). A newspaper article published on Moneyweb (Lamprecht 2017) cites a comment by Engel, Chief Executive Officer of the South African Institute of Taxation, who said that members of the institute were used to receiving queries from SARS on between 5% and 10% of tax submissions after submission of tax returns, but that these figures had increased during the 2017 tax year to between 50% and 80%. This claim confirms the perceptions of SAICA (2016) members (cited in Section 1.2) and highlights the importance of researching tax compliance costs from an SMME perspective, especially post-filing activities.

The South African studies mentioned above also failed to consider or incorporate the effect of SARS's behaviour towards SMMEs and how this affects their tax compliance costs. One South African study focused on individual taxpayers only (Oberholzer & Stack 2009); that study specifically aimed to determine individual South African taxpayers' perceptions regarding general tax compliance issues, omitting reference to SMMEs and the effect of SARS's behaviour towards taxpayers on their tax compliance costs.

The research problem is therefore that South Africa is faced with a scenario where there is no comprehensive baseline (except for small and micro businesses) against which the results of studies conducted on the tax compliance costs of SMMEs can be assessed. Nor has the effect of SARS's power over or its ability to build trust with taxpayers on SMMEs' tax compliance costs been considered in the literature reviewed.

1.4. Research aim and objectives

This study aims to assess the tax compliance costs for South African SMMEs. To achieve this aim, this study endeavours to address the following objectives:

- measure the tax compliance costs of SMMEs in South Africa (see Chapter 6);
- ascertain the determinants of the tax compliance costs for SMMEs in South Africa (see Section 7.2); and
- investigate the effect of the use of power by SARS and trust in SARS on SMMEs tax compliance costs (see Section 7.3).

1.5. Delineations

The literature identifies three tax compliance benefits: tax deductibility, cash flow benefits, and managerial benefits derived from complying with tax legislation (Lignier 2006: 130). This study did not explore these benefits for three reasons. The first is that tax deductibility benefits (rules allowing tax compliance costs to be deductible from taxable income) are likely to remain unchanged from one year to the next. Second, cash flow benefits for SMMEs are likely to be minimal, due to the level of tax withheld, and relatively stable interest rates (Evans et al. 2014: 461). The third reason is that managerial benefits are generally extremely difficult to quantify and are therefore generally omitted from tax compliance cost studies (Tran-Nam 1999: 160). For example, in Smulders et al.'s (2012: 11) study, it was found that 82.9% of the respondents indicated that they could not quantify tax compliance benefits accurately.

Another limitation in the scope delineated for this study is that, although psychological costs are relevant in the SMME environment, these costs cannot be measured objectively and consistently (Evans & Tran-Nam 2014: 8). Therefore, no attempt was made to quantify psychological costs. For a further discussion on tax compliance benefits and psychological costs, see Section 2.3.1.

1.6. Research methodology

The research philosophy adopted by the researcher in this study leans towards positivism because of the researcher's preference for measuring tax compliance costs from an independent objective stance. A quantitative research design was followed. This involved structured collection of data, using a survey instrument to allow the measurement of the tax compliance costs of SMMEs and ascertain the determinants of tax compliance costs for SMMEs in South Africa. The Slippery Slope Framework (SSF) (see Section 2.3.5) was employed to investigate the effect of the use of power by SARS and trust in SARS on SMMEs' tax compliance costs.

Ethical approval for this study was obtained from the University of South Africa's (UNISA) College of Accounting Sciences Research Ethics Review Committee. The core ethical principles that were adhered to are provided in Section 4.9.

The design of the measuring instrument, an online questionnaire, was based on local and international best practices to ensure comparability where possible. Best-practice questionnaires were adapted and expanded to suit the South African context and this study's research objectives. The questionnaire was used to collect data regarding five broad components, namely background information on the responding SMME, the money spent on external tax and accounting activities (external tax compliance costs), the internal time spent by the owners and employees of SMMEs on tax and accounting activities (internal tax compliance costs), non-labour costs related to tax activities incurred by SMMEs, and finally the interaction of SMMEs with SARS for the financial year running from 1 April 2018 to 31 March 2019. The link to the questionnaire was sent out on 18 March 2019 by SARS. The questionnaire was administered using the survey platform Qualtrics (see Section 4.4 for fuller details on the recruitment of respondents).

The target population was SMMEs in South Africa registered with SARS for tax purposes, and for which SARS had an e-mail address when the questionnaire was distributed. Since the whole database (described above) was selected, a census approach was followed by sending the questionnaire to the entire database, obviating the need to use any statistical sampling techniques. SARS sent the link to the online questionnaire to 193 957 e-mail

addresses on the researcher's behalf. Of these, 148 605 were successfully delivered in March 2019. Valid responses from SMMEs came to 4 557, representing a response rate of 3.06%. Fully completed surveys were needed to achieve the research objectives, which meant that only 771 of the surveys were usable after data cleaning, representing a response rate of 0.51%. Various reasons and possible explanations for the low response rate are discussed in detail in Section 4.5.3. Despite the low response rate, 771 responses should be sufficient to provide valuable information for this study.

To ensure the reliability and validity of the data, the data analysis involved two main precautions. The first was the identification of usable questionnaire responses to ensure that the data analysed were reliable and valid (see Section 4.7). Secondly, all the statistical tests performed as part of the data analysis process were conducted with the oversight of a trained statistician.

1.7. Definition of key terms and concepts

Administrative costs: These are the costs incurred (mainly) by the public sector in managing the tax benefit system (Allers 1994: 20). These costs fall outside the scope of this study.

Operating costs: The operating costs of a tax system refer to the sum of administrative costs plus tax compliance costs (Evans 2008; Chamberlain & Smith 2006; Pope 2000).

SMME: SMME is a broad concept used to describe an entity in terms of size in an economy (Hassan, Aku & Aboki 2017: 132). It is a separate or distinct entity/business classified as such and falls under specific parameters that vary from country to country. Refer to Section 2.2 for a detailed discussion on this concept.

Tax burden: The tax burden of a tax system includes all those costs which would disappear if there were no need to comply with tax regulations (Guyton, O'Hare, Stavrianos & Toder 2003: 674). According to Evans (2008: 449), the tax burden is comprised of three elements:

the taxes themselves, the efficiency costs¹⁴ that lead to market distortions induced by a tax, and the operating costs of the tax system. Only the tax compliance costs of the operating costs of the tax system are considered in this study (see above).

Tax compliance: James (2012a: 58) defines tax compliance as "[t]he willingness of taxpayers to act in accordance with the statutory requirements or intentions of the tax law and administration". He notes that a complete definition should also include compliance with the spirit and the letter of the law. An issue related to this definition is tax compliance behaviour, which refers to the fact that taxpayers either comply voluntarily, or are forced to comply, or need to be nudged to comply (Tan & Braithwaite 2018: 233).

Tax compliance costs: Coolidge (2012: 251) quotes Sandford's definition for tax compliance costs, to be the most commonly used definition – tax compliance costs are the "[c]osts incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities ... over and above the actual payment of tax; costs which would disappear if the tax was abolished." A detailed discussion of tax compliance costs is offered in Section 2.3.1.

1.8. Outline of the study

The first chapter provides background to the study by highlighting the importance of SMMEs to the economy. This is followed by the rationale for the study, problem statement, the aim and objectives of the research, the study's delineations and a brief outline of the research methodology used. Finally, the key terms and concepts are defined.

Chapter 2 commences with a detailed exploration of the meaning of the terms "SMME", "tax compliance costs", and "tax compliance behaviour". The definition of these terms and clear distinction of them from each other is intended to enable a better understanding of who the respondents to the survey are and to explain the nature of the costs that are measured. It also establishes the theoretical foundation for this study by identifying and defining the theories underpinning tax compliance costs and tax compliance behaviour. The chapter concludes with a theoretical framework for the study.

¹⁴ See Footnote 7.

The third chapter provides an overview of the prior research conducted internationally and in South Africa on SMMEs' tax compliance costs and thereafter focuses on the elements, measurement, and determinants of tax compliance costs. This review reveals the lacunae in the literature concerning research in South Africa on SMME tax compliance costs and explains in more detail the need for the current research.

The fourth chapter discusses the research methodology applied in this study fully. The chapter first explains the research philosophy and paradigm, then provides details on the research design, the population, and the data collection method used in this study. The data analysis methods and strategies employed to ensure valid and reliable data are presented and the possibility of non-response bias are considered. Ethical considerations are also addressed in this chapter.

Chapter 5 presents the survey respondents' profiles and the businesses they represent by analysing the businesses' characteristics. In addition, the eligibility for and uptake of small business tax concessions, the general attitude towards these concessions and the usefulness and complexity of these concessions are investigated. The chapter then focuses on the profiles of the respondents in respect of their position in the business, their qualifications and their level of accounting knowledge.

Chapter 6 discusses the measurement of tax compliance costs by first measuring internal tax compliance costs, then non-labour costs, and lastly, external tax compliance costs. The last section of the chapter presents the findings on the total tax compliance costs incurred by SMMEs.

Chapter 7 investigates the possible determinants of tax compliance costs, using regression analysis. The effects of the use of power by SARS and trust in SARS on SMMEs' tax compliance costs are also explored by analysing the survey data collected using Structural Equation Modelling (SEM).

The final chapter commences by setting out an overview of the study per chapter. Thereafter, a summary of the research findings regarding the research objectives is provided and the study's contribution is considered from a theoretical, methodological and practical perspective. Finally, the chapter reflects on the limitations of the study and makes

recommendations for future research.

1.9. Conclusion

Chapter 1 has provided an introductory discussion of the background to and rationale for this study. The scope of the current research has been outlined, indicating the research problem, aim and objectives and, in broad terms, the methodology used to achieve them. Key terms have been defined, and an outline of the study is provided. The next chapter describes the primary constructs relevant to the current research and sets out the study's theoretical foundation.

CHAPTER 2: CONTEXTUAL AND THEORETICAL CONSTRUCTS

2.1. Introduction

As Chapter 1 indicates, this study focuses on a particular sector of the economy, namely the small, the medium and the micro enterprises that form the heart of any economy. To provide a foundation for this study, this chapter begins with an investigation of various definitions of an SMME and then defines this term for the specific purposes of the current study. Next, the two main constructs of the study, “tax compliance costs” and “tax compliance behaviour”, are discussed. These constructs are described, and the theories underpinning them are explored to understand the concept of tax compliance costs, as well as why taxpayers and revenue authorities behave in a certain way. The relationship between tax compliance costs and tax compliance behaviour is then investigated and contextualised in respect of the SMME sector. Lastly, the theoretical framework for this study is described.

2.2. Small, medium and micro enterprises

One of the main challenges in assessing tax compliance costs for SMMEs is that there is no universal definition of the term SMME that can be used as a reference by all economies, statistical agencies or researchers (Berisha & Pula 2015: 26; Ardic, Mylenko & Saltane 2011: 4). In order to study any aspect of this sector, it is therefore essential first to establish how SMMEs have been broadly defined in the literature, and then to state explicitly how the term is applied in the research at hand. Accordingly, this section describes an international economic perspective of SMMEs and a South African economic and taxation perspective of SMMEs before defining the term SMME for the purposes of this study.

2.2.1. *An international economic perspective*

The term SMME (or SME or MSME) is a broad concept used to describe an entity in respect of size in an economy (Hassan et al. 2017: 132). However, often a business which may be regarded as small may have close financial or operational relationships with other larger

enterprises, and therefore has significant other resources available through these relationships. Such a business would not experience the same challenges that SMMEs with no ties to larger enterprises do experience (European Commission 2015: 3). These relationships often make it difficult to draw a precise line between an SMME and a larger enterprise (European Commission 2015: 3). The term SMME also embraces a wide range of characteristics which vary across countries, and across sources reporting statistics on these entities (Ayyagari, Demirguc-Kunt & Maksimovic 2011: 6). Depending on the country, and, in some instances, the type of industry, the size of an enterprise can be categorised based on annual sales/turnover, assets, number of employees, capital investment, or on any combination of these (Kushnir 2010: 1). A country's definition of an SMME may also be relative to the size of that country's domestic economy (OECD 2017a: 13).

In Europe, the EU established the first common definition for small and medium-sized enterprises in that region in 1996 (EU 1996). This definition has subsequently been revised and updated by a definition for micro, small and medium-sized (note the inclusion of micro) enterprises which came into force on 1 January 2005 (European Commission 2009: 2). In 2015, the European Commission issued a user guide where the definition accepted in 2005 was endorsed (European Commission 2015).¹⁵ This user guide serves as a general guideline or practical tool for entrepreneurs and other stakeholders to classify SMMEs in order to qualify for support from the EU and its member states (European Commission 2015: 3).

According to the 2005 definition, an enterprise qualifies as an SMME if it falls below specified maximum ceilings regarding the number of employees, and either a maximum turnover ceiling, or a balance sheet ceiling (European Commission 2009). This definition implies that an enterprise with high turnover may still be regarded as an SMME if the enterprise's staff headcount (number of employees) and balance sheet total fall within the maximum ceilings (see Table 2.1).

¹⁵ In the user guide, an enterprise is defined as "any entity engaged in an economic activity, irrespective of its legal form" (European Commission 2015: 9).

Table 2.1: SMME definition (European Commission)

SMME definition (European Commission)				
Enterprise category	Ceilings			
	Staff headcount (number of persons expressed in annual work units)	Turnover	Or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

Source: European Commission (2009: 3)

As an application of the definition in Table 2.1, one might consider an enterprise with 200 employees, a turnover of € 100 million and assets of € 40 million. The enterprise would qualify as an SMME, because the number of employees is below 250, and the assets are below the threshold of € 43 million. The turnover of € 100 million is therefore disregarded in this situation. In determining whether an enterprise qualifies as an SMME, the European Commission definition takes the ownership structure of the enterprise into account as well (European Commission 2015: 4). An enterprise that falls within the quantitative ceilings presented in Table 2.1 may not be eligible for SMME status if it is owned by, linked to, or partnered with a larger enterprise. Therefore, enterprises with a more complex structure are judged on a case-by-case analysis to see whether they qualify for SMME status (European Commission 2015: 4).

The World Bank has several definitions of SMMEs and thus provides no consistent basis for classifying enterprises as SMMEs (World Bank 2014: 19). For instance, for its “enterprise surveys” purposes, the World Bank defines SMMEs as enterprises with 5 to 99 employees. For other research purposes, the World Bank uses 99 employees and, in some instances, 250 employees, as the maximum ceiling. For individual projects focusing on a specific country, they often use the country’s individual SMME definition (World Bank 2014: 16). In addition, within the World Bank Group, the IFC and the Multilateral Investment Guarantee Agency (MIGA) also have formal definitions for SMMEs. An enterprise is classified as an

SMME according to the IFC and MIGA if the enterprise fulfils two of the three quantitative criteria: the number of employees, total annual sales, and total assets (World Bank 2014: 16; IFC 2012: 1) (see Table 2.2).

Table 2.2: SMME definition (IFC & MIGA) (two out of three criteria must be met)

Enterprise size	Number of employees	Total annual sales	Total assets
Medium	>50; ≤ 300	>\$3 million; ≤ \$15 million	>\$3 million; ≤ \$15 million
Small	>10; ≤ 50	>\$100,000; ≤ \$3 million	>\$100,000; ≤ \$3 million
Micro	≤10	≤\$100,000	≤\$100,000

Source: Adapted from IFC (2012: 1)

The United States (US) also does not have a universally accepted definition for an SMME (U.S. International Trade Commission 2010: 1-2). Because many programmes and services offered by the US government focus on “small business”, it is important to classify businesses according to size (U.S. Department of the Treasury 2018). The US Small Business Administration definition for a small business is the most widely used. Therefore the US bases its classification of a small business on that (U.S. Department of the Treasury 2018). A small business¹⁶ is defined using gross annual receipts or number of employees (Small Business Administration 2018: 385). Size guidelines exist for different industries and are based on the North American Industry Classification System.¹⁷ The size guidelines are published in Title 13 of the *Code of Federal Regulations (CFR)* part 121. For example, the size of an agricultural-related business would be determined by gross annual receipts, except for logging, which is determined by the number of employees. By contrast, the size of most businesses in the mining sector would be determined by the number of employees, except for a few specific businesses which are determined by gross annual receipts (Small Business Administration 2018). The US approach thus seems more sophisticated because

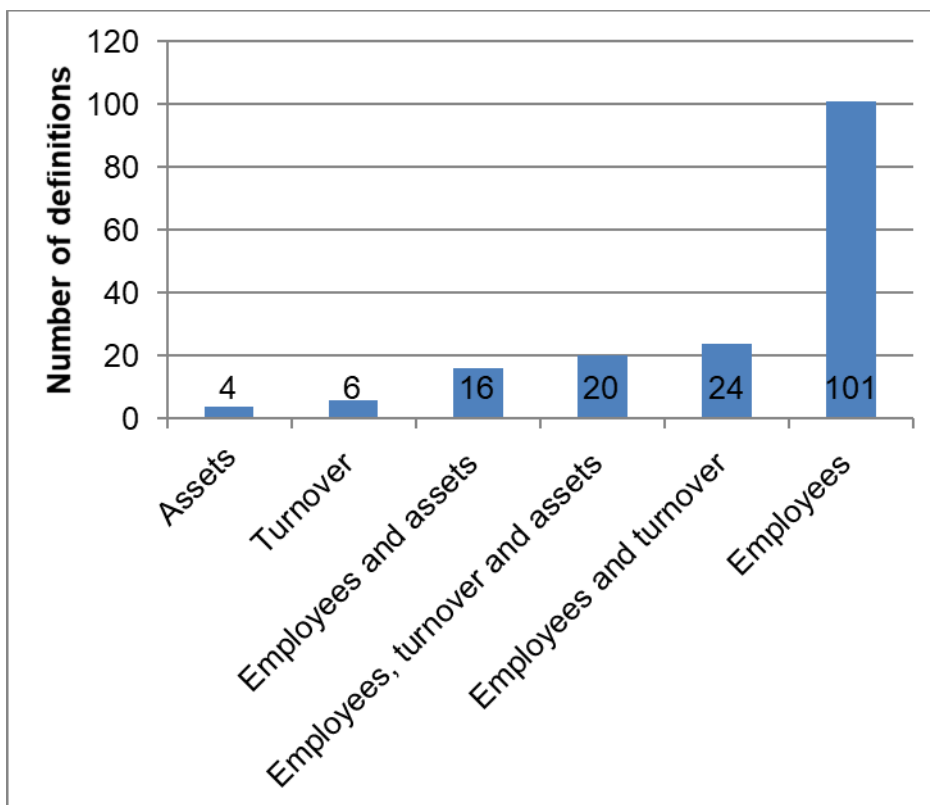
¹⁶ The US Small Business Administration does not distinguish between micro, small or medium enterprises.

¹⁷ The North American Industry Classification System is an industry classification system that groups establishments into industries based on the similarity of their production process (U.S. Census Bureau 2017: 14).

it does take into consideration the type of industry in which an enterprise operates, but this approach increases the complexity of size determination (Bergner 2017: 9).

In 2012, the SME Finance Forum was established by the G20 Global Partnership for Financial Inclusion as a knowledge centre for data, research and best practice in promoting SME finance. The IFC was tasked to manage this initiative and, in 2014, it published MSME Country Indicators (SME Finance Forum 2014).¹⁸ The update of this report, launched in 2019, is now called the *MSME Economic Indicators* (IFC 2019: 5). According to the analysis note of the *MSME Economic Indicators*, the most common variable used by countries for defining an MSME is the number of employees (101 definitions used only the number of employees), followed by 70 definitions which use a combination of the number of employees, turnover and assets (see Figure 2.1).

Figure 2.1: Variables used for the definition of MSMEs



Source: Adapted from IFC (2019: 9)

¹⁸ The MSME Country Indicators present detailed statistics for micro, small, and medium enterprises (MSMEs), as well as definitions and data for 155 economies (Gonzales, Hommes & Mirmulstein 2014).

The *MSME Economic Indicators* analysis note indicates that the most common threshold (if the number of employees is used) for defining enterprises according to size is an upper limit of 250 employees for medium enterprises, 50 for small and 10 for micro enterprises (IFC 2019: 9). From a turnover perspective, no limits are given in the 2019 analysis note, but an analysis of the 2014 report indicates that the upper limit for an MSME ranges between US\$ 50 million and US\$ 70 million, largely reflecting higher-income countries and US\$ 1 million to US \$5 million most common among lower-income developing countries, and that the value of assets upper threshold for MSMEs ranges between US\$ 5 000 and US\$ 62 million (Gonzales et al. 2014: 8). Therefore, it is clear from the above that it is difficult to derive any universal or precise definition of an SMME at an international level that may be used as a benchmark to classify SMMEs.

2.2.2. A South African economic perspective

Even though the terms “small businesses”, “SMMEs” or “SMEs” are frequently used in different sectors in the South African economy, people’s understanding differs regarding what precisely an SMME is. Given that the South African government’s NDP acknowledges SMMEs’ importance in promoting employment, the Davis Tax Committee (2014)¹⁹ examined the tax system to publish the first interim report on SMEs for the Minister of Finance in January 2014. In its report, the Committee acknowledges that there was no universally accepted definition for SMMEs in South Africa and indicates that the lack of such a definition presented the Commission with significant difficulty (Davis Tax Committee 2014: 6). The different definitions contained in the legislation and used by South African institutions are discussed next.

The *National Small Enterprise Act, 102 of 1996* (previously called the *National Small Business Act*) was established, among other things, to “provide guidelines for organs of state in order to promote small business in the Republic” (RSA 1996). This Act defines a small enterprise in section 1 and this definition was amended by *Government Notice No. 399*, published 15 March 2019 (see Appendix B) as follows:

[A] separate and distinct business entity, together with its branches or

¹⁹ The Committee’s objective was to assess South Africa’s tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability (Davis Tax Committee 2018: 1).

subsidiaries, if any, including co-operative 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.

The criteria (in columns 3 and 4 of Schedule 1) used to classify an enterprise as micro, small or medium are the enterprise’s number of employees and total annual turnover. These categories are further defined per sector or subsector of the economy in which an enterprise operates (column 1 of Schedule 1). For example, an enterprise in the agriculture sector qualifies as a medium enterprise if it employs 51 to 250 employees and has a turnover of between R17 million²⁰ and R35 million. If the enterprise operates in the wholesale trade sector, the thresholds are between 51 and 250 employees, and a turnover between R80 million and R220 million. A summary of the classification thresholds is provided in Table 2.3.

Table 2.3: Summary of classification thresholds for micro to medium enterprises

Sector or subsector in accordance with the Standard Industrial Classification (SIC)	Size or class	Total full-time equivalent of paid employees	Range of total annual turnover upper limits
Various	Medium	51-250	R35m – R220m
	Small	11-50	R15m – R80m
	Micro	0-10	R5m – R20m

Source: Adapted from Schedule 1, National Small Business Amendment Act 26 of 2003, amended by Government Notice No. 399, published 15 March 2019 (see Appendix B) (RSA 2003)

It is evident from Table 2.3 that an all-inclusive definition for an SMME in terms of the *National Small Enterprise Act* is an enterprise managed by one owner or more, with fewer than 250 employees and an annual turnover of no more than R220 million.

The DTI classifies the size of an enterprise according to its annual turnover in terms of the *National Small Enterprise Amendment Act* (Small Enterprise Development Agency 2018:

²⁰ The average exchange rate for the year of assessment ending 31 March 2019 (the timeframe for the tax compliance costs estimation given in the questionnaire) was 1\$ = R13.7488 (SARS 2019). Therefore, R17 million equate to approximately \$1 236 472 for the year of assessment ending 31 March 2019.

29). As mentioned above, there are different turnover-related cut-off points for micro, small and medium enterprises in different economic sectors. The cut-off points are adjusted annually by Statistics South Africa and are published in the Quarterly Financial Statistics to provide for inflation. The thresholds are summarised in Table 2.4.

Table 2.4: Summary of DTI cut-off points for enterprise size (adjusted by Statistics South Africa)

Industry	Enterprise size	Turnover
Various	Micro	R0 – R2m
	Very small	R2m – R90m
	Small	R15m – R480m
	Medium	R90m – R960m

Source: Adapted from Statistics South Africa (2020a: 31)

Enterprise size from the viewpoint of broad-based black economic empowerment (B-BBEE)²¹ in South Africa is defined by the sector codes issued by the DTI. In terms of the sector codes, entities are classified as Exempted Micro Enterprises (enterprises with a turnover of less than R10m), or Qualifying Small Enterprises (enterprises with a turnover of between R10m and R50m), or Large Enterprises, which are enterprises with a turnover of more than R50m (B-BBEE Commission No date). Size is therefore determined by turnover alone, as indicated above. Therefore, it is clear from the above that it is difficult to derive any universal or precise definition of an SMME from a South African economic perspective that may be used as a benchmark to classify SMMEs.

2.2.3. A South African taxation perspective

The current study focuses on tax compliance costs for SMMEs. It has been shown in the literature that tax compliance costs differ, relative to the size of a business (Adam & Yusof 2018: 37; Smulders et al. 2017: 146; Yesegat et al. 2017: 98). It is thus necessary to

²¹ B-BBEE is a comprehensive economic transformation programme introduced by the South African government to enhance the economic participation of black Africans in the South African economy (DTI No date(b)).

distinguish between micro, small, medium and large businesses in the South African economy that are registered with SARS for tax purposes.

SARS defines a small, medium or micro sized enterprise in Section 1(1) of the *Income Tax Act* as any person that qualifies as a micro business in terms of paragraph 1 of the Sixth Schedule,²² or any person that is a SBC in terms of section 12E²³ of the *Income Tax Act*. The *Income Tax Act* does not define large enterprises. However, the SARS website publishes the following criteria for taxpayers to be classified as large businesses (SARS 2018a):

Criteria for taxpayers to be classified as large businesses:

During 2015, SARS implemented a new operating model, which included revising the definition of large businesses. Until a new definition is approved and adopted, the existing definition will apply:

- All companies which form part of a group of companies with consolidated group turnover in excess of R1 billion, except for Financial Services, Mining or Multinational companies with a group turnover in excess of R250 million.
- Assessing whether or not taxpayers meet the criteria will be conducted every 3 years.

Except for a micro business registered for the turnover tax and SBCs (discussed below), no other parameters in the legislation are given in terms of how the size of a business is determined. However, there are some additional classifications in legislation solely to determine whether or not a business qualifies for certain tax concessions or incentives. These tax concessions available to small businesses in some of the tax Acts are as follows:

- the SBC income tax regime introduced in 2001 into the *Income Tax Act, 58 of 1962* (RSA 1962: section 12E);
- the capital gains tax (CGT) relief for the sale of small business assets introduced into the *Income Tax Act* in 2001 (RSA 1962: Eighth Schedule, par. 57);
- the various VAT concessions consisting of filing VAT returns every six or 12 months from 1 July 2015 in terms of section 27(4) and (4A) of the *Value-Added Tax Act, 89 of 1991* (RSA 1991); the VAT registration threshold of R1 million (RSA 1991: section 23) and the payment basis option for accounting for VAT (RSA 1991: section 15);

²² The Sixth Schedule deals with the turnover tax concession for micro businesses (RSA 1962).

²³ Section 12E deals with the SBC tax regime (RSA 1962).

- the exemption from having to pay the skills development levy (SDL) for some employers from 1 August 2005 (RSA 1999: section 4(b));
- the reduced binding private ruling application fee payable from 1 October 2006 (SARS 2013a; RSA 2011);
- the turnover tax for micro businesses from 1 March 2009 (RSA 1962: Sixth Schedule);
- the simplified provisional tax payment calculation from 1 March 2009 (RSA 1962: Fourth Schedule); and
- the tax incentive to encourage equity investment through venture capital companies in SMMEs and junior mining companies from 1 January 2009 (RSA 1962: section 12J).

The qualifying criteria for each of these small business tax concessions are described below. Where possible, the primary qualifying criterion is also noted to determine which qualifying criteria could be best suited to establish a definition for SMMEs for the purposes of this study.

2.2.3.1. SBC income tax regime

The SBC income tax regime is available to small businesses if they fall into the definition of an SBC contained in the *Income Tax Act* (RSA 1962: section 12E). According to *Interpretation Note 9* (SARS 2018b), the definition comprises the following elements and requirements:

*A legal entity requirement.*²⁴ The entity must be a private company as defined in the *Companies Act 71 of 2008* (RSA 2008), a co-operative or a close corporation (CC) or a personal liability company²⁵ as contemplated in section 8(2) of the *Companies Act*, but not a personal service provider as defined in the Fourth Schedule to the *Income Tax Act*.

A shareholder requirement. Section 12E(4)(a) of the *Income Tax Act* provides that for the qualifying entity, its entire shareholding or members' interest must always be held during the year of assessment by shareholders/members who are natural persons. The shareholders or members may not, at any time during the year of assessment of the company or CC, hold shares in another company other than those expressly permitted.

²⁴ Only juristic persons qualify, therefore there is no similar concession for a taxpayer who trades as a sole proprietor or in a partnership.

²⁵ Incorporated associations of professional persons for example auditors, attorneys etc. where the directors are jointly and severally liable for the debts of the company.

A gross income limitation. The gross income of the company or CC for the year of assessment may not exceed R20 million²⁶ (RSA 1962: section 12E(4)(a)(i)).

A business activity limitation. Section 12E(4)(a)(iii) of the *Income Tax Act* provides a limitation on the amount of income that may be generated from specific income streams. The personal service income and the investment income of the SBC may not collectively exceed 20% of the total receipts and accruals (other than those of a capital nature) and all capital gains (RSA 1962).

To increase the number of small businesses that could qualify for the concessions in section 12E, the definition of “personal service” excludes all businesses that employ at least three full-time employees (excluding shareholders or members and persons connected to such shareholders or members) who are engaged on a full-time basis in the business of the SBC rendering that service (RSA 1962). Furthermore, if the business is classified as a personal service provider as defined in the Fourth Schedule of the *Income Tax Act* (which contains a complex set of requirements), the tax benefits applicable to an SBC are no longer available, and almost all its expenses are disallowed as deductions (RSA 1962). From the above, it is evident that numerous criteria must be met to qualify for this concession and no single factor stands out as the dominant criterion for qualification as an SBC.

2.2.3.2. CGT relief for the sale of small business assets

The next concession is CGT relief for the sale of small business assets. A CGT concession is provided to a “small business” that meets specific requirements. From a CGT perspective, a small business is defined as a business where the market value of all its assets at the date of disposal does not exceed R10 million. This concession is only available to a natural person who disposes of an “active business asset” owned by the person as a sole proprietor, or to the disposal of an interest in each of the active business assets of a partnership qualifying as a small business upon that person’s withdrawal from the partnership, to the extent of the person’s interest in the partnership (RSA 1962: Eighth Schedule, par. 57). The concession does not apply if the person owns more than one small business (by way of a sole proprietorship, partnership interest or direct interest of at least 10% in the equity of a company) and the total assets of the person’s small businesses exceed R10 million in value

²⁶ The turnover threshold was increased from R14 million to R20 million with effect from the 2014 year of assessment.

(RSA 1962: Eighth Schedule, par. 57(2)). The primary qualifying criterion for this small business tax concession is the “gross asset value” (R10 million).

2.2.3.3. *VAT concessions*

The third concession is a set of various VAT concessions. Although no mention is made of a “small business” in the *Value-Added Tax Act, 89 of 1991* (RSA 1991), several concessions regarding registration for VAT, the submission of VAT returns and the payment of VAT are available to small businesses. Businesses who engage solely in agricultural, pastoral or other farming activities, with taxable supplies of R1.5 million or less, are permitted to submit VAT returns every six months, instead of the usual monthly or two-monthly requirement (RSA 1991: section 27). In terms of section 23(1)(a) of the *Value-Added Tax Act*, businesses with taxable supplies (similar to turnover) exceeding R1 million over a 12-month period are required to register for VAT purposes. Therefore, businesses with a turnover of less than R1 million are spared having to register for VAT. Furthermore, certain businesses may elect to pay VAT on the payment (cash) basis rather than on the invoice basis if their turnover is less than R2.5 million per year and the vendor is a natural person (RSA 1991: section 15). These turnover limits fall below the limits set in the *National Small Enterprise Act* (RSA 1996) for classification as a small business, so these turnover limits can arguably be regarded as being those of micro businesses. Therefore, the primary qualifying criterion for these VAT concessions is a turnover ranging from R1 million to R2.5 million.

2.2.3.4. *Exemption from SDL*

Although no mention is made of a “small business” in the *Skills Development Levies Act, 9 of 1999* (RSA 1999), a concession regarding payment for this tax is provided to small businesses by implication. Employers who pay an annual remuneration to their employees of less than R500 000 are exempt from paying the SDL. This is a payroll tax imposed to encourage learning and development in South Africa, levied at 1% of the remuneration paid to employees (RSA 1999: section 4). The primary qualifying criterion used is therefore annual remuneration.

2.2.3.5. *Reduced binding private ruling application fee*

A concession is provided to small businesses when they apply for an Advance Tax Ruling

(RSA 1962: section 76B). This concession entails a reduced fee to be paid when applying for an advanced tax ruling from SARS. According to the *Comprehensive Guide to Advance Tax Rulings* (SARS 2013b), any person (other than a listed company) may apply for an advanced tax ruling at the reduced rate if the person's gross income for the most recent year of assessment does not exceed the amount prescribed in the definition of an SMME in section 12E(4)(a)(i) of the *Income Tax Act*. For binding tax rulings, the qualifying criterion is thus limited to the turnover requirement of R20 million. This concession is also available for partnerships (but only for VAT rulings) where the gross partnership income for the most recent year of assessment is lower than R20 million (SARS 2013b: 4). The primary qualifying criterion used is therefore again turnover, in this case, R20 million or less.

2.2.3.6. Turnover tax

The sixth concession is the turnover tax. According to the *External Guide. Administration of Turnover Tax* (SARS 2020b), the turnover tax system was introduced as an alternative tax system to the standard tax system as part of the government's broader mandate to encourage entrepreneurship and to create a supportive environment for micro businesses to be profitable and sustainable, and to grow (SARS 2020b: 4). The objective of this tax system is to streamline tax compliance requirements for micro businesses, and to reduce the administrative burden, thereby reducing the overall cost of complying with tax obligations (SARS 2020b: 4). This objective is achieved by replacing regular income tax (including CGT) and, to some extent, dividend withholding tax, by applying a specific turnover tax rate to the micro business's turnover in a particular year of assessment (SARS 2017: 2). To qualify as a micro business, a business can trade as a sole proprietor, partnership, CC, company or co-operative, as long as it has a qualifying turnover below R1 million (RSA 1962: Sixth Schedule, par. 1 and 2). In calculating whether the qualifying turnover of the entity does not exceed R1 million, the total amount received by a business for the year of assessment from carrying on its business activities must be considered. The following are excluded from this calculation (SARS 2017: 3):

- any receipts of a capital nature received from conducting business (for example, an amount received from the sale of capital equipment that was used in the business);
- certain government grants that are exempt from income tax in terms of the *Income Tax Act* (RSA 1962: section 12 P); and

- amounts received from a small business funding entity that is exempt from income tax under section 10(1)(zK) of the *Income Tax Act* (RSA 1962).

In the case of an entity other than a sole proprietor, a further requirement for qualification is that throughout the year of assessment all shareholders, members, or partners must be individuals (RSA 1962: Sixth Schedule, par 3). In addition, an anti-avoidance rule concerning the R1 million qualifying turnover requires that a person who trades in different businesses must add the total turnover for all the person's business activities together and only qualifies if the total is still less than R1 million (SARS 2017: 6). Other entities that are disqualified from entering into the turnover tax system are "personal service providers" and "labour brokers", as defined in paragraph 1 of the Fourth Schedule to the *Income Tax Act* (RSA 1962: Sixth Schedule, par 3). A business is also disqualified from entering into the turnover tax system if an interest is held – other than in certain allowable investments listed in the section (par. 4) – in another company or CC by such a business or a shareholder/member of such a business (RSA 1962: Sixth Schedule), unless the company or CC in which the interests are held has not carried on any trade during the year of assessment and did not own assets with a market value above R5 000, and (from 1 March 2012) is taking steps to liquidate/deregister (RSA 1962: Sixth Schedule, par 3).

Another requirement for qualification as a micro business pertains to "investment income". Similar to the exclusion for SBCs, the business's "investment income" and "professional service income" combined may not exceed 20% of the business's total turnover (SARS 2017: 9). However, regarding natural persons (sole proprietors and partnerships), the 20% limit applies to the delivery of professional services only. By contrast, for a company, the 20% limit applies to both the investment income and personal service income combined. The reason for this adjustment is that professional services are generally rendered by more sophisticated, high-income earning taxpayers, with profit margins that are significantly higher than those for whom the turnover tax system was designed (SARS 2017: 12).

A further requirement for qualification as a micro business is that the proceeds from the disposal of business-related immovable property and capital assets (other than financial instruments) must be below R1.5 million over a three-year period (RSA 1962: Sixth Schedule, par. 3). This requirement accommodates any occasional disposal of high-value assets by a micro business. In addition, special rules regarding turnover, status and interests

held by partners in a partnership apply to partnerships (RSA 1962: Sixth Schedule, par. 3(g)). A business must deregister from the turnover tax system when it no longer meets the requirements of a micro business. Once it has deregistered, it is not allowed to re-enter the turnover tax system (RSA 1962: Sixth Schedule, par. 10).

One could argue that there are numerous qualifying criteria for this concession and no single factor stands out as the dominant criterion, but the fact that a business with a turnover of R1 million or less would be regarded as a micro business if it so elects and also the fact that this concession is called “turnover tax” could be read to imply that “turnover” (of R1 million or less) is the primary criterion to qualify for this concession.

2.2.3.7. *The simplified provisional tax payment calculation*

Although no mention is made of a “small business” in the legislation dealing with provisional tax, a concession is available to any provisional taxpayer in respect of its provisional tax payments if it meets specific requirements (RSA 1962: Fourth Schedule, par. 20(1)(a) and (b)). For provisional taxpayers with a taxable income of up to R1 million, a penalty of 20% is levied on an underestimation of provisional tax where the estimate is less than 90% of the actual taxable income. For provisional taxpayers with a taxable income of more than R1 million, a 20% penalty is levied where the estimate is less than 80% of the actual taxable income. The primary qualifying criterion used for this concession is “taxable income” (of R1 million or less).

2.2.3.8. *Tax incentive for equity investment in SMMEs and junior mining companies*

Section 12J was introduced in 2009 in the *Income Tax Act* (RSA 1962) to promote equity investment in SMMEs and junior mining companies (“qualifying companies”) through a venture capital company (SARS 2020c: 1). The benefit to the taxpayer of investing in a venture capital company is a potential 100% tax deduction of the cost of the equity invested (SARS 2020c: 1).²⁷ This means that venture capital companies can invest in “qualifying companies”,²⁸ which are defined in Section 12J(1) of the *Income Tax Act* (RSA 1962).

²⁷ The deduction was subsequently reduced effectively from 21 July 2019 to a maximum deduction of R5 million per year if the taxpayer is a company and R2.5 million per year for taxpayers other than companies (RSA 1962: Section 12J(2)). The venture capital company regime was subject to a sunset clause that ended on 30 June 2021.

²⁸ The term “qualifying companies” refers to SMMEs and junior mining companies.

According to this Section, a company qualifies if:

- (a) that company is a resident;
- (b) the company is not a controlled group company in relation to a group of companies of which a venture capital company to which that company has issued any share forms part from the date of issue of any such share and at any time during any year of assessment after that date;
- (c) the tax affairs of the company are in order and the company has complied with all the relevant provisions of the laws administered by the Commissioner;
- (d) the company is an unlisted company as defined in section 41 or a junior mining company;
- (e) the company is not carrying on any impermissible trade;
- (f) during any year of assessment of that company that ends after the expiry of a period of 36 months commencing on the first date on which that company issued any share to a venture capital company -
 - (i) the sum of the investment income, as defined in section 12E(4)(c), derived by that company does not exceed an amount equal to 20 per cent of the gross income of that company for that year; and
 - (ii) not more than 50 per cent of the aggregate amount received by or that accrued to that company from the carrying on of any trade was derived, directly or indirectly, from a person -
 - (aa) who holds a share in that venture capital company; or
 - (bb) who is a connected person in relation to a person referred to in item (aa);
- (g) no person who holds a share in a venture capital company to which that company has issued any shares holds, directly or indirectly and whether alone or together with any connected person in relation to that person, more than 50 per cent of the participation rights, as defined in section 9D(1), or of the voting rights in that company; and
- (h) that company does not carry on any trade in relation to a venture, business or undertaking or part thereof that was acquired by that company, directly or indirectly, from a person -
 - (i) who holds a share in a venture capital company to which that company has issued any share; or
 - (ii) who is a connected person in relation to a person referred to in subparagraph (i)."

In terms of these requirements, neither turnover nor any other criteria for SMMEs (number of employees, asset value) discussed before are criteria for this tax incentive qualification.

2.2.4. *Defining an SMME for the purposes of this study*

It is clear from the summary of the different sections in the different tax Acts that no single consistent SMME definition applies in South Africa from a tax perspective. Determining whether a business qualifies for the small business tax concessions or incentives available

in South Africa requires each business to review each tax statute and the corresponding criteria. Although the reasons for these different definitions are understandable, one could argue that they definitely complicate compliance with the relevant tax statute considerably. It seems that turnover is the dominant qualifying criterion used in determining whether a business qualifies for a small business tax concession or incentive.

In trying to classify an entity as an SMME from an administrative perspective, the use of turnover alone may simplify the classification, but it does not consider the other variables listed in the *National Small Enterprise Act*, as mentioned above. Notwithstanding the shortcomings of using turnover as the only criterion to classify a business in terms of size, it seems appropriate in the current study to use turnover to determine whether a business qualifies as an SMME. Support for the use of turnover to determine the size of an SMME is found in the arguments discussed below.

Firstly, most prior studies undertaken on tax compliance costs in South Africa (Matarirano et al. 2019a; Smulders et al. 2012; Govender & Citizen Surveys 2008; FIAS 2007) used turnover as a basis for defining a small business. Smulders et al. (2012: 188) define a small business as one with a turnover of R14 million or less per annum. The Govender and Citizen Surveys (2008: 17) define an SMME as a small business that is registered for and paying tax, and that has a turnover of between R70 000 and R14 million per annum. The FIAS (2007: 7) study defines a small business as a business with a turnover of less than R14 million. Only one study used both turnover and the number of employees to define a small business – Matarirano et al.'s (2019a: 2) study defines small businesses in the construction industry as construction businesses with a turnover of less than R14 million per annum, with between 5 and 51 full-time employees. No discussion of the definition of a small business or why the number of employees was also used is given in Matarirano et al.'s (2019a) study.

Secondly, in countries where presumptive tax systems were introduced to encourage small businesses to enter the formal tax system, turnover is usually used as a benchmark for qualification (Loeprick 2009: 2). Various international studies also used turnover as a basis to define small or small and medium enterprises (Okpeyo et al. 2019: 5; Nemeč, Čižmárik & Šagát 2017: 79; Faridy, Copp, Freudenberg & Sarker 2014: 298; Sapiei & Ismail 2014: 17).

Lastly, turnover is one of the three criteria used to classify an enterprise as either micro,

small or medium prescribed in the *National Small Enterprise Act* (RSA 1996), and turnover is the most frequently used criterion to determine whether a business qualifies for small business tax concessions as discussed in Section 2.2.3 above.

To determine the value of the turnover to be used to determine the population in this study, it was thus considered appropriate to classify SMMEs as businesses with a turnover of R250 million or less, as an amount above R250 million is the lowest value for large enterprises (except for enterprises in the social and personal services) used by Statistics South Africa for Quarterly Financial Statistics purposes. SARS offers a specialised and dedicated service to “large businesses”. To qualify for assistance from the Large Business Centre, the business group turnover must be more than R1 billion, except for Financial Services, Mining or Multinational companies with a group turnover above R250 million (Modiba 2020). Medium and small enterprises, by implication, fall below these turnover brackets. This study thus focuses on businesses with a turnover of R250 million or less. Turnover categories were established for the micro, small and medium segments of SMMEs, namely R1 million or less for micro entities, more than R1 million but not exceeding R20 million for small entities, and more than R20 million but not exceeding R250 million for medium-sized entities. These categories were established by using the turnover brackets of SARS for micro businesses (R1 million or less), SBCs (R20 million or less) and medium businesses (above R20 million but limited to R250 million).

After defining what constitutes an SMME for the purposes of the current study, the next question is what constitutes the tax compliance costs or the costs of tax compliance for SMMEs. Further questions that arise include what the determinants of these costs are, and whether the climate of the interactive nexus between the revenue authority and SMMEs (resulting from their behaviour towards each other) has an effect on SMMEs’ tax compliance costs. These questions are addressed next.

2.3. Tax compliance costs and tax compliance behaviour

To assess tax compliance costs for SMMEs, it is vital to understand what comprises tax compliance costs and tax compliance behaviour. Tax compliance costs and tax compliance behaviour are described first, followed by the theories underpinning tax compliance costs

and tax compliance behaviour. Lastly, the interrelationship between tax compliance costs and tax compliance behaviour is reviewed.

2.3.1. Describing tax compliance costs

A variety of definitions of tax compliance costs and many concepts related to tax compliance costs (for example, the tax burden, net compliance costs, gross compliance costs etc.) are used in the literature. Adam Smith was the first to refer explicitly to the tax compliance burden in 1776, when he noted:

All nations have endeavoured, to the best of their judgment, to render their taxes as equal as they could contrive; as certain, as convenient to the contributor, both in the time and in the mode of payment, and, in proportion to the revenue which they brought to the prince, as little *burdensome* to the people. (Smith [1776] 2007: 640-641; emphasis added)

He therefore recognised that tax compliance in itself involves a burden (over and above the burden of the tax), and made a plea for the fulfilment of this task to be as “little burdensome” as possible.

The total tax burden of a tax system includes all costs which would disappear if there were no need to comply with tax regulations (Guyton et al. 2003: 674). To put it differently, the true measure of the burden of tax is the resulting change in the taxpayer's financial situation by measuring the effects on a taxpayer's after-tax income after all economic adjustments have been made (Entin 2004: 1). According to Evans (2008: 449), the tax burden comprises three elements: the taxes themselves, the efficiency costs leading to market distortions induced by the tax, and finally, the operating costs of the tax system. The first two elements (the tax itself and efficiency costs) fall outside the scope of this study and are therefore not discussed further.

The sum of administrative costs and tax compliance costs equals the operating costs of a tax system (Evans 2008; Chamberlain & Smith 2006; Pope 2000). Administrative costs are defined as costs incurred (mainly) by the public sector in managing the tax system (Allers 1994: 20). According to Pope (2000: 3), these costs are often referred to as collection costs, and are borne by the revenue authorities to manage the tax system. It is common in the literature to limit administrative costs to the costs of operating tax administrations, but there

is no inherent reason, other than the ease of measure and the obtainability of relevant statistics, for this to be the case (Evans 2008: 451). These costs are, however, also not the focus of this study.

The real focus of this study is tax compliance costs, which consist of both economic and non-economic costs. Economic costs, which can be estimated, include the financial and time costs necessary to meet the requirements of the revenue authorities (Pope 2000: 2). In addition to the economic costs, taxpayers may also incur a psychological cost when performing tax compliance activities (Zu, Evans & Krever 2020: 356; Evans 2019: 8; Adam & Yusof 2018: 35; Pope 2000: 3; Godwin 1978: 389). Non-economic or psychological costs refer to the emotional cost experienced by staff members in a business dealing with tax compliance activities (Adam & Yusof 2018: 35). There is always a measure of psychological cost induced by tax systems on taxpayers (Evans 2008: 451). Psychological or non-economic costs were already recognised by Smith in 1776 where he wrote:

By subjecting the people to the frequent visits and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression; and though vexation is not, strictly speaking, expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it. (Smith [1776] 2007: 641)

The existence of psychological costs is recognised by researchers, and although it is possible to measure tax compliance costs in some empirical way (Woellner, Coleman, McKerchar, Walpole & Zetler 2001: 16), most researchers in the field do not attempt to measure psychological costs, due to the complexity (indeed, the near impossibility) of measuring it objectively in monetary terms (Blaufus, Hechtner & Jarzembski 2019: 930; Evans 2019: 9; Adam & Yusof 2018: 35; Yesegat et al. 2017: 80; Gupta & Sawyer 2015: 145; Evans 2008: 451; Pope 2000: 3). In this study, the existence of these costs is thus recognised, but given the measurement complexity, no attempt is made to quantify psychological costs. Nevertheless, taxpayers suffer from stress, unease, and frustration arising from their attempts to comply with their tax obligations (Ibrahim 2017: 173; Evans 2008: 451; Pope 2000: 3).

The meaning of “tax compliance costs” may be a point of discussion because there is some debate in the literature as to what exactly the term entails (Evans 2019: 8). Johnston (1963: 5) was one of the first researchers who defined tax compliance costs, namely as “the

reduction in the corporation's operating costs, exclusive of the tax itself, which would result if the federal tax were eliminated". Godwin (1978: 389) defines tax compliance costs as "the costs which are incurred by taxpayers or by third parties, over and above the liability for tax, in meeting requirements of the tax system".

Eleven years later, Godwin, working with Sandford and Hardwick, revisited this definition. They proposed a similar definition in *Administrative and Compliance Costs of Taxation*, namely "those costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given tax structure" (Sandford, Godwin & Hardwick 1989: 10). They list certain costs which they believe form part of tax compliance costs for individuals and businesses. For businesses they list the cost of collecting, remitting, and accounting for tax on the income of the business, the cost of employees dealing with tax compliance, as well as associated overhead costs, and what they refer to as the additional compliance costs generated by the existence of uncertainty about the meaning of some aspects of tax legislation.

Sandford et al. (1989) identify three central taxes that are responsible for most of the tax compliance costs incurred by businesses, namely taxes on sales (VAT), taxes on profits (Corporate income tax) and taxes on employees.²⁹ Later Sandford (1995a: 1) gave a more comprehensive definition for tax compliance costs:

...the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. They are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax; costs which would disappear if the tax was abolished.

Most authors adopt the classic definition from Sandford (1995a: 1) discussed above (Evans 2019: 8; Wu & Tran-Nam 2017: 201; Coolidge 2012: 251; Evans 2008: 451; Tran-Nam, Evans, Walpole & Ritchie 2000: 232), but because of uncertainty of what exactly these costs entail, there is some debate in the literature on the costs that should be included in any measurement of tax compliance costs (Adam & Yusof 2018: 34; Wu & Tran-Nam 2017: 201; Yesegat et al. 2017: 79; Evans 2008: 451).

Notwithstanding this definitional uncertainty, the literature does recognise that the following

²⁹From a South African perspective, these taxes on employees are the PAYE taxes, SDL and Unemployment Insurance Fund (UIF).

costs undeniably form the basis of tax compliance costs: the cost of time spent by taxpayers on tax compliance activities, the cost of expertise to assist taxpayers in tax compliance activities, and any incidental costs incurred by taxpayers in fulfilling their tax compliance activities (Evans 2008: 451). Pope (2000: 2) describes this basis of tax compliance costs as economic and non-economic costs (see Figure 2.2). According to Pope (2000: 7), the basis of economic costs are internal costs and external costs, and he includes “miscellaneous costs, e.g. telephone and stationery” under internal costs. More recently, these costs have been recognised separately and are referred to as non-labour costs (Wu & Tran-Nam 2017: 203) in addition to the internal and external costs.

To be tax compliant, a business can use either its internal (in-house) staff to assist with its tax compliance obligations, or turn to the services of external advisers, such as accountants, tax practitioners and/or lawyers. A business can also use a combination of internal staff and external adviser services to comply with its tax obligations. Therefore, tax compliance costs can be broadly categorised into internal and external compliance costs, with non-labour costs as the last element.

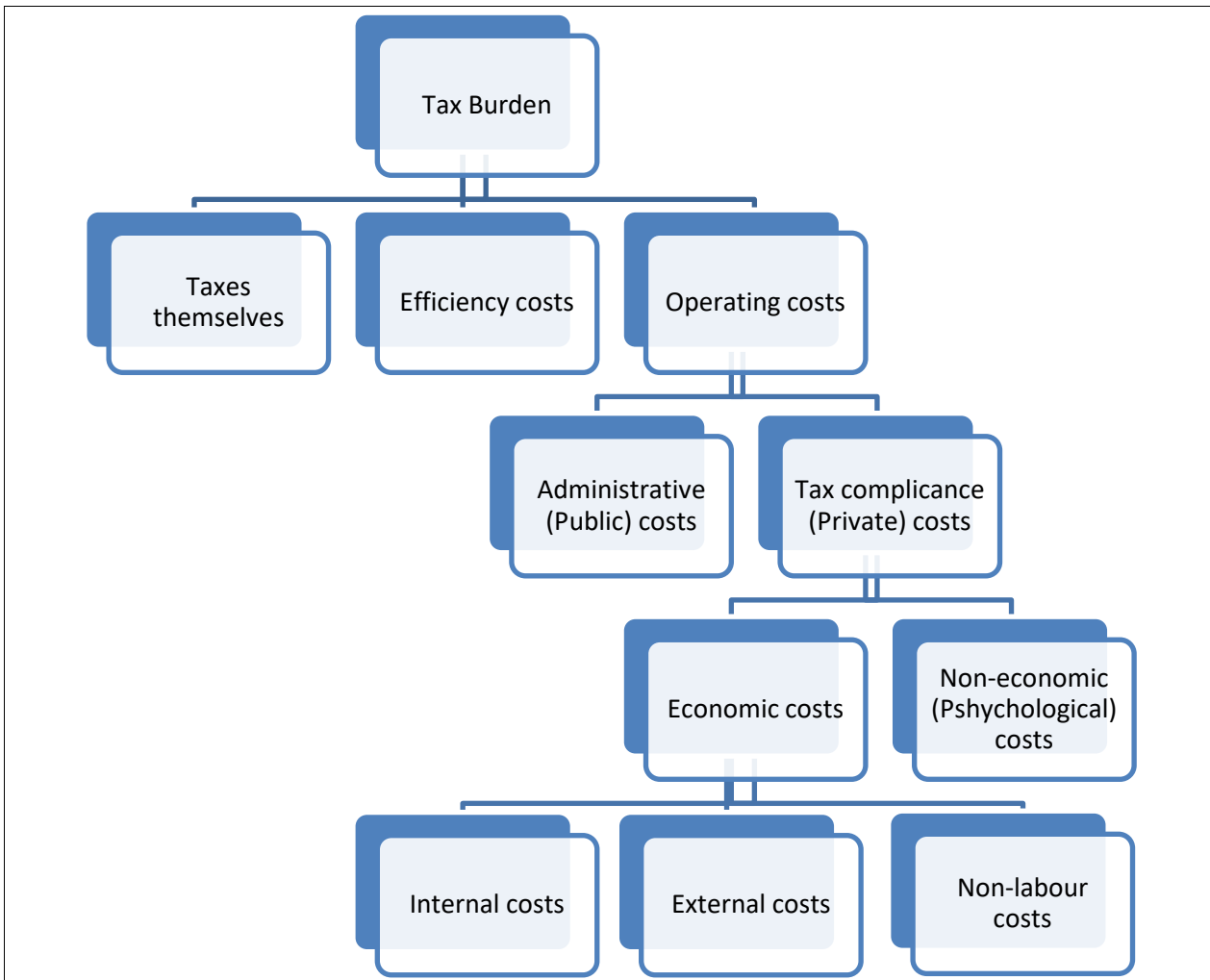
Internal costs include the value of time spent on tax activities by a business owner, employees (a manager/internal bookkeeper/accountant/other employee handling taxes), or the value of the time spent by an unpaid friend or relative, or the time taken to obtain documents and data to complete a tax return (Evans 2008: 451; Klun & Blažić 2005: 418; Turner, Smith & Gurd 1998: 64).

The second element (external costs) consists of the costs of purchasing the expertise of a professional tax adviser to assist with tax-related activities and obligations (Evans 2008: 451; Turner et al. 1998: 64).

Finally, the third element (non-labour costs) refers to incidental expenses incurred in conducting tax activities by employees of a business, including expenses such as computer software packages, stationery, postage, telephone calls, relevant literature, seminars and travel (Evans 2008: 451; Turner et al. 1998: 64).

Figure 2.2 illustrates the elements of the overall tax burden.

Figure 2.2: Elements of the tax burden



Source: Adapted from Pope (2000: 5)

The basis of tax compliance costs is thus economic (internal, external and non-labour) costs and non-economic (psychological) costs. But there are also tax compliance benefits that are worth mentioning. Tax compliance benefits are recognised as those benefits for a taxpayer that may arise from the taxpayer's effort to be tax compliant (Sandford et al. 1989: 13). Three benefits associated with the tax compliance activities are identified in the literature, namely cashflow benefits, managerial benefits and tax deductibility benefits (Smulders et al. 2012: 189).

Business taxpayers gain cashflow benefits from having access to tax revenues during the period before they need to pay these tax revenues over to the revenue authorities (Sandford et al. 1989: 13). From a South African SMME taxpayer's perspective, this means any cashflow benefits which may arise from an SMME's access to any tax payment due to SARS

until the final submission of the tax return – for example, employees' tax or pay as you earn (PAYE) subtracted from employees' salaries are only payable to SARS seven days after the end of the month following the month during which the PAYE was deducted, according to paragraph 2(1) of the Fourth Schedule (RSA 1962).

Managerial benefits are the benefits that may arise from tax compliance activities such as the requirement in terms of tax legislation to keep proper records (Evans 2008: 453; Tran-Nam et al. 2000: 232; Sandford et al. 1989: 13). For example, a VAT registered SMME must keep proper records for VAT purposes, and these same records may also assist the taxpayer in managing the business. However, according to Wu and Tran-Nam (2017: 203), managerial benefits are only theoretically recognised and are not yet included in empirical tax compliance costs studies.

Lastly, tax-deductibility benefits are also recognised as a benefit to be offset against gross tax compliance costs (Turner et al. 1998: 74). Tax compliance activities generate tax compliance costs, and most countries, including South Africa, accept these costs, or at least some of them, as tax-deductible expenses (Evans 2008: 453; Tran-Nam et al. 2000: 233; Evans, Ritchie, Tran-Nam & Walpole 1997: 13). An example would be fees paid to a tax practitioner for tax-related services, which are allowed as a deduction from the taxable income of a business. These tax-deductible costs create a benefit for an SMME by reducing the amount of tax payable to revenue authorities, if the SMME is in a profitable position, or at least a delayed benefit if the SMME is in a loss position.

The above tax compliance benefits influence the concept of tax compliance costs measurement in empirical studies, adding to the uncertainty around what tax compliance costs entail. This uncertainty has led researchers to measure tax compliance costs from different perspectives (Turner et al. 1998: 74) to distinguish between the tax compliance costs measured in the respective studies. As defined by Sandford et al. (1989: 12), the total tax compliance costs are referred to as gross tax compliance costs – social tax compliance costs in the economy, before any offsets are taken into account (Evans et al. 1997: 4). However, as stated above, tax compliance activities also give rise to tax compliance benefits. Hence, net compliance costs, sometimes referred to as taxpayer compliance costs (Evans et al. 1997: 5), are gross compliance costs less the value of tax compliance benefits. No attempt is made in this study to measure tax compliance benefits (see Section 1.5).

Because the current study is an assessment of tax compliance costs of SMMEs in South Africa, and the tax compliance costs of SMMEs have to be established first, the current study measures internal, external and non-labour costs only as defined by Evans et al. (1997: 3). For the purposes of this study, and as defined by Evans (2008: 451), internal costs are the costs of labour or time spent on tax compliance activities by the owner/s of the SMME, an employee and/or an unpaid friend or relative to learn and understand the tax law and the obligations that the law imposes, and the time required to obtain documents and data to complete a tax return, submit a tax return, pay the taxes, and any other post-tax return submission activities. External costs, for the purposes of this study, and as defined by Evans (2008: 451), are the costs paid to an external service provider to provide the SMME with tax services. Non-labour costs as described by Evans (2008: 451), and used in this study, are incidental costs incurred by an SMME's personnel who deal with tax compliance activities, including (but not limited to) expenses such as software, stationery, postage, telephone, seminars, and travel.

2.3.2. *Describing tax compliance behaviour*

The second construct of importance in this study is tax compliance behaviour. Compliance by taxpayers to tax laws is fundamental to the collection of tax revenue because the higher the level of non-compliance (intentional or unintentional)³⁰ by taxpayers, the higher the tax burden of compliant taxpayers and/or the danger that revenue authorities may fail to raise sufficient revenue (Yong et al. 2019: 767; Richardson & Sawyer 2001: 144). To examine tax compliance behaviour, it is crucial first to comprehend the meaning of the term "tax compliance" (Richardson & Sawyer 2001: 142).

According to Roth, Scholz and Witte (1989: 21), tax compliance entails:

that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the Internal Revenue Code, regulations, and court decisions applicable at the time the return is filed.

However, the literature indicates that economic and psychological variables must also be

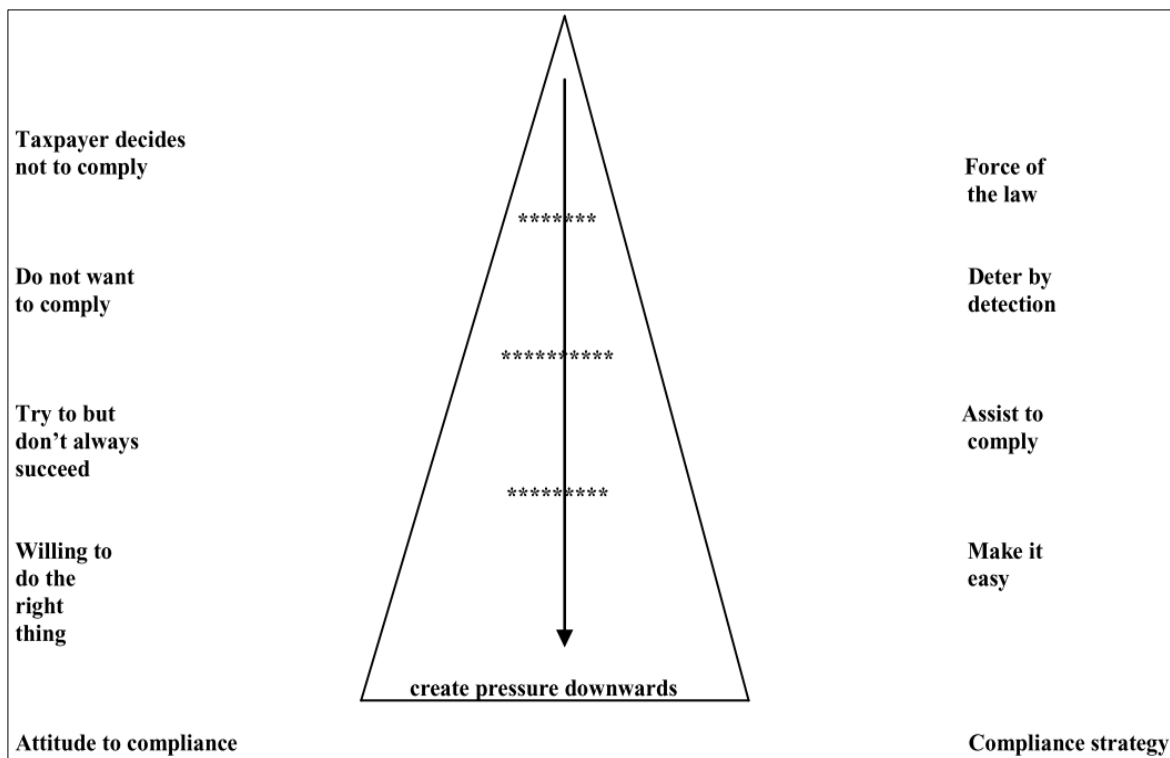
³⁰ Intentional non-compliance indicates that a taxpayer has the intention not to comply with tax legislation. In contrast, unintentional non-compliance refers to taxpayers willing to be compliant, but due to certain reasons (for example, lack of knowledge), they are inadvertently non-compliant (Saad 2011: 33).

taken into account to comprehend tax compliance (Kamleitner, Korunka & Kirchler 2012: 332). Kirchler (2007: 21) refers to tax compliance as “probably the most neutral term to describe taxpayers’ willingness to pay their taxes”. James and Alley (2009) discuss the concept of tax compliance taking into account definitions ranging from a narrow approach to law enforcement to broader economic definitions. They conclude that tax compliance might be “the willingness of individuals and other taxable entities to act ... within the spirit as well as the letter of tax law and administration without the application of enforcement activity” (James & Alley 2009: 32). James (2012a: 58) shortens this definition to “[t]he willingness of taxpayers to act in accordance with the statutory requirements or intentions of the tax law and administration”. He notes that a complete definition should thus include compliance with both the spirit and the letter of the law.

The willingness of taxpayers to act according to the spirit and the letter of the law is a complex issue. Some taxpayers comply voluntarily; others need to be nudged; some must be forced into compliance (Tan & Braithwaite 2018: 223). Taxpayers thus comply voluntarily or are forced to comply (Kirchler 2007: 22). Voluntarily compliant taxpayers pay their “fair share” without hesitation, while enforced compliance refers to taxpayers who pay because they fear being audited or fined, and these may employ avoidance tactics wherever they find a way to evade tax law without being caught (Wahl, Kastlunger & Kirchler 2010: 400). These two interpretations incorporate opposing attitudes towards tax compliance, but they do not imply a full understanding of taxpayer behaviour – they should merely be seen as different interpretations of varying degrees of tax compliance behaviour (Wu 2012: 151).

A tax compliance model (see Figure 2.3) developed in Australia and New Zealand illustrates how revenue authorities handle taxpayers' opposing attitudes to ensure tax compliance (Feld & Frey 2007: 115) in a complex interaction between taxpayers and revenue authorities. Figure 2.3 illustrates the interactive climate between taxpayer and revenue authority, where the action of one of the parties prompts a response from the other party. For example, revenue authorities can enforce tax compliance by employing the full force of the law where non-compliance from taxpayers is detected, but, on the other hand, if taxpayers are willing to do the right thing, the revenue authority can endeavour to make it easy for them to comply. In South Africa, a similar tax compliance strategy is followed (SARS 2020a: 8).

Figure 2.3: A tax compliance model



Source: James (2012b: 353)

Therefore, having established that tax compliance behaviour is either voluntary or enforced (or somewhere in between), it is essential to establish factors that influence tax compliance behaviour, especially factors influencing SMMs' tax compliance behaviour.

A comprehensive study by Jackson and Milliron (1986) reviewed 43 tax compliance studies published before 1986 to identify factors that may influence tax compliance (Jackson & Milliron 1986: 126). The 14 factors they tracked in the 43 prior studies were age, gender, education, income level, income source, occupation, peer influence, ethics, fairness, complexity, revenue authority contact, sanctions, the probability of detection of taxpayer non-compliance, and tax rates (Jackson & Milliron 1986: 130-143). Richardson and Sawyer (2001: 205) used the 14 factors as a basis and added five more factors which may influence tax compliance, namely compliance costs, tax preparers, framing (the taxpayer withholding frame), positive inducements and tax amnesties.

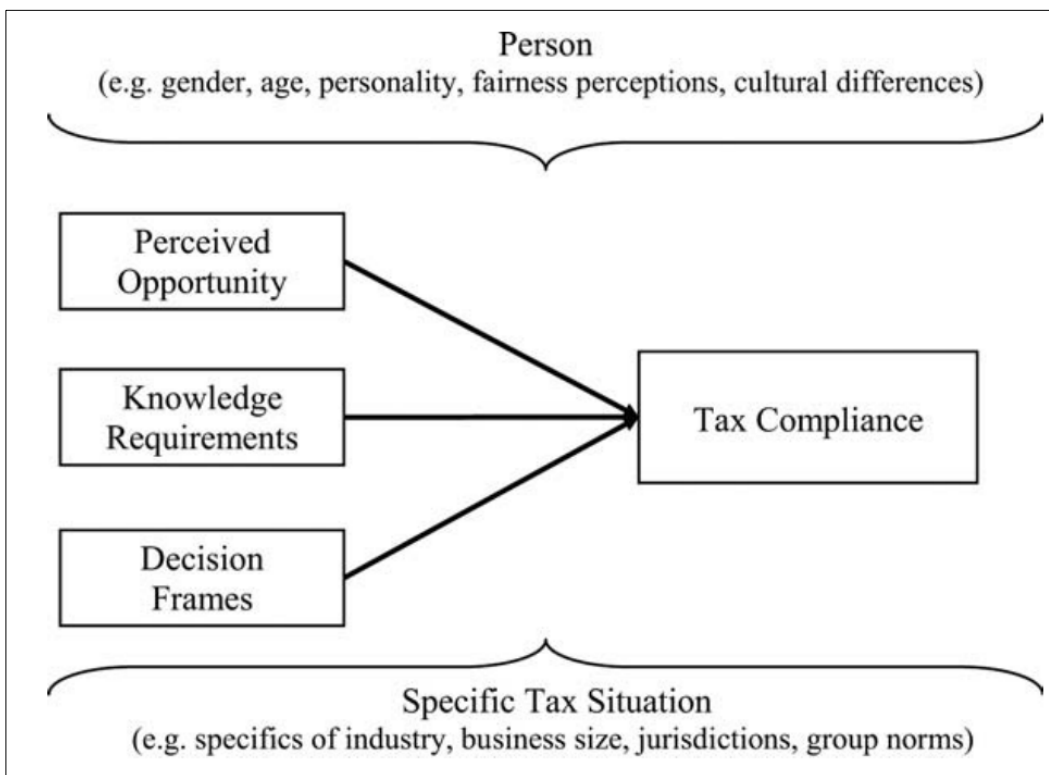
In 2019, Yong et al. (2019) revisited Jackson and Milliron's (1986) and Richardson and Sawyer's (2001) studies to update the results with tax compliance cost studies done since Richardson and Sawyer's (2001) study. Yong et al. (2019: 801) identified a further 19 factors

which may influence tax compliance, namely tax evasion, the tax system, tax morale, tax avoidance, tax enforcement, power, trust, political influence, social norms, religion/religiosity, culture, tax perception, perceived opportunity, sole traders, individual taxpayer, business taxpayer, wealthy taxpayer, reciprocity and withholding taxes. Of these 19 factors, it appears that tax evasion has been the most frequently examined in tax compliance studies, followed by trust, the tax system, tax morale and tax avoidance (Yong et al. 2019: 808). Although it seems that some factors have lost significance over the years (such as age, gender, occupation, education, income level, source of income, peer influence, perceived opportunity), these factors are still relevant because of an indirect relationship between them and some of the other more frequently examined factors. For example, tax morale is linked to age, gender, occupation and religion/religiosity (Yong et al. 2019: 804; Horodnic 2018: 869).

Other than the factors discussed above which influence SMMEs' tax compliance behaviour, there are three characteristics of SMMEs which also affect their tax compliance behaviour (Kamleitner et al. 2012: 334). Firstly, research indicates that tax non-compliance might be higher if there is an opportunity to evade taxes (Kirchler 2007: 200; Ahmed & Braithwaite 2005: 554). In the case of SMMEs, an opportunity to evade taxes is perceived to exist because most SMMEs are owner-managed (with limited control over their income stream), and most countries use self-assessment tax systems (Kamleitner et al. 2012: 335). Secondly, most SMMEs lack the knowledge to comply with tax requirements and therefore appoint external service providers to assist them in complying with taxes (Turner et al. 1998: 69), or, if they cannot afford external service providers or employ qualified staff, attempt to comply with their limited knowledge (Coolidge, Ilic & Kisunko 2009: 6). Additionally, SMMEs are likely to view paying taxes as losing something belonging to them – even if they are only acting as collectors on behalf of revenue authorities (for example, VAT vendors) (Kamleitner et al. 2012: 340). This view of SMMEs is referred to as a “loss frame” view, and because of this view, they may make decisions that favour tax non-compliance (decision frames). Because SMMEs have the gross income in their hands and need to pay the revenue authority out of it, they may decide to declare their tax liability honestly (this is seen as a loss) or to gamble and pay less than they should without being detected (this is seen as a smaller loss or no loss), or if they are detected, to risk a more significant loss (because of penalties and interest) (Kamleitner et al. 2012: 338; Kirchler 2007: 160). These characteristics and other factors influencing SMMEs' tax compliance behaviour are

graphically presented in Figure 2.4.

Figure 2.4: Factors influencing SMMEs' tax compliance behaviour



Source: Kamleitner et al. (2012: 334)

This integrated relationship between tax compliance and taxpayer behaviour has caused the development of two basic approaches to tax compliance by revenue authorities and researchers, namely the economic and the behavioural approach (Tan & Braithwaite 2018: 222; James & Alley 2009: 38; Kirchler 2007: 2). The economic approach analyses tax compliance using economic rationality as a basis – the taxpayer is deemed to base tax compliance decisions on the probable economic incentive and costs of complying or not complying. By contrast, the behavioural approach considers various factors (as discussed above) and, more specifically, how these factors affect taxpayer and revenue authorities' behaviour (James & Alley 2009: 33).

Over the years, revenue authorities have been requested to be involved in, and warned to take note of research on the factors influencing taxpayer behaviour to improve tax compliance (Richardson & Sawyer 2001: 255). Revenue authorities have indeed taken cognizance of research in this field, as it seems that a remarkable change in tax compliance

strategies can be seen since the beginning of the millennium (OECD 2014: 20). The current strategy involves and engages taxpayers from the start, which implies that revenue authorities are taking steps to support and promote tax compliance, instead of just enforcing the laws reactively (SARS 2020a: 8; OECD 2014: 20).

In South Africa, taxpayer behaviour has also received increased attention from the revenue authority (Gcabo & Robinson 2007: 367). Some examples of proactive behaviour by SARS include introducing the *Tax Administration Act* (RSA 2011), establishing the office of the Tax Ombud³¹ (Office of the Tax Ombud No date) in 2013 and the release in 2018 by SARS of its Service Charter, which outlines taxpayers' rights and responsibilities, as well as service standards that taxpayers can expect from SARS (SARS 2018c).³² In addition, SARS's strategic plan for the 2020/21 to 2024/25 tax years acknowledges that taxpayers behave in a certain way (ranging from voluntary compliance to deliberate or intentional non-compliance); SARS aims to enhance voluntary compliance by engaging with taxpayers in such a way that SARS will earn public confidence and trust while developing a willingness from taxpayers to be tax compliant (SARS 2020a: 8). SARS's approach to achieve voluntary tax compliance is based on three principles: taxpayers are made aware of their obligations; SARS makes it easy to meet these obligations, and SARS will act against those who break the law (SARS 2020a: 8). SARS clearly wants to enhance voluntary compliance by establishing trust, but on the other hand, it will use its power to force non-compliant taxpayers into compliance.

As a final note for this section, this study's concept of tax compliance refers to full compliance with all relevant tax regulations, and tax compliance behaviour refers to either voluntary or enforced compliance, or something in between. After discussing tax compliance costs and tax compliance behaviour, the theories underpinning these concepts are discussed in the sections below.

³¹ One of the key responsibilities of the Office of the Tax Ombud is to maintain a balance between SARS's powers and duties on the one hand, and taxpayers' rights and obligations on the other (Office of the Tax Ombud No date).

³² In 2018, the "Service Charter" replaced the 2007 "Client Charter", which was taken down from SARS's website in 2012 (TGS No date).

2.3.3. *Theories underpinning tax compliance costs*

There are various theories in tax compliance research (Richardson & Sawyer 2001: 241), but the theories developed so far typically assume that tax compliance has no cost (Tran-Nam & Evans 2002: 392; Tran-Nam 1999: 169). It has therefore been suggested that tax compliance costs research is “atheoretical”, calling for researchers to develop theoretical models of the drivers that cause tax compliance costs (Turner et al. 1998: 86). The absence of a theoretical basis in the financial accounting research environment has been criticised, but research in this field has acquired a more robust theoretical flavour in the last few decades (Rutherford 2016: 119; Gaffikin 2003: 291). Rutherford (2016: 119) has challenged a rigorous social science theoretical approach, and suggests that following Coleman’s pragmatist theory of “explanation by embodiment”, developed in the philosophy of law, will provide a better epistemological underpinning for analytical research in this field. Coleman (2001: 8) explains his pragmatist theory as follows:

In saying that pragmatism recognises explanation by embodiment as a legitimate form of philosophical explanation of a practice, I mean that in certain kinds of practices, the inferential roles of concepts may be seen to hang together in a way that reflects a general principle. The principle can then be said to be embodied in the practice and, at the same time, to explain it.

The same pragmatic approach has been followed in tax compliance cost research. The conceptual framework for tax compliance cost research has always been less theoretical and more pragmatic: the focus has been on positioning studies on tax compliance costs within the framework of the efficient functioning of the tax system, for example, studies from Smith ([1776] 2007) onward through to Sandford (1995b), including the work of Slemrod and Gillitzer (2014), Eichfelder and Vaillancourt (2014), and Tran-Nam et al. (2000).

Smith ([1776] 2007) was the first to list the four maxims for taxation in general systematically: “equality or inequality of taxation” (equity); that “the taxation amount ought to be certain and not arbitrary” (certainty); that “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” (convenience in payment) and that “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” (efficiency). Smith ([1776] 2007: 640) already warned that, due to tax compliance costs, a tax may take out more of the pocket of the taxpayer than it brings into the treasurer’s

purse, and identified four ways in which this may happen, concluding that “taxes are frequently so much more burdensome to the people than they are beneficial to the sovereign” (Smith [1776] 2007: 641).

In the literature, these burdens are categorised into three groups: the taxes themselves, efficiency costs, and operating costs (see Figure 2.2 above). Operating costs include administration costs (public sector costs) and tax compliance costs (the compliance cost that a taxpayer has to incur to comply) (Chittenden, Kauser & Poutziouris 2005: 635). Based on Smith’s ([1776] 2007) maxims, policymakers should consider the cost of tax compliance when they develop tax legislation, because compliance costs are a prominent part of the costs imposed by revenue authorities on businesses (Stamatopoulos, Hadjidema & Eleftheriou 2017).

It seems that the economists at large ignored Smith’s work when it comes to tax compliance cost research (Pope & Rametse 2002: 385; Sandford 1995a: 2). Reasons for this lack of interest, according to Tran-Nam and Evans (2002: 392), are the following:

- Even though there is considerable theoretical literature on tax compliance and tax evasion behaviour, this literature generally assumes that there is no compliance cost. It is thus difficult to place tax compliance costs in a formal optimal tax theory.
- Tax compliance cost studies are based on hard-to-get data from taxpayers and can therefore not draw on readily available published resources.
- The analysis of who eventually bears the operating costs of taxation is complicated in tax compliance cost research.
- Tax operating costs have traditionally been considered unavoidable and/or insignificant.

Since the recognition of tax compliance costs in the literature by Smith (Pope & Rametse 2002: 385; Tran-Nam & Evans 2002: 391), most tax compliance cost literature focuses on the methodology to be used to assess the cost of tax compliance from survey data (Tran-Nam 1999: 170). The first recognised attempt to measure tax compliance costs was made in 1935 by Haig (Sandford 1995a: 2). However, from that first study until the 1970s, most tax compliance cost studies were limited to North America. Only later did tax compliance cost studies spread across Europe and then to various other continents (Yesegat et al. 2017: 83). The reason for this growth in international interest in tax compliance costs research is

summarised by Sandford (1995a: 5-7) as follows:

- changes in technology;
- the introduction of VAT in some countries;
- the focus on small firms as a vehicle to reduce unemployment;
- increased tax system complexity;
- increased emphasis on voluntary tax compliance; and
- measures introduced to reduce administrative costs, which may have resulted in increased compliance costs in the private sector.

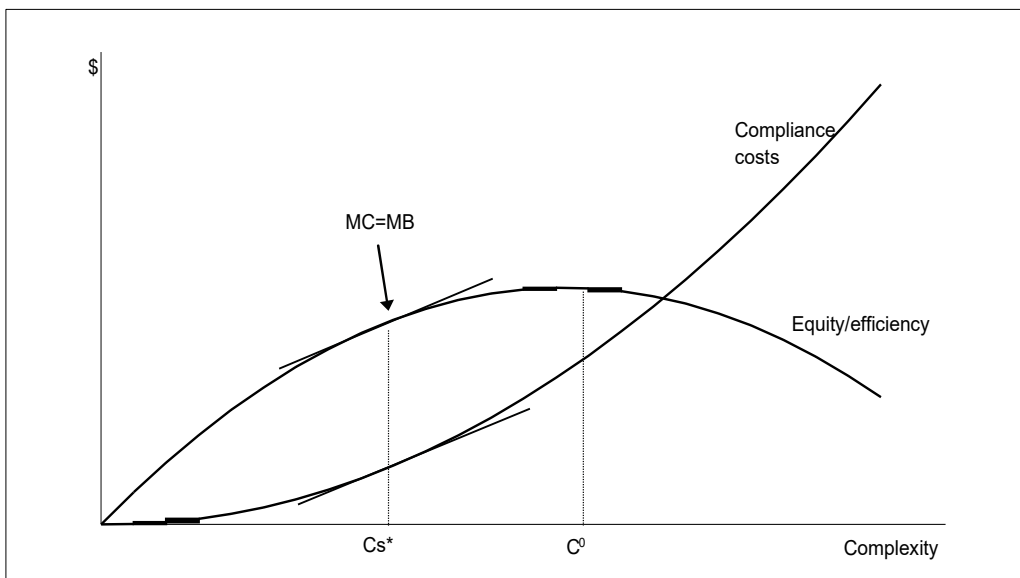
Tax compliance cost research since the 1970s has largely been conceptualised around the ground-breaking work of Sandford (Tran-Nam & Evans 2002: 395). He was primarily responsible for developing a systematic and articulated methodology and made great strides in data collection procedures, which is the first step in establishing any scientific endeavour. This provided a secure foundation, well-defined boundaries and a consistent methodology for tax compliance cost studies (Tran-Nam & Evans 2002: 396).

The growth in tax compliance cost research has caused governments to take note of the effect of tax compliance costs on taxpayers' behaviour, with the result that many countries have introduced measures to minimise tax compliance costs (Chittenden et al. 2005: 636; Sandford 1995a: 3). The tax authorities' engagement with this research has even expanded to the point where many governments require regulatory impact assessments of new or amended tax regulations (Yesegat et al. 2017: 83). Such requirements have been introduced because it was found that if taxpayers incur high tax compliance costs, it has a detrimental effect on a country's economic output (Oliver & Bartley 2005: 56). Thus, the measurement and quantification of tax compliance costs are directly relevant to research on the level of taxpayer compliance with tax laws, which then usually includes research on tax simplicity (Evans, Lignier & Tran-Nam 2016: 754).

The principle of tax simplicity stems from Smith's certainty and convenience maxims (Tran-Nam & Evans 2002: 392). Policymakers must weigh up two rival tax maxims – that of simplicity (certainty and convenience) versus that of equity and efficiency – in raising a given level of revenue in the form of taxes (Oliver & Bartley 2005: 58). Governments must therefore strike a tricky balance between introducing new tax regulations and stimulating the

economy. After all, the government needs revenue, but also needs to simplify tax systems to reduce tax compliance costs (Schoonjans, Van Cauwenberge, Reekmans & Simoens 2011: 618). Even though it is not a primary focus of this study, any modern tax compliance study must note the necessity of this trade-off and that it influences tax compliance costs. Figure 2.5 presents the relationship between equity, efficiency and tax compliance costs required to determine the socially optimal level of complexity.

Figure 2.5: Socially optimal level of complexity



Source: Oliver and Bartley (2005: 59)

Figure 2.5 illustrates that if there were no costs associated with tax complexity, then the optimal level of complexity would be at point C^0 (where equity/efficiency is at its highest level). However, as explained above, complexity does influence compliance costs. Therefore, adding a compliance cost curve, the optimal point is where the net benefit of equity/efficiency less compliance costs is the highest (point Cs^*) (Oliver & Bartley 2005: 59).

The current research is based on a robust theoretical framework (see Section 2.4) where tax compliance costs are measured and determinants identified. In addition, the climate of the interactive nexus between SARS and SMMEs is explored by assessing the relationships between tax compliance costs and the use of power by SARS and trust in SARS. This interactive nexus between taxpayers and revenue authorities exists because taxpayers and revenue authorities behave in a certain way towards each other. The theories underpinning this tax compliance behaviour are discussed next.

2.3.4. *Theories underpinning tax compliance behaviour*

Several theories have been used to explain tax compliance behaviour, but it appears that no theory can completely describe the complicated relationship between taxpayers and revenue authorities (Yong et al. 2019: 768). There are two groups of models to analyse tax compliance behaviour: the standard economic model and behavioural models (Kirchler 2007: 1-2).

The standard economic model, which attempts to explain taxpayer compliance behaviour, was introduced by Allingham and Sandmo (1972) and drew many of its premises from the literature on the economics of crime, as well as on optimal portfolio choice (Weber, Fookien & Herrmann 2014: 14; Kirchler 2007: 1; Allingham & Sandmo 1972: 323). This model follows a neoclassical approach, where the taxpayer is regarded as a rational person who takes a calculated risk not to declare income honestly (Horodnic 2018: 868; Alm et al. 2012: 33). This model relies on the assumptions of the expected utility theory, which states that taxpayers decide between risky or uncertain conditions by comparing expected utility values (Akhand 2012: 25). Applied to tax compliance studies, this model suggests that taxpayers maximise their wealth by trading off the different outcomes of the cost of tax evasion against the cost of total tax compliance (Olsen, Kang & Kirchler 2018: 407).

This standard economic model was extended in the literature, but still allows only for a few key factors influencing tax compliance: the tax rate, the taxpayer's level of risk aversion, detection probability, and the penalty imposed for tax evasion (Slemrod & Gillitzer 2014: 33). Because the level of tax compliance is predicted only on the basis of taxpayers' fear of detection and punishment, this model is also known as the economic deterrence model (Olsen et al. 2018: 407). Using this model, in theory, revenue authorities just need to increase the frequency of audits and severity of penalties on any under-declaration of taxes for tax compliance to improve (Kirchler 2007: 107), but taxpayers do not always react rationally, as predicted by the standard economic model (Wittberg 2016: 21). This is why the purely rational benefit-cost calculation regarding a taxpayer fails to explain why the observed level of tax compliance is higher than the predicted level of tax compliance in tax compliance experiments (Olsen et al. 2018: 408; Torgler 2002: 662). One of the reasons why the standard economic model fails is that it neglects the importance of non-monetary factors. Hence, researchers broadened their research to study the effect of other non-monetary

factors on taxpayer compliance behaviour (Horodnic 2018: 869). Therefore, there was a paradigm shift in the literature from considering only economic factors to including psychological and socio-psychological factors that may influence tax compliance behaviour (Alm et al. 2012: 39), and that form the basis for behavioural models.

Psychology and behavioural economists have documented the existence of a number of behavioural biases that explain why taxpayers are not purely rational utility-maximising agents, as predicted in the standard economic model (Holzinger & Biddle 2016: 7). The literature distinguishes between two types of behavioural models: models using non-expected utility theory as a basis, and models incorporating the social interaction environment in which choices are made (Weber et al. 2014: 14; Hashimzade, Myles & Tran-Nam 2013: 963). Non-expected utility models are behavioural models which incorporate observed behavioural theories with the standard economic model to create non-expected utility models (Holzinger & Biddle 2016: 7), which try to explain taxpayer behaviour where the standard economic model fails. The rank-dependent and the prospect non-expected utility theories are discussed below.

The rank-dependent theory applied to tax compliance behaviour posits that taxpayers do not know the actual probability of being found guilty of tax evasion (intentional tax non-compliance) when they decide to evade taxes or not (Holzinger & Biddle 2016: 7). Because taxpayers do not know the probability of being caught for tax evasion, revenue authorities have developed strategies to communicate the message that audit probabilities are high and that punishment is harsh (Hashimzade et al. 2013: 973). This theory may explain the higher than expected tax compliance levels (if the standard economic model is applied) observed in developed countries (Holzinger & Biddle 2016: 8).

Prospect theory (Kahneman & Tversky 1979) assumes that individuals decide whether or not to be tax-compliant by weighing up two different prospects from a particular reference point, contrary to the standard economic theory where the economic outcome of the decision is the only relevant factor (Olsen et al. 2018: 409). According to prospect theory, people display loss aversion, and therefore taxpayers place more weight on tax losses than on tax gains (Reeson & Dunstall 2009: 5). Thus, when taxpayers expect a refund on taxes paid (a gain) from the revenue authority, their compliance behaviour may be different than when they must pay taxes (loss) (Gcabo & Robinson 2007: 363). Thus this theory suggests that

taxpayers tend to behave like risk-seekers when facing losses, but are risk-averse when they face gains (Olsen et al. 2018: 409). Therefore, from the loss-framing perspective (discussed in Section 2.3.2), it has been suggested that SMMEs are considered risk-seeking, which may lead to tax non-compliance behaviour (Kamleitner et al. 2012: 338).

The prospect theory and the loss-framing perspective on SMMEs seem partly to explain SMME taxpayer behaviour, because of the cash available to them and their risk appetite, but behaviour seems to vary between different groups of taxpayers, depending on their viewpoints and experiences (Kirchler 2007: 200). This difference in tax compliance behaviour may be due to another psychological phenomenon, called mental accounting. Mental accounting can be applied in connection with prospect theory to explain how different groups of people view money in different ways (Wittberg 2016: 22; Reeson & Dunstall 2009: 5). Take the example of an SMME owner, who mentally keeps an account for VAT due at the end of the month. As a result, the VAT payment at the end of the month is not perceived as a loss, and this explains why the owner's behaviour is contrary to that predicted by prospect theory. Mental accounting can therefore be seen as a practice that improves tax compliance behaviour (Olsen et al. 2018: 411; Kamleitner et al. 2012: 342).

Due to the limitations of the non-expected utility models, social interaction models have been developed to attempt to address these limitations (Holzinger & Biddle 2016: 10). According to Olsen et al. (2018: 411), many researchers have already pointed out the importance of social interaction models to provide a basis from which to study the impact of socio-psychological factors on the compliance behaviour of taxpayers (Olsen et al. 2018: 411; Holzinger & Biddle 2016: 10). Social interaction models are based on the social representation theory, sometimes referred to as the "common sense" theory, which focuses on social representation, which includes "systems of opinions, knowledge, and beliefs particular to a culture, a social category, or a group with regard to objects in the social environment" (Rateau, Moliner, Guimelli & Abric 2012: 458). Because other agents in an environment also influence taxpayer behaviour, for example, the government, revenue authorities, tax accountants and other taxpayers (Alm et al. 2012: 34), this theory views the tax compliance decision more realistically (Holzinger & Biddle 2016: 10). Drawing on this theory in the context of taxes, social representation refers to knowledge, thoughts and beliefs, feelings and evaluations, norms, fairness perceptions, motivational tendencies and tax morale (Kirchler 2007: 191).

Social interaction models developed the idea of tax morale (Holzinger & Biddle 2016: 10). “Tax morale” is the all-encompassing term used to describe all non-monetary motivations for tax compliance (Luttmer & Singhal 2014: 2) and is an important factor in improving tax compliance (Luttmer & Singhal 2014: 3; Torgler, Demir, Macintyre & Schaffner 2008: 336).³³ Tax morale can be defined as the inherent motivation for taxpayers to comply with taxes (Holzinger & Biddle 2016: 10; Kirchler 2007: 99; Alm & Torgler 2006: 225) or looking from the non-compliance viewpoint as “the attitude towards tax evasion” (Torgler 2007: 4). In what follows, some social interaction factors are discussed, where social interaction may influence tax morale, and thus tax compliance behaviour.

Taxpayers are more likely to be tax compliant if they believe that it is the right thing to do, and their perceptions are easily influenced by their peers (Olsen et al. 2018: 414-415). People manage SMMEs. Therefore, personal and social norms influence how the people managing an SMME react (Wittberg 2016: 17). Personal norms are individual personal values regarding moral behaviour, whereas social norms refer to behaviour perceived as normal by a *group* of people (Wenzel 2005: 493). However, personal and social norms are interdependent. After all, personal norms are usually shaped by the group of people that a person belongs to (Onu & Oats 2015: 115). On a practical level, norms may influence taxpayer compliance decisions. For example, if a taxpayer believes that most people see tax compliance as a virtue and oppose tax evasion, the person is likely to be tax compliant as well, unlike a taxpayer who believes that it is general practice to evade taxes.

Another social interaction factor worth mentioning is the level of perceived fairness and trust in tax systems. The perceived level of fairness and trust in a tax system and the revenue authorities administering the tax system influence taxpayers' perceptions directly or indirectly, which may influence their tax compliance behaviour (Kamleitner et al. 2012: 343; Saad 2011: 458-459; Webley 2004: 118).

Fairness has been found to be one of the most relevant determinants of tax compliance (Hofmann, Hoelzl & Kirchler 2008: 212). The concept of fairness entails three primary constructs in tax literature. The first is *distributive fairness*, which refers to the perception of

³³ Even though tax morale is an important factor, literature suggests that the most significant factor effecting individuals to comply with tax regulation is traditional enforcement measures, such as audits (Guerra & Harrington 2018: 195; Wittberg 2016: 43).

the distribution of benefits and costs within the government, as well as how fair the distribution of the tax burden is between all the taxpayers (Olsen et al. 2018: 416; Kirchler 2007: 194). The second is *procedural fairness*, which refers to the fairness of resource distribution, including the level of transparency, efficiency, and respect with which the revenue authorities treat taxpayers. The third is *retributive fairness*, which refers to the perception of the appropriateness of sanctions for tax non-compliance (Olsen et al. 2018: 416; Holzinger & Biddle 2016: 14; Kirchler 2007: 194; Wenzel 2002: 46). These three constructs of fairness and their impact on tax compliance behaviour exist at an individual, group or societal level (Wenzel 2002: 46). At the individual level, taxpayers are mainly concerned by the costs and benefits of the tax system and their interactions with the revenue authorities; at a group level, taxpayers view fairness from the perspective of a particular group they identify with, and at a societal level, taxpayers who are members of the same society want to be treated equally (Holzinger & Biddle 2016: 15).

Distributive fairness can be divided further into horizontal, vertical and exchange fairness (Kirchler 2007: 194). At the horizontal level, if individual taxpayers believe that their tax burden is higher than that of other taxpayers, tax evasion may increase (Kirchler 2007: 194). An increase in tax evasion is also likely when taxpayers perceive themselves to be paying more taxes than taxpayers in another group (vertical level), for example, rich versus poor. Lastly, taxpayers' compliance behaviour may also be influenced if they feel disgruntled about what they get back from the government for their tax money (Hofmann et al. 2008: 212). *Procedural fairness* suggests that if taxpayers receive explanations for a tax law change, are given information that reduces tax law complexity and are treated respectfully by revenue authorities, their perception of trust in the fairness of the tax system increases, and then the tax compliance behaviour at the group level also increases (Olsen et al. 2018: 417; Thimmesch 2015: 1100; Hofmann et al. 2008: 212; Kirchler 2007: 195). *Retributive fairness* is closely related to interaction between taxpayers and revenue authorities. For example, if taxpayers perceive audits as unfair or unreasonable, and the penalties for breaking tax rules to be excessive, they may develop a negative attitude towards the revenue authorities, which has a negative influence on tax compliance behaviour (Kirchler 2007: 196).

The rising level of complexity in the economic market has caused a concomitant increase in tax complexity (Oliver & Bartley 2005: 68). Because complexity is interlinked with the

perceived fairness of taxes, tax complexity may influence tax morale and thus taxpayer behaviour (Reeson & Dunstall 2009: 8; Kirchler 2007: 84). Taxpayers with limited tax knowledge may then make difficult decisions using some “rule of thumb” or heuristics (Spicer & Hero 1985: 266). Taxpayers who experience difficulty understanding their tax liabilities due to tax complexity and their own lack of tax knowledge may then employ tax practitioners to assist them in handling their tax affairs (Olsen et al. 2018: 413). The appointment of an external tax practitioner leads to another social interaction factor that may influence taxpayer behaviour. Because an aggressive tax practitioner may follow a different approach to a tax situation than a more conservative tax practitioner, the resulting behaviour of the taxpayer may be different. A tax practitioner may, for example, interpret an unclear tax position in favour of the client. By contrast, a tax auditor may interpret the position as favouring the revenue authority (Olsen et al. 2018: 414). Because tax practitioners and tax auditors represent their clients, they may be perceived as negotiating on the clients’ behalf. Therefore, it is suggested that negotiation theory may be a good fit to explain what drives the interaction between revenue authorities and taxpayers in these circumstances (Olsen et al. 2018: 414; Frecknall-Hughes & Kirchler 2015: 304). Applied to the tax compliance environment, it may be described practically in the following way: a taxpayer submits a return to the revenue authority; if the revenue authority rejects the return or raises additional questions, the taxpayer may obtain the services of a tax practitioner to assist him/her. The tax practitioner will then act on behalf of the taxpayer and “negotiate” with the revenue authority representative (who negotiates on behalf of the revenue authority). Because this interaction involves correspondence and/or meetings between the parties, each party incurs costs involved in this interaction (Frecknall-Hughes & Kirchler 2015: 300).

The next factor deliberating taxpayer compliance behaviour on a socio-psychological level is the effect of taxpayers’ motivational postures. Taxpayers evaluate revenue authorities on how they act and perform. Based on these evaluations, taxpayers develop an attitude or motivational posture towards the regulatory authority (Braithwaite 2002: 18). Motivational postures from a taxpayer perspective entail the interconnected sets of beliefs and attitudes consciously held by taxpayers towards revenue authorities (Braithwaite 2002: 18) and reflect taxpayers’ willingness to comply or not comply with tax regulations (Hofmann et al. 2008: 212). Five motivational postures are considered important in the context of taxpayer compliance behaviour: commitment, capitulation, resistance, disengagement, and game-playing (Kirchler 2007: 98; Braithwaite 2002: 18). For example, a committed taxpayer

believes in the benefits of the tax system and considers tax compliance to be morally just; a capitulating taxpayer tries to comply but does not always succeed; a resistant taxpayer doubts the intentions of the revenue authorities and disputes them, and therefore does not want to comply; a disengaged taxpayer is wholly detached from the tax office and does not comply; and a game-seeking taxpayer seeks to take advantage of particular laws and loopholes within the tax system (Olsen et al. 2018: 418).

These motivational postures elicit different strategies from the revenue authorities to exploit or counter the different types of taxpayer attitudes, as shown in the tax compliance model illustrated in Figure 2.3. This tax compliance model is based on the seminal work of John Braithwaite (Ayres & Braithwaite 1992) and based on the general theory of responsive regulation (Freedman 2012: 630). The responsive regulation theory is conceptualised as a compliance pyramid and can be applied to the tax environment to determine whether revenue authorities should enforce compliance or motivate voluntary compliance, based on the behaviour of taxpayers (Holzinger & Biddle 2016: 16). Although the theory accepts that most taxpayers comply voluntarily, some taxpayers need to be helped or assisted by revenue authorities to comply. At the tip of the pyramid, there are taxpayers who participate in tax evasion and need to be dealt with by revenue authorities using the force of the law (Freedman 2012: 630; Ahmed & Braithwaite 2005: 556). In short, revenue authorities' action is based on the behaviour of the taxpayer – hence the term responsive regulation theory.

Theory is essential to understand what drives tax compliance behaviour. Above, certain factors that may influence tax compliance behaviour and the theories underpinning them are described. The focus can now shift to the relationship between tax compliance costs and tax compliance behaviour.

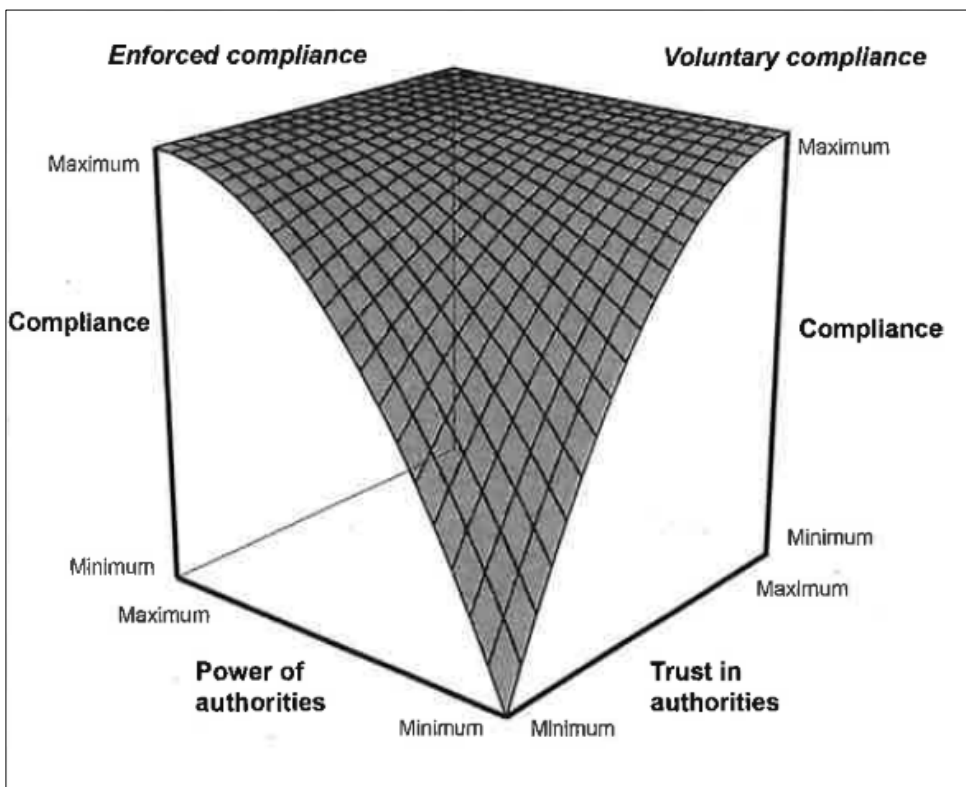
2.3.5. *Relationship between tax compliance costs and tax compliance behaviour*

Most governments rely on voluntary compliance from taxpayers (Jimenez & Iyer 2016: 17); hence, it is crucial for the implementation of optimal tax policy to consider tax compliance behaviour as discussed in Sections 2.3.2 and 2.3.4, above. However, this tax compliance behaviour is subject to the dynamic interaction of the various factors and the behaviour of the participants involved (Alm et al. 2012: 33). There has been a shift towards a more psychological approach in recent research to explain tax compliance behaviour (Enachescu

& Kirchler 2019: 87). The SSF is one such approach that combines an economic and psychological perspective to explain tax compliance behaviour (Kirchler 2007: 206).

The SSF, first introduced by Elffers (Kirchler, Hoelzl & Wahl 2008: 213) addresses the need to consider the power and trust of authorities and their potentially forceful interaction with taxpayers to explain tax compliance (Mas'ud, Manaf & Saad 2015: 410; Kirchler et al. 2008: 222). The SSF thus focuses on the interaction between tax revenue authorities and the taxpaying public, and how the style of interaction adopted by the authorities influences taxpayer behaviour. In other words, the SSF suggests that taxpayers either comply voluntarily or resist complying because they feel that they are forced to comply due to the behaviour of revenue authorities (Enachescu & Kirchler 2019: 87). Thus, the SSF is based upon two main dimensions: the power of the revenue authorities and the trust in the revenue authorities (Kirchler et al. 2008: 211). According to this framework, enforced compliance is primarily influenced by the authorities' power, whereas voluntary compliance is elicited by the taxpayers' trust in the authorities (Eichfelder & Kegels 2014). The SSF is graphically illustrated with a three-dimensional model in Figure 2.6.

Figure 2.6: The slippery slope framework



Source: Enachescu and Kirchler (2019: 90)

Figure 2.6 above illustrates that tax compliance is optimal where trust in and the power of the revenue authorities are at their maximum levels. The level of tax compliance decreases sharply where trust in the revenue authorities and the power of the revenue authorities are reduced to lower levels. Due to this interaction, it is sometimes challenging to ensure tax compliance in a social setting (because power may enhance trust, but too much power can destroy trust). This explains the name, “slippery slope”, for this framework (Lozza, Kastlunger, Tagliabue & Kirchler 2013: 53).

The SSF suggests that the two dimensions (the power of and trust in the revenue authorities) have a combined influence on taxpayer compliance behaviour, which may be labelled as either enforced compliance or voluntary cooperation (Kirchler et al. 2008: 222). This conceptualisation of the interaction of revenue authorities and taxpayers was built on a classical psychological model, which stipulates that authority behaviour can create a specific social atmosphere that stimulates a climate of cooperation on which the individual reacts in a certain way (Schneider, Ehrhart & Macey 2013: 381). The SSF was extended by Gangl, Hofmann and Kirchler (2015: 19), who conclude that “the dynamics between power and trust are the preconditions of three cooperative climates, the antagonistic, the service, and the confidence climate, with corresponding qualities of motivations to cooperate, enforced compliance, voluntary cooperation and committed cooperation”. This extension of the SSF was a response to the inconsistent results from different studies regarding the dynamics between power and trust, where some researchers argued that trust and power are negatively related, and others the opposite (Alm et al. 2012: 37; Gangl, Hofmann, Pollai & Kirchler 2012: 6). Gangl et al. (2015: 15) suggest that these differences are caused by different conceptualisations of power and trust, and also from diverse operationalisations in empirical investigations. To explain these differences in the results, the extension of the SSF was introduced to make provision for the different forms of power and trust (Gangl et al. 2015: 15; Hofmann, Gangl, Kirchler & Stark 2014: 294), which are discussed next.

Power is the ability or the perceived ability of a party to influence another party to obtain the outcome that the influencing party desires (Gangl et al. 2015: 15; Simpson, Farrell, Oriña & Rothman 2015: 393). Therefore, the power of the revenue authority is the revenue authorities’ ability (or perceived ability, from the taxpayers’ viewpoint) to influence the taxpayer to be tax compliant. This power may take the form of coercive power or legitimate power (Turner 2005: 8). Coercive power exists when one party perceives another party to

have the ability to punish them for either doing something wrong, or for not doing something they should have done (Simpson et al. 2015: 395). From the viewpoint of a taxpayer, it can therefore be seen as “harsh” power the revenue authority has over the taxpayer by imposing penalties on the taxpayer if the taxpayer has done something wrong or has omitted to do something the taxpayer should have done (Kastlunger, Lozza, Kirchler & Schabmann 2013: 38 & 43).

Contrary to coercive power, legitimate power exists when one party accepts and recognizes that the other party has the right to control their actions, and therefore submit to this influence (Cruz 2019: 57; Simpson et al. 2015: 395; Turner 2005: 8). From the viewpoint of a taxpayer, this is a “soft” power the revenue authority exerts over the taxpayer because this power is not based on the force or pressure from the revenue authorities, but based on the use of information, charisma, legitimization, and expertise by the revenue authority which will convince taxpayers to be voluntarily tax compliant (Gangl et al. 2015: 16; Kastlunger et al. 2013: 38; Kirchler et al. 2008: 213; Turner 2005: 8). According to Kastlunger et al. (2013: 38), legitimate power can increase trust in the revenue authorities, whereas coercive power has the opposite effect. Therefore, the dynamics of trust also has to be taken into account in investigating the tax compliance behaviour of taxpayers.

Trust is a foundational orientation between parties in a relationship that incorporates all three forms of human experience – emotion, cognition and behaviour (Lewis & Weigert 2012: 26). The level of trust is crucial in the establishment of power dynamics in relationships (Simpson et al. 2015: 415). One party is willing to act on another party's words, actions, and decisions based on the level of trust the party has in the other party (McAllister 1995: 25). According to Alm et al. (2012: 39), most definitions in the literature distinguish between reason-based trust and implicit trust. Reason-based trust arises from a deliberate decision by a trustor on the basis of goal achievement (the trustor evaluates whether the trustee pursues a goal that is important to the trustor); dependency of the trustor on the trustee; internal factors (for example, the trustor considers the trustee competent, willing, and harmless), and external factors (such as the perceived opportunities and dangers in the relationship) (Gobena & Van Dijke 2016: 26; Gangl et al. 2015: 16). From this definition, it may be deduced that a taxpayer would be inclined to trust the revenue authority if there are reasons for the taxpayer to do so; for example, if the taxpayer perceives the revenue authority to be competent and working for the common good (Enachescu & Kirchler 2019: 92; Gobena & Van Dijke 2016: 27; Gangl

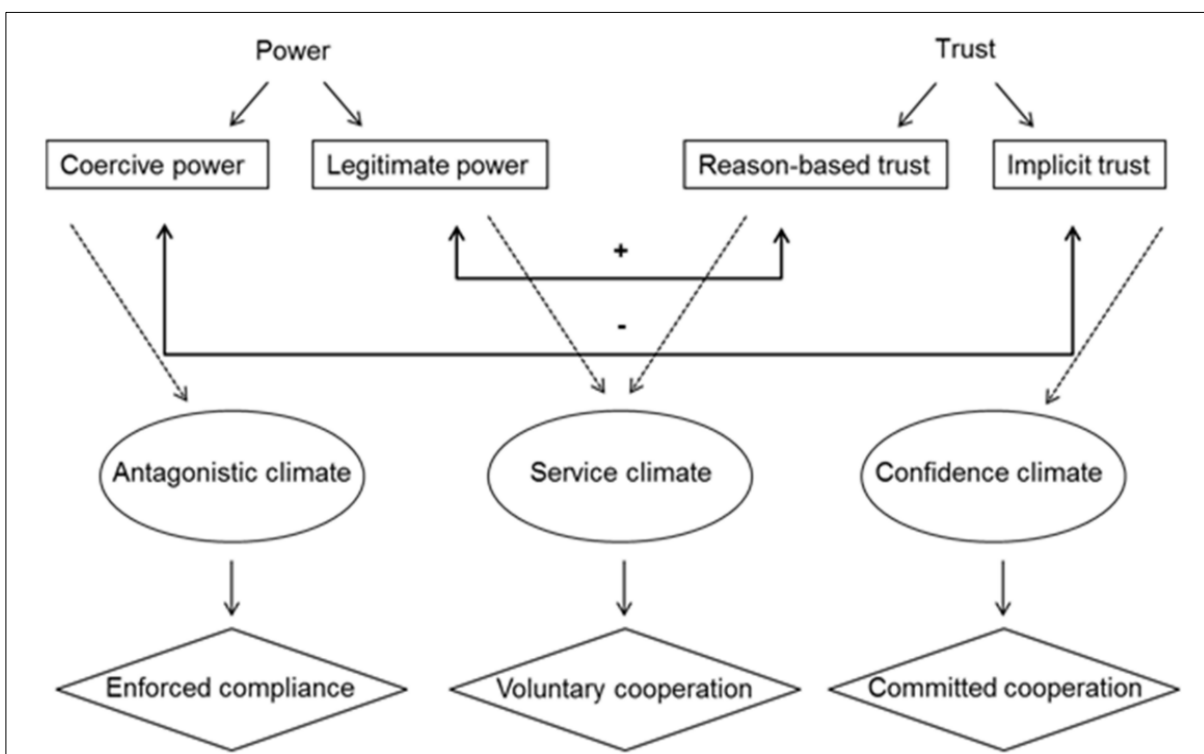
et al. 2015: 16).

According to Gobena and Van Dijke (2016: 27), implicit trust is “an automatic, unintentional, and unconscious reaction to stimuli originating from associative and conditioned learning processes in which shared social identities are likely to arise”. Implicit trust, therefore, transpires without a conscious reason recognised by the trustor to trust the trustee. From the relationship viewpoint between taxpayers and the revenue authority, it means the taxpayers trust the revenue authority without considering any reasons to trust the authority, for example, the intentions or the competency of the revenue authority. Instead, they base this automatic trust on shared norms, signalled values, and habits (Gangl et al. 2015: 16 & 17). For example, revenue authorities may induce implicit trust by presenting themselves to taxpayers as warm and friendly, and as customer-oriented (Enachescu & Kirchler 2019: 92). Reason-based trust and implicit trust are related, in the sense that reason-based trust may develop into implicit trust if the taxpayer has repeated positive experiences, coming to trust the revenue authority automatically in the long run, without considering any current reasons for the decision to trust (Enachescu & Kirchler 2019: 92; Gangl, Hofmann, Hartl & Berkics 2019: 4).

As was mentioned at the beginning of this section, the dynamics between the power of and the trust in revenue authorities may create three different cooperative climates: an antagonistic, service or confidence climate, which may lead to different levels of cooperation by taxpayers. The extended SSF implies a negative relationship between coercive power and implicit trust, which suggests that, in an environment where there are high levels of coercive power from the revenue authorities and low levels of implicit trust in them, there will be an antagonistic climate, where taxpayers perceive the revenue authorities as an institution whose primary goal is to catch them as tax evaders (Gangl et al. 2019: 4). This climate results in mutual distrust between the revenue authorities and taxpayers, and the need to force taxpayers to comply (Gangl et al. 2015: 19; Hofmann et al. 2014: 293). High levels of implicit trust may create a confidence climate, leading to committed cooperation by taxpayers (Enachescu & Kirchler 2019: 93). This climate will exist where there is mutual trust and respect between taxpayers and the revenue authority. In such a climate, the use of “harsh” power by the revenue authorities is unnecessary, with taxpayers seeing the payment of taxes as a moral obligation (Gangl et al. 2019: 5).

In contrast to the negative relationship between coercive power and implicit trust, it has been found that legitimate power stimulates reason-based trust, which results in a service climate where taxpayers comply voluntarily (Hofmann et al. 2014: 309). In a service climate, revenue authorities and taxpayers have a customer-client relationship, in which revenue authorities interact to serve taxpayers as clients, which results in taxpayers who perceive the revenue authorities as supportive and competent, which is likely to result in voluntary compliance from taxpayers (Gangl et al. 2012: 16). These interactions are graphically depicted in Figure 2.7.

Figure 2.7: Dynamics between power and trust



Source: Gangl et al. (2012: 15)

Drawing on Figure 2.7, the dynamics between power and trust and the interaction between revenue authorities and the taxpayers may be summarised as follows:

- Coercive power is negatively related to implicit trust and creates an antagonistic climate, resulting in enforced compliance by revenue authorities.
- Implicit trust creates a confidence climate for taxpayers which leads to committed cooperation.
- Legitimate power and reason-based trust are positively related and create a service climate and voluntary cooperation from taxpayers.

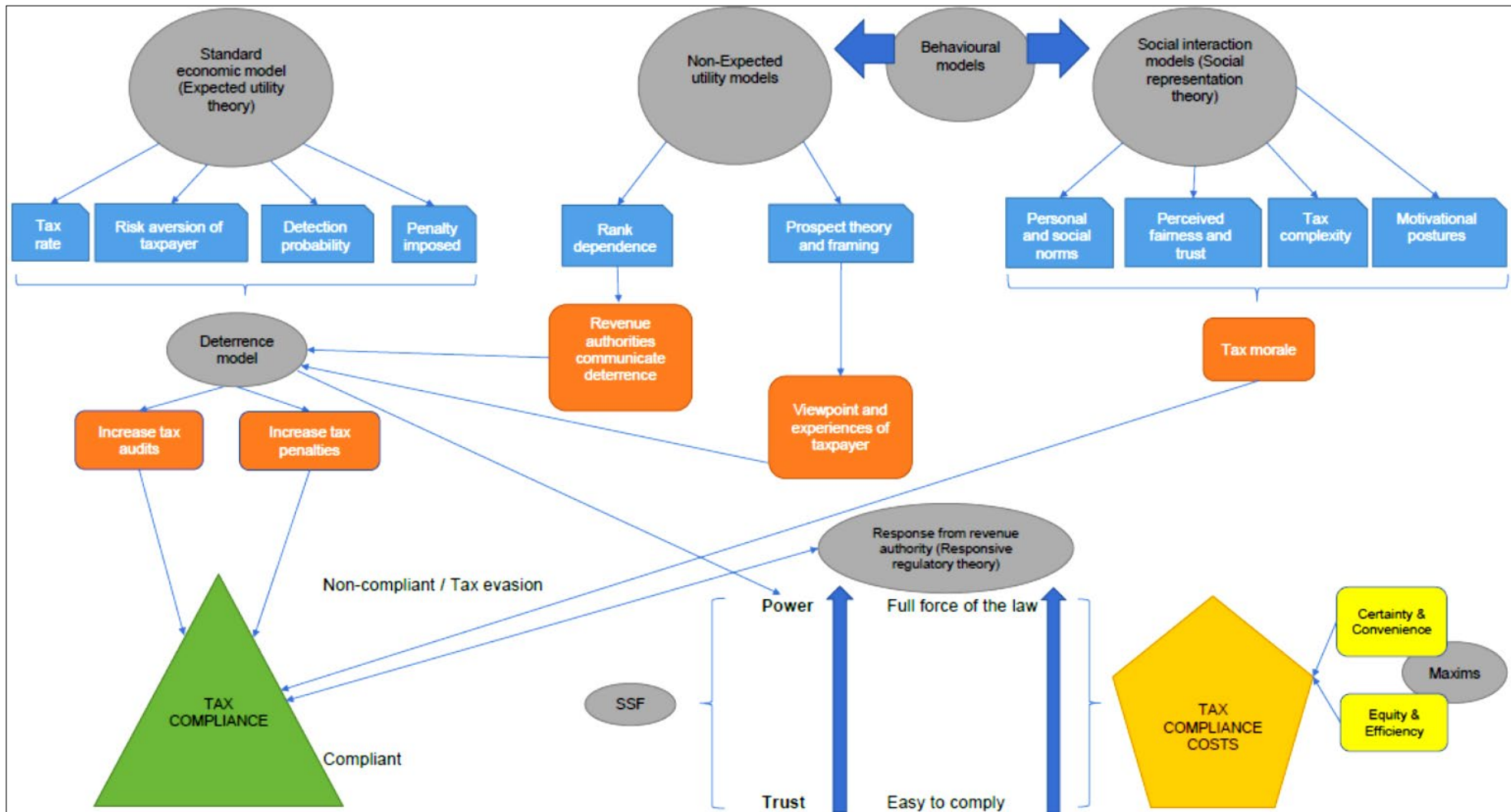
As part of this study, possible relationships between tax compliance costs and the behaviour of the revenue authority towards SMMEs are explored, because one of the factors influencing the tax morale of taxpayers is the relationship between revenue authorities and taxpayers (Feld & Frey 2007: 115). This relationship between the taxpayer and the revenue authority affects taxpayer compliance behaviour, which alters tax compliance costs (Feld & Frey 2007: 116). Based on a study conducted on businesses based in Belgium, it was found that revenue authority behaviour (which influences taxpayers' perceptions and behaviour) has a significant impact on the burden of complying with the tax law (Eichfelder & Kegels 2014). According to this study, a customer-unfriendly revenue authority (which decreases trust in the revenue authority) and the use of power by the revenue authority increases tax compliance costs for taxpayers (Eichfelder & Kegels 2014: 212). Therefore, it seems that there may be a relationship between tax compliance costs and tax compliance behaviour, which is investigated in this study from a South African perspective.

2.4. Theoretical framework for the current study

This study aims to assess the tax compliance costs of SMMEs. Such an assessment has to be based on a sound and appropriate theoretical framework (Saunders, Lewis & Thornhill 2007: 152). A theoretical framework is a structure that draws and builds on theories identified from the literature. This framework has to provide a basis on which the data collected in research can be analysed and interpreted (Kivunja 2018: 46).

As indicated in Section 2.3.4, several theories have been developed to explain the complex field of tax compliance behaviour. In Section 2.3.3, the theoretical basis underpinning tax compliance costs was discussed, and in Section 2.3.5, the relationship between tax compliance behaviour and tax compliance cost was explained using the SSF. Based on the literature discussed, the theoretical framework in Figure 2.8 illustrates the relationship between tax compliance costs and tax compliance behaviour relevant to this study.

Figure 2.8: Theoretical framework



Source: Own diagram combining theories and models illustrating the interrelationship of tax compliance behaviour with tax compliance costs

Figure 2.8 illustrates theories considered fundamental to this study. Theories that set out to explain how taxpayers behave have been divided using two analytical models, namely the standard economic model on the one hand, and behavioural models on the other hand. The standard economic model is based on the expected utility theory. The tax rate, risk aversion of the taxpayer, detection probability and penalty imposed are identified as factors that influence the deterrence model, where deterrence is used by revenue authorities as the main instrument to increase tax compliance (by increasing tax audits and/or penalties).

Given taxpayers' behavioural biases, two behavioural models to explain taxpayer behaviour are identified where the standard economic model fails. The first of these is the non-expected utility model, which incorporates two observed behavioural theories (the rank dependent and prospect theories). According to the rank dependent theory, taxpayers do not know the probability of being caught, and therefore revenue authorities are very successful in using deterrence strategies to increase tax compliance. Prospect theory and the framing perspective of SMMEs are used to explain why the viewpoint and experiences of taxpayers influence their tax compliance behaviour. The second is the social interaction model, which is based on the social representation theory. This theory acknowledges that the tax morale of SMMEs influences their tax compliance behaviour. The following factors would influence tax morale: personal and social norms, the perceived fairness of and trust in the tax system, tax complexity, and the motivational posture of the taxpayer. The behaviour of taxpayers then induces a specific response from the revenue authority based on the responsive regulatory theory, where taxpayers are either forced to comply by revenue authorities (using power) or are assisted in complying (which is only possible if taxpayers trust the revenue authority). This use of power and the building of trust by revenue authorities to ensure tax compliance are founded on the principles of the SSF. This response from revenue authorities influences tax compliance costs, considering that tax compliance costs are built on the rival maxims of simplicity (certainty and convenience) on the one hand, and equity and efficiency on the other.

2.5. Conclusion

This chapter has discussed constructs central to this study, based on the relevant literature. First, the definition of an SMME was established for the purposes of this study (businesses with a turnover of R250 million or less) on the basis of a review of international and South African economic perspectives of an SMME, as well as the South African taxation perspective.

Thereafter, the tax compliance burden, tax compliance costs and tax compliance behaviour of taxpayers were explained and contextualised. The theories underpinning tax compliance costs and tax compliance behaviour were discussed; the relationship between tax compliance costs and tax compliance behaviour was explored, and the SSF was introduced. The extended SSF is used in this study to investigate the climate in the interactive nexus between taxpayers and SARS. The chapter ends with a description and schematic diagram of the theoretical framework for this study. The discussion of the tax compliance costs in this chapter is supplemented by a review of the literature on studies in this field in Chapter 3.

CHAPTER 3: TAX COMPLIANCE COSTS

3.1. Introduction

This chapter builds on the contextual and theoretical constructs in Chapter 2, which established the definition of an SMME for this study and laid the foundations regarding the definition and theories of tax compliance costs. It was established that revenue authority behaviour (using power and/or building trust to enhance tax compliance) may influence SMMEs' tax compliance costs.

This chapter reviews studies conducted concerning SMMEs' tax compliance costs to provide a baseline and highlight the need for the current study. Accordingly, the chapter commences with a review of studies of tax compliance costs, first from an international perspective and then from a South African perspective. This review is followed by the identification of the elements of tax compliance costs explored in the listed studies and a discussion of how these studies measured tax compliance costs (methods and techniques). The chapter shows which determinants of tax compliance costs have been identified, and more specifically, whether the impact of the actions from revenue authorities on tax compliance costs has already been adequately considered in local tax compliance cost studies, or any other studies, for that matter.

3.2. Tax compliance costs – An international perspective

According to Sandford (1995a: 2), R.W. Haig was the first to publish and attempt to measure tax compliance costs in North America in 1935. Since then, numerous studies have been performed in the tax compliance costs research area. Studies from 1935 to 1994 were summarised by Sandford et al. (1989: 224-230) and Allers (1994: 241-250). In 2003, Evans (2003: 64-92) published a comprehensive review of more than 60 tax compliance cost studies performed from 1980 to 2003. A similar approach to Evans's (2003) review of tax compliance cost studies is followed in the current study to highlight the research relevant to

SMMEs tax compliance costs studies since 2003. The information in relation to each tax compliance cost study related to SMMEs is provided in tabular format, considering geographic spread (country focus), author(s) and year of publication, the title of the study, tax(es) studied, the data collection method(s) used, the number of usable responses, primary outcomes and the recommendations relevant to this study (see Table 3.1). Every attempt has been made to make this list of tax compliance costs studies (and the other lists in the chapter) as comprehensive as possible, using as many different keyword combinations as possible in searching all the relevant databases accessible via UNISA's library, Google and Google Scholar.

Table 3.1: Research conducted internationally on tax compliance costs for SMMEs

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
EU: European Commission (2004) <i>European tax survey</i>	1. Income tax and VAT 2. Survey 3. 700 4. SMEs and large companies were investigated.	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Compliance costs for income tax and VAT are significant, and impose a substantive burden on SMEs. • There are higher tax compliance costs for companies with cross-border transactions. 	No recommendations relevant to this study are provided.
United Kingdom (UK): Chittenden et al. (2005) <i>PAYE-NIC compliance costs: Empirical evidence from the UK SME economy</i>	1. PAYE 2. Survey 3. 400 4. Psychological and opportunity costs were measured.	<ul style="list-style-type: none"> • PAYE tax compliance costs are regressive, because as the size of a business increases, more tax compliance work is delegated from higher-paid owners to lower-paid administrative staff. • The small firm sector's tax compliance costs increased over the five years from 1996 to 2001. 	Primary research is needed on the level of tax compliance costs to assist the government in creating a fair tax regime.
Slovenia and Croatia:	1. Income tax, wage-related taxes and VAT	<ul style="list-style-type: none"> • Tax compliance costs are regressive. 	No recommendations relevant to this study are

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
Klun and Blažič (2005) <i>Tax compliance costs for companies in Slovenia and Croatia</i>	2. Survey - Slovenia Interviews - Croatia 3. Slovenia - 126 Croatia - 339 4. Even though the study focused on all companies, 80% of the respondents fell within the SMME sector.	<ul style="list-style-type: none"> • VAT is responsible for the largest share of tax compliance costs. • The average time spent (hours)³⁴ on tax compliance in a year by owners in Slovenia was 230.8 hours; in Croatia 291.5 hours; the time spent by paid employees in Slovenia was 1 105.6 hours; in Croatia 910.1 hours; the time spent by unpaid helpers in Slovenia (data excluded); in Croatia 107 hours. • Aggregate tax compliance costs as a percentage of GDP was around 1.2% in Croatia and about 1% in Slovenia. 	provided.
New Zealand: Colmar Brunton Social Research Agency (2005) <i>Measuring the tax compliance costs of small and medium-sized businesses – a benchmark survey</i> ; Sullivan (2005) <i>Improving tax compliance cost research – the New Zealand story continues</i>	1. General sales tax (GST), income tax, PAYE and fringe benefit tax 2. Survey 3. 1 907 4. Data on psychological costs were collected, but were not measured in monetary terms.	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • The average SME spent 76.7 hours on tax compliance per year. The time spent by owners was 56.3 hours, by paid employees 18.4 hours, and by unpaid helpers 3.4 hours. 	Research is required to monitor tax compliance costs and the impact of proposed legislative changes on compliance costs.

³⁴ Note that the hours reported are given in the summary to provide an overview of the global situation, since the impact of technology and different tax systems may significantly influence the reported hours.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
US: DeLuca, Greenland, Guyton, Hennesy and Kindlon (2005) <i>Measuring the tax compliance burden of small businesses</i>	<ol style="list-style-type: none"> 1. Income tax and Employment tax 2. Two separate surveys, one for income tax compliance costs and one for employment tax compliance costs. 3. Income tax compliance costs survey: 5 878, Employment tax compliance costs survey: 1 208 	Small businesses spent 247 hours on income tax compliance and 143 hours on employment tax compliance per annum.	No recommendations relevant to this study are provided.
India: Das-Gupta (2006) <i>Income tax compliance cost of corporations in India, 2000–01</i>	<ol style="list-style-type: none"> 1. All taxes 2. Survey 3. 44 4. All corporations were measured, not only SMMEs. 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Companies who claimed harassment from the revenue authority had statistically significantly higher tax compliance costs than others. • 70% of companies used external tax advisers. • Companies used external tax advisers because of tax instability and complexity. 	No recommendations relevant to this study are provided.
Australia: Commonwealth of Australia (2007) <i>Scoping study of small business tax compliance costs. A report to the Treasurer</i>	<ol style="list-style-type: none"> 1. All taxes 2. In-depth interviews 3. 30 small business owners and three accountants were interviewed. 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Tax compliance costs can be financial or non-financial, and for some businesses, non-financial costs such as stress and time lost may have a significant impact. • A significant number of small businesses outsource the tax function. • Small businesses are highly diverse in nature; therefore, tax compliance 	<ul style="list-style-type: none"> • Tax compliance costs assessments need to be done before the implementation of changes to tax law. • Taxpayer education reduces tax compliance costs.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
		<p>costs are influenced by several factors.</p> <ul style="list-style-type: none"> Achieving certainty and simplicity is a challenge for all the role players in the tax system. 	
<p>Malaysia: Abdul-Jabbar and Pope (2008a) <i>The effects of the self-assessment system on tax compliance costs of small and medium enterprises in Malaysia</i></p>	<ol style="list-style-type: none"> All taxes Survey 175 	<ul style="list-style-type: none"> Tax compliance costs are regressive. There has been a significant decrease in average tax compliance costs, compared to a previous and similar study in 1999. There has been a significant increase in the proportion of external tax compliance costs to total tax compliance costs, compared to the previous study in 1999 (measured at 41% of total tax compliance costs in the current study compared to 25% in the previous study). 	<p>The simplification of income tax law in Malaysia has reduced tax compliance costs, and further tax simplification measures should be encouraged and expanded on.</p>
<p>Northern Malaysia: Mansor and Hanefah (2008) <i>Tax compliance costs of Bumiputera small and medium enterprises in Northern Malaysia</i></p>	<ol style="list-style-type: none"> Not clear from the study Survey 40 	<ul style="list-style-type: none"> Tax compliance costs are regressive. The internal and external proportion of total tax compliance costs is estimated at 78.7% and 21.2%, respectively; managers spent 45.5% of total internal hours and paid employees 54.5%.³⁵ 80% of respondents use external tax advisers. 	<ul style="list-style-type: none"> Owners and employees of SMEs must improve their tax knowledge. SMEs and government should co-operate to keep tax compliance costs at manageable levels.

³⁵ Percentages were calculated using the total cost and hours figures in Mansor and Hanefah (2008: 33 & 37).

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
Germany & Belgium: Eichfelder et al. (2010) <i>Tax compliance costs: The effect of authority behavior and taxpayer services</i>	<ol style="list-style-type: none"> 1. All taxes 2. Survey data from previous studies were used 3. N/A 4. Large businesses are included in the study. 	<ul style="list-style-type: none"> • There was a considerable reduction in the tax compliance burden where the revenue authority follows a customer-oriented approach. • A more substantial effect of revenue authority behaviour was found on the tax compliance costs of smaller businesses. 	<ul style="list-style-type: none"> • Accurate handling of taxpayers' requests is a vital aspect to reduce tax compliance costs. • Taxpayers should be informed of new tax-related regulations to arrange their tax affairs properly. • Tax regulations should be easy to understand.
Australia: Rametse (2010) <i>An international perspective on small business implementation costs of a new tax and managerial benefits derived</i>	<ol style="list-style-type: none"> 1. GST 2. Large-scale survey and in-depth structured face-to-face interviews 3. 868 4. The study focused on the implementation cost of a new tax. 	High implementation costs with the introduction of a new tax were confirmed. However, there was evidence that managerial benefits arise for businesses after the implementation of the new tax because of better recordkeeping brought about by the new tax.	Revenue authorities must make available the expected initial tax compliance costs of a new tax based on the size of a business.
US: U.S. Small Business Administration (2011) <i>Measuring and modelling the federal income tax compliance burden of small businesses</i>	<ol style="list-style-type: none"> 1. Federal income taxes 2. Form-based approach (based on estimates of the time spent by taxpayers on each form submitted to be tax-compliant). 3. N/A 4. The study relies on the revenue authority's estimates of the time all taxpayers, including small businesses, are expected to spend filling out particular tax forms. 	<ul style="list-style-type: none"> • Compliance burdens increase as the size of a small business increases. • Compliance burdens vary significantly by industry. • Compliance burdens are lowest for small businesses trading as sole proprietors. 	No recommendations relevant to this study are provided.
Belgium (Flemish): Schoonjans et al. (2011) <i>A survey of tax</i>	<ol style="list-style-type: none"> 1. All taxes 2. Survey 3. 151 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • VAT accounts for 50% of tax compliance costs. 	<ul style="list-style-type: none"> • Future research should investigate whether the beneficial effects of additional reforming taxes or "green taxes"

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>compliance costs of Flemish SMEs: Magnitude and determinants</i>		<ul style="list-style-type: none"> • There is a problematic trade-off between tax simplification and the introduction of new tax laws to stimulate the economy, for example, environmental taxes. 	<p>outweigh the high costs of a complex tax system.</p> <ul style="list-style-type: none"> • The possible effect of a burdensome taxation system on the performance and growth of firms should be investigated. • Tax legislation should be simplified to reduce tax compliance costs. • Information technology tools should be developed by revenue authorities to facilitate the understanding and calculation of taxes.
Australia: Lignier and Evans (2012) <i>The rise and rise of tax compliance costs for the small business sector in Australia</i>	<ol style="list-style-type: none"> 1. All federal taxes that businesses are routinely exposed to (in this study, GST, income tax, payroll related taxes and levies) 2. Survey 3. 159 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • The mean internal hours spent are 493 hours, of which more than 50% are spent on GST. More than 60% of hours are spent on recording information needed to ensure tax compliance. • Most of the internal time spent on tax compliance is attributable to the time spent by paid employees (80%). However, for the smaller segment of businesses in this study, owners are responsible for more than 50% of internal time spent on tax compliance. 	Further research is warranted to investigate whether the introduction of measures attempting to reduce tax compliance costs for small enterprises are not unintentionally increasing tax compliance costs.
UK: Hansford and Hasseldine (2012)	<ol style="list-style-type: none"> 1. VAT, income tax, PAYE and CGT 2. Survey 3. 41 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. 	Tax compliance costs must be linked to tax policy, and understanding the consequences of tax

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>Tax compliance costs for small and medium sized enterprises: The case of the UK</i>		<ul style="list-style-type: none"> • 85% of respondents paid for external tax-related services. • The total internal hours spent on tax compliance activities are 434 hours, of which 50.5% are spent on VAT. • Two-thirds of time is spent on the recording of information needed for tax compliance functions. • 3 527 hours are spent on non-tax related accounting functions. 	compliance costs is a continuing challenge that must be investigated.
Malaysia: Palil, Ramli, Mustapha and Hassan (2013) <i>Elements of compliance costs: Lesson from Malaysian companies towards Goods and Services Tax (GST)</i>	<ol style="list-style-type: none"> 1. All taxes 2. Survey 3. 173 4. The impact of the imminent introduction of GST on tax compliance costs is considered. 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Internal tax compliance costs represent 59% of total tax compliance costs, external tax compliance costs represent 26% and other tax compliance costs represent 15%. 	Government should consider special tax incentives to compensate for the initial compliance costs incurred by SMEs when new taxes are introduced.
South Africa, Ukraine & Nepal: Yilmaz and Coolidge (2013) <i>Can e-filing reduce tax compliance costs in developing countries?</i>	<ol style="list-style-type: none"> 1. Major taxes are identified for each country. 2. Survey data from previous studies were used. 3. N/A in this study. 4. The study focused on the effect of e-filing on tax compliance costs 	<ul style="list-style-type: none"> • Results suggested that e-filing does not significantly affect tax compliance costs. • E-filing may have the potential to lower tax administration costs for the revenue authority. 	No recommendations relevant to this study are provided.
New Zealand: Inland Revenue (2014a) <i>SME tax compliance costs 2013</i>	<ol style="list-style-type: none"> 1. Main tax types, namely GST, income tax, PAYE, 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Mean internal hours spent on tax compliance is 74.9 hours per year. 	No recommendations relevant to this study are provided.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
	1. KiwiSaver ³⁶ and fringe benefit tax 2. Survey 3. 1 206 4. Data were collected on psychological costs but not measured in monetary terms.	<ul style="list-style-type: none"> • Mean hours spent by type of employee per year: Owners – 52.5 hours, paid employees – 16.5 hours, and unpaid workers – 2.3 hours • Larger businesses are more reliant on paid employees to ensure tax compliance. • GST accounts for almost 50% of tax compliance costs. • 80% of SMEs pay for external tax services. 	
New Zealand: Inland Revenue (2014b) <i>SME tax compliance costs 2004 to 2013</i>	1. Main tax types, namely GST, income tax, PAYE, KiwiSaver and fringe benefit tax 2. Comparison between tax compliance costs measured in 2004, 2009 and costs measured in 2013 in the study above (Inland Revenue 2014a). 3. N/A.	<ul style="list-style-type: none"> • Overall tax compliance costs have not changed significantly over the five years since 2009 but did decrease compared to the 2004 results. • Since 2009, there was a shift of costs from internal costs to external costs, which may indicate that tax compliance became more complicated, and that therefore SMEs outsource more of their tax compliance activities. 	No recommendations relevant to this study are provided.
Australia, Canada, South Africa & the UK: Evans et al. (2014) <i>Small business and tax compliance costs: A cross-country study of managerial</i>	1. GST/VAT, income taxes and Payroll taxes 2. Survey 3. Australia 159 Canada 25 South Africa 5 865 UK 40 4. Only small businesses (defined as businesses with a	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Recording information for tax compliance activities is the most significant activity across all the countries. • In Australia, South Africa and the UK, VAT takes up the most significant part of internal tax 	There is a continued need for tax compliance costs to be measured and monitored.

³⁶ KiwiSaver is a voluntary retirement savings scheme in New Zealand (New Zealand Government No date).

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>benefits and tax concessions</i>	maximum of 50 employees) were investigated.	compliance costs, while in Canada, income tax is responsible for the most significant part of the internal tax compliance costs.	
Costa Rica & Uruguay: United Nations and CIAT (2014) <i>Measuring tax transaction costs in small and medium enterprises</i>	<ol style="list-style-type: none"> 1. All taxes 2. Face-to-face survey interviews - Costa Rica; Online Survey - Uruguay 3. Costa Rica - 842 Uruguay - 750 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Costa Rica: 134 hours are spent on average on internal tax compliance activities by SMEs, and 47% of respondents use external tax advisers. • Uruguay: 241 hours are spent on average on internal tax compliance activities by SMEs, and 64% of respondents use external tax advisers. 	<ul style="list-style-type: none"> • It is advisable to assess tax compliance costs and their drivers continuously. • If possible, decrease tax compliance costs by spending more time on taxpayer assistance from the revenue authority side. • Tax simplification should reduce tax compliance costs. • Firms' external tax compliance costs can be reduced if a revenue authority can provide specialised technical tax information to taxpayers. • External tax advisers form an essential part of the tax value chain, so improving the relationship between advisers and revenue authorities will benefit all the players in the tax chain.
Australia: Lignier, Evans and Tran-Nam (2014) <i>Tangled up in tape: The continuing tax compliance plight</i>	<ol style="list-style-type: none"> 1. All taxes 2. Survey 3. 682 	<ul style="list-style-type: none"> • Tax compliance costs are high, regressive and have not reduced over time. • 256 hours are spent on average on internal tax compliance. • GST is the most time-consuming tax (38%). 	Policymakers must be mindful of the potential impact of changes in tax administrative or legislative requirements on the SME's tax burden.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>of the small and medium enterprise business sector</i>		<ul style="list-style-type: none"> • Owners and unpaid helpers were predominately (75%) responsible for tax compliance work in micro and small enterprises, while in medium enterprises, it was primarily paid employees who were responsible (67%) for tax compliance activities. • Size of business is a significant predictor of the amount of tax compliance costs. • The complexity of tax laws and compliance requirements imposed by the revenue authority rated as the most significant factors for driving tax compliance costs. 	
Bangladesh: Faridy et al. (2014) <i>Complexity, compliance costs and non-compliance with VAT by small and medium enterprises in Bangladesh: Is there a relationship?</i>	<ol style="list-style-type: none"> 1. VAT 2. Focus group discussion & survey 3. 45 participants in the focus group discussion, 240 usable responses from survey 	<ul style="list-style-type: none"> • 32% of non-compliant VAT vendors agreed that deterrence (fines and penalties) by the revenue authority encourages them to comply; by comparison, 73% of compliant VAT vendors indicated that deterrence influences their compliance positively. • According to compliant VAT vendors VAT compliance costs and VAT law complexity are important factors for non-compliance. Non-compliant VAT vendors claimed that a positive 	Insight on the complexity and tax compliance costs of VAT is necessary to design a simplified VAT system to reduce the compliance burden and improve the voluntary tax compliance level.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
		relationship between tax officials and taxpayers would improve compliance.	
Nigeria: Eragbhe and Modugu (2014) <i>Tax compliance costs of small and medium scale enterprises in Nigeria</i>	1. VAT, education tax, company income tax, withholding tax, employee tax and custom and excise duties tax 2. Survey 3. 574	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • The VAT compliance burden is higher than the compliance burden for other taxes. 	No recommendations relevant to this study are provided.
Germany: Blaufus, Eichfelder and Hundsdoerfer (2014) <i>Income tax compliance costs of working individuals: Empirical evidence from Germany</i>	1. Income tax 2. Face-to-face interviews 3. 629 4. The study focused on individuals, but self-employed individuals were also included in the study.	Self-employed individuals' cost burden is 166% to 168% more than that of wage-earning individuals.	<ul style="list-style-type: none"> • No recommendations relevant to this study are provided.
Belgium: Eichfelder and Kegels (2014) <i>Compliance costs caused by agency action? Empirical evidence and implications for tax compliance</i>	1. All taxes 2. Survey data from previous study was used 3. N/A	<ul style="list-style-type: none"> • A customer-unfriendly tax administration increases tax compliance costs by about 27%. • Compliance costs can be interpreted as an externality of revenue authority behaviour to some extent, because authorities can transfer obligations to taxpayers even if it is not a cost-effective solution for taxpayers. 	Further research is necessary to understand the impact of tax compliance costs on the compliance behaviour of taxpayers.
UK & Australia: Bain, Walpole, Hansford and Evans (2015) <i>The internal costs</i>	1. VAT/GST 2. Data from prior studies in both countries were used and compared 3. N/A	The registration threshold seems to be the main difference between tax compliance costs in the UK and in Australia.	No recommendations relevant to this study are provided.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>of VAT compliance: Evidence from Australia and the United Kingdom and suggestions for mitigation</i>			
Malaysia: Pematuhan et al. (2015) <i>Compliance costs of Goods and Services Tax (GST) among small and medium enterprises</i>	1. GST 2. Survey 3. 173	62% of SMEs using external tax advisers do so because of the lack of technical knowledge and cost-effectiveness.	<ul style="list-style-type: none"> • The government should consider changes to tax policy; for example, lowering income tax rates or introducing or increasing tax benefits to SMEs, to reduce the burden of SMEs in being tax compliant. • Further research examining the connection between tax compliance costs and non-compliance behaviour of SMEs is needed.
New Zealand: Gupta and Sawyer (2015) <i>The costs of compliance and associated benefits for small and medium enterprises in New Zealand: Some recent findings</i>	1. GST, income tax, PAYE, KiwiSaver and fringe benefit tax 2. Survey 3. 118 4. The majority of respondents recognised tax compliance benefits, but respondents were not able to quantify these benefits.	<ul style="list-style-type: none"> • Tax compliance costs are highly regressive. • 479.2 internal hours (mean) are spent on internal tax compliance activities. • Recording information at 264.2 hours (55%) is the most time-consuming activity. • GST at 276.2 hours is the tax most time is spent on. • Paid employees spent 54% of the hours on tax compliance activities, owners 45.6% and unpaid friends or relatives 0.4%. 	<ul style="list-style-type: none"> • Despite efforts from the revenue authority, compliance costs did not decrease; therefore, additional tax simplification and initiatives aimed at reducing the tax compliance burden for SMEs should be introduced. • Further research on this topic is clearly warranted.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
		<ul style="list-style-type: none"> • 87% of respondents used external tax adviser services. • Core accounting costs are 265% of tax compliance costs. 	
Brazil: CIAT, Receita Federal and Sebrae (2015) <i>Measuring tax transaction costs in small and medium enterprises in Brazil</i>	<ol style="list-style-type: none"> 1. All taxes 2. Survey 3. 1 137 	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Tax compliance costs are equivalent to 1.54% of GDP. • The average business spent 652 hours per year complying with tax obligations. 	Further research that addresses the overall cost benefit of the tax system for the economy, focusing on efforts to simplify the tax system, is advisable.
Bangladesh: Faridy, Freudenberg, Sarker and Copp (2016) <i>The hidden compliance cost of VAT: An exploration of psychological and corruption costs of VAT in a developing country</i>	<ol style="list-style-type: none"> 1. VAT 2. Survey and interviews 3. 240 4. There is an attempt to measure psychological costs. 	<ul style="list-style-type: none"> • Taxpayers obtained services from external tax advisers to reduce psychological costs. • It is estimated that psychological costs amount to 15% of the total VAT compliance costs in Bangladesh. 	<ul style="list-style-type: none"> • It is important to acknowledge the hidden (psychological) costs of VAT compliance. • Communication from the revenue authority to taxpayers needs to improve to increase voluntary compliance. • VAT law complexity needs to decrease.
Malaysia: Azmi, Sapiei, Mustapha and Abdullah (2016) <i>SMEs' tax compliance costs and IT adoption: The case of a value-added tax</i>	<ol style="list-style-type: none"> 1. VAT 2. Survey 3. 401 4. The study focuses on information technology adaption decision. 	Tax compliance costs are likely to affect the decision to adopt a VAT-compliant information technology system.	SMEs should understand the influence of tax compliance costs on their adoption of an information technology system. This knowledge will assist them to focus on factors that will decrease tax compliance costs.
Australia: Tran-Nam, Lignier and Evans (2016) <i>The impact of</i>	<ol style="list-style-type: none"> 1. External tax compliance costs 2. Survey 3. 241 	<ul style="list-style-type: none"> • Tax complexity is the main reason why taxpayers seek 	No recommendations relevant to this study are provided.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>recent tax changes on tax complexity and compliance cost: The tax practitioners' perspective</i>	4. Australian tax practitioners' perception of tax compliance costs was surveyed.	professional services from tax practitioners. • The Australian tax system has increased in complexity over time. • Only a fraction of the costs incurred by tax practitioners to keep up with tax changes can be passed on to their clients. Therefore, overall tax compliance costs may have been underestimated.	
Greece: Stamatopoulos et al. (2017) <i>Corporate Income Tax compliance costs and their determinants: Evidence from Greece</i>	1. Corporate income tax 2. Survey 3. 274 4. Larger businesses were overrepresented in the sample.	• Tax compliance costs are regressive. • Corporate income tax compliance costs are estimated to be 0.19% of GDP. • On average, 63.87 internal hours are spent on income tax compliance activities.	• Policymakers should assess the impact of tax compliance costs on businesses and ensure that the impact is kept to the minimum. • Website, help desks and free seminars must be created by the revenue authority to inform and assist taxpayers when new tax legislation is introduced.
Slovak Republic Nemec et al. (2017) <i>An estimation of the compliance costs of Slovak taxation</i>	1. All taxes 2. Survey 3. 80 4. All entities were included but only 8% of respondents considered were large.	Tax compliance costs are estimated at 1.03% of GDP.	No recommendations relevant to this study are provided.
Czech Republic, Slovak Republic and Poland: Solilová and Nerudová (2017) <i>SMEs and its compliance cost of transfer pricing: Czech, Slovak</i>	1. Income tax (transfer pricing transactions) 2. Survey 3. 82	Companies spent between 20.1% and 51.7% of their tax compliance time on transfer pricing compliance.	• Tax policymakers must design new transfer pricing legislation to reduce the tax compliance burden for SMEs. • Measures to achieve this may include the simplification of relevant

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>and Poland case</i>			documentation and exclusion of micro entities from the transfer pricing regulations.
Ethiopia Yesegat et al. (2017) <i>Tax compliance costs in developing countries: Evidence from Ethiopia</i>	1. All taxes 2. Face-to-face interviews 3. 1 003	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • Income tax is the type of tax that attracts most of the tax compliance costs. 	<ul style="list-style-type: none"> • Taxpayer must be educated and made aware in programmes to decrease tax compliance costs. • Further simplification of the tax regime focusing on micro enterprises is worth considering. • The frequency of VAT filing must be reduced for smaller entities. • The VAT threshold must periodically be adjusted for inflation.
Algeria: Mansor and Ferdjani (2017) <i>VAT compliance cost for SMEs in Algeria: Burden, complexity and business factors</i>	1. VAT 2. Survey 3. 327	VAT compliance represents 21% to 40% of the total tax compliance burden of SMEs.	The government needs to review the tax policy, structure, legislation, and tax administration to reduce VAT tax compliance costs.
Malaysia: Mansor (2017) <i>Compliance cost under the Monthly Tax Deduction Scheme for SMEs in Malaysia</i>	1. PAYE 2. Survey 3. 30	<ul style="list-style-type: none"> • Start-up companies experience higher tax compliance costs than companies that have been trading for a few years. • Most of the cost of tax compliance activities lies in clerical or administrative work. 	Particular attention should be given to start-up companies to assist them in reducing their initial tax compliance costs.
Tanzania: Mahangila (2017) <i>The impact of tax compliance costs on tax compliance</i>	1. All taxes 2. Laboratory experiment 3. 75 4. The study focused on the effect of tax	<ul style="list-style-type: none"> • High levels of tax compliance costs affect tax compliance behaviour negatively. 	<ul style="list-style-type: none"> • Revenue authorities should consider the negative effect of new tax legislation on tax compliance behaviour

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>behaviour</i>	compliance costs on tax compliance behaviour.	<ul style="list-style-type: none"> Lowering tax compliance costs appears to improve tax compliance levels. 	<p>and should continue to improve tax systems to reduce tax compliance costs.</p> <ul style="list-style-type: none"> Increasing deterrence alone may not be an effective way to improve tax compliance.
Brazil: Franco, Sampio, Sampaio and Vaz (2017) <i>Tax compliance costs and employment in SMEs: Evidence from a size-dependent policy in Brazil</i>	<ol style="list-style-type: none"> Tax burden (not evident in the study what this entails) Firm-level data from the annual industrial survey was used N/A Data from SMEs which qualify for the “<i>Simples Nacional</i>” programme that enables tax simplification were investigated. 	Simplification of the tax burden seems to lower tax compliance costs, which allowed companies to increase job creation by 21.5%.	No recommendations relevant to this study are provided.
Malaysia: Ahmad et al. (2018) <i>Tax compliance cost among SMEs: Evidence from the southern region of Malaysia</i>	<ol style="list-style-type: none"> Income tax Survey 64 The study focused on whether tax compliance costs influence the non-compliance behaviour of SMEs. 	<ul style="list-style-type: none"> 46.9% of SMEs submit their tax return by using in-house personnel, 37.5% use external tax advisers and 15.6% are assisted by friends. Tax complexity has a significant influence on tax compliance costs. 	No recommendations relevant to this study are provided.
Kenya: Abdul and Wang'ombe (2018) <i>Tax costs and tax compliance behaviour in Kenya</i>	<ol style="list-style-type: none"> All taxes Survey 142 The study focused on medium and large companies. 	<ul style="list-style-type: none"> Tax compliance costs influence tax compliance behaviour negatively. The complexity of tax laws, the compliance and regulatory tax requirements and the frequency of changes in tax rules were the most critical drivers of tax compliance costs. 	Governments need to simplify tax laws to reduce tax compliance costs, which should assist in enhancing tax compliance.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
Indonesia: Fauziati and Kassim (2018) <i>The effect of business characteristics on tax compliance costs</i>	<ol style="list-style-type: none"> 1. Not mentioned, but all taxes are implied 2. Survey 3. 95 	<ul style="list-style-type: none"> • Age, sector and business size did not affect tax compliance costs. Only risk management was found possibly to influence tax compliance costs. 	<p>No recommendations relevant to this study are provided.</p>
Malaysia: Adam and Yusof (2018) <i>A comparative study on the burden of tax compliance costs amongst GST registered companies in Malaysia and abroad</i>	<ol style="list-style-type: none"> 1. All taxes 2. Uses data from previous studies. 3. N/A 4. Malaysian tax compliance costs were compared to the tax compliance costs of other countries. 	<p>Taxes, tax compliance costs, the regressive nature of tax compliance costs and tax compliance behaviour are usually closely intertwined.</p>	<ul style="list-style-type: none"> • The government should introduce tax impact studies before tax laws are amended. • Engagement with business should be encouraged to seek workable solutions for tax compliance costs issues.
Europe: KPMG (2018) <i>Study on tax compliance costs for SMEs</i>	<ol style="list-style-type: none"> 1. All taxes 2. Large-scale telephonic interviews 3. 3 079 	<ul style="list-style-type: none"> • VAT, Corporate income tax and PAYE are the most burdensome taxes. • Data collection activities are responsible for most of the tax compliance costs: 37% to 50% for income tax and 44% to 70% for VAT compliance, depending on the business size. • 80% of micro and small businesses seek external support for tax compliance, but only 70% of medium-sized businesses seek external help. • The burden of tax compliance has not dropped meaningfully over time. 	<ul style="list-style-type: none"> • A graduated approach must be developed to assist small businesses that need to register for VAT. • Straightforward, simple tax returns for SMEs are required to reduce tax compliance costs.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
		<ul style="list-style-type: none"> Total tax compliance costs are positively correlated with tax law complexity, changing tax legislation, tax return complexity and standardised documentation requirements. 	
<p>New Zealand: Inland Revenue (2018) <i>2018 study on the time and cost of doing business taxes incurred by NZ small businesses</i></p>	<ol style="list-style-type: none"> GST, income tax, PAYE, KiwiSaver and fringe benefit tax Survey 6 003 The study focused on small businesses only. 	<ul style="list-style-type: none"> 92% of businesses use an external tax adviser. The median internal hours spent on tax compliance is 27 hours, while larger businesses spend 77 hours on tax compliance. Recording information is the most time-consuming tax compliance activity. 	<p>No recommendations relevant to this study are provided.</p>
<p>Ethiopia: Tilahun (2018) <i>Economic and social factors of voluntary tax compliance: Evidence from Bahir Dar City</i></p>	<ol style="list-style-type: none"> All taxes Survey and unstructured interviews 224 	<p>There is a statistically significant negative relationship between tax compliance costs and tax compliance.</p>	<ul style="list-style-type: none"> Tax compliance costs should be as low as possible to increase tax compliance levels. No recommendations given on how to lower tax compliance costs.
<p>Belgium: Eichfelder and Hechtner (2018) <i>Tax compliance costs: Cost burden and cost reliability</i></p>	<ol style="list-style-type: none"> All taxes Survey 1 590 	<ul style="list-style-type: none"> There is no evidence of a significant correlation between the survey response rate and cost estimations, which implies that a low survey response rate is not material to tax compliance cost measurement. The wording of survey questions may strongly affect cost estimations. 	<p>No recommendations relevant to this study are provided.</p>
<p>Uganda: Musimenta (2020)</p>	<ol style="list-style-type: none"> No detail is provided – tax compliance costs 	<ul style="list-style-type: none"> As taxpayers become more knowledgeable, 	<ul style="list-style-type: none"> Governments need to investigate and find

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>Knowledge requirements, tax complexity, compliance costs and tax compliance in Uganda</i>	defined for this study as internal and external tax compliance costs 2. Survey 3. 176	external tax compliance costs are reduced. • Complexity increases tax compliance costs.	ways to reduce tax compliance costs. • Taxpayer education should be instituted to improve tax compliance, and the education should start at primary school level.
Indonesia: Santi, Kepramareni, Yuesto and Suardhika (2020) <i>Relationship behavior of tax compliance with tax compliance costs, reliance on government and implementation of online tax technology</i>	1. All taxes 2. Survey 3. 100	• Tax compliance costs do not affect tax compliance behaviour. • The level of trust in government does display a positive relationship with taxpayer behaviour.	No recommendations relevant to this study are provided.
Nigeria: Onoja and Odoma (2020) <i>Assessing the effect of tax administration on SMEs' tax compliance level in Kogi State</i>	1. No detail provided 2. Survey 3. 353	Tax compliance costs have a significant impact on the level of tax compliance of SME taxpayers.	Tax administration should be simplified to reduce tax compliance costs.
Global: PwC and World Bank Group (2020) ³⁷ <i>Paying taxes 2020</i>	1. VAT/GST, income tax and labour taxes 2. Case study based on a hypothetical medium-sized company 3. 190 economies 4. The focus was on medium-sized businesses only.	• It takes, on average, 234 hours to prepare, file and pay sales profit and labour tax returns. • Tax reforms in certain countries had a major effect on the time needed to comply with tax regulations.	Tax reform needs to keep four principles in mind: • Certainty and stability from the revenue authority create a stable tax environment for businesses. • The long-term effect of the reform needs to be considered.

³⁷ The PwC *Paying taxes* report is an annual publication comparing tax systems globally since 2004.

Country, reference, and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
		<ul style="list-style-type: none"> Improved electronic systems reduce the time needed to comply. 	<ul style="list-style-type: none"> Things need to be kept simple by developing simple policy frameworks for government and businesses. Established principles that work (for example, broad base, low-rate taxation) need to be used.

The above summary shows that some SMME tax compliance costs studies have focused on different taxes (Santi et al. 2020; Abdul & Wang’ombe 2018; Adam & Yusof 2018; Eichfelder & Hechtner 2018; KPMG 2018; Tilahun 2018; Mahangila 2017; Nemeč et al. 2017; Yesegat et al. 2017; CIAT et al. 2015; Lignier et al. 2014; United Nations & CIAT 2014; Palil et al. 2013; Schoonjans et al. 2011; Abdul-Jabbar & Pope 2008a; Commonwealth of Australia 2007; Das-Gupta 2006). Others have looked at one specific tax, for example, VAT/GST (Mansor & Ferdjani 2017; Azmi et al. 2016; Faridy et al. 2016; Bain et al. 2015; Pematuhan et al. 2015; Faridy et al. 2014).

It appears that the most popular methodology used when conducting tax compliance cost studies is generally a quantitative approach (Eichfelder & Vaillancourt 2014: 114), but various data collection methods have been used to obtain data to quantify tax compliance costs. Surveys are the most prominent data collection method (Musimenta 2020; Santi et al. 2020; Abdul & Wang’ombe 2018; Ahmad et al. 2018; Eichfelder & Hechtner 2018; Fauziati & Kassim 2018; Inland Revenue 2018; Mansor 2017; Mansor & Ferdjani 2017; Nemeč et al. 2017; Solilová & Nerudová 2017; Stamatopoulos et al. 2017; Azmi et al. 2016; Tran-Nam et al. 2016; CIAT et al. 2015; Gupta & Sawyer 2015; Pematuhan et al. 2015; Eragbhe & Modugu 2014; Evans et al. 2014; Inland Revenue 2014a; Lignier et al. 2014; Palil et al. 2013; Hansford & Hasseldine 2012; Lignier & Evans 2012; Schoonjans et al.

2011; Abdul-Jabbar & Pope 2008a; Mansor & Hanefag 2008; Das-Gupta 2006; Chittenden et al. 2005; Colmar Brunton Social Research Agency 2005; DeLuca et al. 2005; European Commission 2004).

Another method is interviews (KPMG 2018; Yesegat et al. 2017; Blaufus et al. 2014; Commonwealth of Australia 2007). Sometimes, a combination of interviews and surveys is used (Tilahun 2018; Faridy et al. 2016; United Nations & CIAT 2014; Klun & Blažić 2005). A case study technique has been used by PwC and the World Bank Group (2020). Use is also made of data obtained in previous studies (Adam & Yusof 2018; Franco et al. 2017; Bain et al. 2015; Inland Revenue 2014b). One study used a laboratory experiment to obtain data (Mahangila 2017). The number of usable responses when the survey data collection method was used ranged between 25 and 5 865 for a cross-country study (Evans et al. 2014: 462) – these were also the lowest and highest number of usable responses considering all the studies in the above summary which used the survey data collection method.

The summary in Table 3.1 reveals that some significant findings emerged from the studies, namely that tax compliance costs are regressive, high and have a significant impact on SMMEs, and it seems that tax compliance costs are not diminishing over time (Evans 2019: 12). In most cases, VAT (or GST where applicable) is the most burdensome tax, but recording and recordkeeping for tax compliance purposes is the most time-consuming activity (KPMG 2018: xv; Eragbhe & Modugu 2014: 84; Evans et al. 2014: 474; Lignier et al. 2014: 237). Most SMMEs also enrol external tax advisers to assist them with tax compliance matters, citing the complexity of tax as their reason for outsourcing (Inland Revenue 2018: 11; KPMG 2018: 48; Tran-Nam et al. 2016: 472). A correlation has also been found between increasing complexity of tax law and higher tax compliance costs (Abdul & Wang'ombe 2018: 12; Ahmad et al. 2018: 155; KPMG 2018: 137) – hence the call for the simplification of tax legislation in many of the studies (Onoja & Odoma 2020: 24; PwC & World Bank Group 2020: 37; Abdul & Wang'ombe 2018: 13; KPMG 2018: 158; Solilová & Nerudová 2017: 58).

Most of the studies from 2003 (and before) focused on the measurement and the determinants of tax compliance costs (Evans et al. 2014; Schoonjans et al. 2011; Das-Gupta 2006; Klun & Blažić 2005). However, a trend has been observed in more recent studies to

investigate the relationship between tax compliance costs and the tax compliance behaviour of taxpayers (Musimenta 2020; Onoja & Odoma 2020; Santi et al. 2020; Abdul & Wang'ombe 2018; Adam & Yusof 2018; Tilahun 2018; Mahangila 2017) rather than only to measure tax compliance costs. Finally, because of the high levels of tax compliance costs and the impact it has on SMMEs, *continuous* research in the area of tax compliance costs and their effect on SMMEs is also frequently recommended by researchers (Adam & Yusof 2018: 38; Mahangila 2017: 70; Mansor & Ferdjani 2017: 32; CIAT et al. 2015: 54; Gupta & Sawyer 2015: 176).

Several international studies have focused on the relationship between tax compliance costs and the tax compliance level or tax compliance behaviour of SMMEs (Santi et al. 2020: 1438; Abdul & Wang'ombe 2018: 13; Ng'ang'a Thiga & Muturi 2015: 11; Abdul-Jabbar & Pope 2008b: 17). By contrast, only two studies, those by Eichfelder and Kegels (2014) and by Eichfelder et al. (2010), have investigated the effect of revenue authority behaviour on tax compliance costs. These studies indicate that "unfriendly" revenue authority behaviour increased the tax compliance burden by 27% (Eichfelder & Kegels 2014: 212), and, more worryingly, that this environment has a more substantial effect on smaller size businesses (Eichfelder et al. 2010: 58). Based on these findings, future research must investigate whether revenue authority behaviour has an impact on tax compliance costs for SMMEs.

3.3. Tax compliance costs – A South African perspective

The comprehensive summary by Evans (2003) of tax compliance costs studies does not include any study on tax compliance costs performed in South Africa during the 20-year period that formed the focus of his study. The first study to review tax compliance costs studies for small businesses in South Africa was published by Smulders (2006). Seven years later, Smulders and Naidoo (2013) summarised the research dealing with the tax compliance burden or costs for small businesses in South Africa to update the list of studies provided by Smulders (2006: 58-59) with studies found since 2006 that deal, either entirely or partially, with the tax compliance burden or costs of small businesses (Smulders & Naidoo 2013: 282-283). This summary thus included studies focusing on the tax compliance costs of SMMEs. From Smulders and Naidoo's (2013) study, it is evident that only two studies

prior to 2012 attempted to measure tax compliance costs for small businesses in South Africa, namely the study conducted by the FIAS (2007) and the Govender and Citizen Surveys (2008). Therefore, in the current study, a review of the literature after 2012 has been conducted to identify additional studies measuring tax compliance costs for SMMEs that have been performed since Smulders and Naidoo's (2013) review.

In Table 3.2, a summary is provided of the study by the FIAS (2007), the Govender and Citizen Surveys (2008) study, and the studies identified since 2012 investigating tax compliance costs of SMMEs (or aspects of such costs) in South Africa. This table sets out information on each study, its year of publication, the taxes studied, the data collection method used, the number of usable responses, the primary outcomes and the recommendations of the research relevant to tax compliance costs of SMMEs in South Africa.

Table 3.2: Research conducted in South Africa on tax compliance costs for SMMEs from 2007

Reference and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
FIAS (2007) <i>South Africa: Tax compliance burden for small business: A survey of tax practitioners</i>	1. Income tax, provisional tax, VAT and employees' tax 2. Survey (completed by tax practitioners) 3. 3 429 4. The study focused on small businesses with a turnover of R14 million or less.	<ul style="list-style-type: none"> • Tax compliance costs are regressive. • VAT is the most costly to comply with. • Preparation of tax returns makes the most significant contribution to tax compliance costs. 	<ul style="list-style-type: none"> • A small business centre should be established to assist small businesses. • SARS should ensure that there is a simplified and streamlined registration process. • The technical knowledge of SARS personnel needs to be improved. • The functionality of the SARS call centre has to improve. • Timely payment of refunds to small

Reference and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
			<p>businesses to avoid cashflow problems is crucial.</p> <ul style="list-style-type: none"> Accurate and timely responses must be given to queries directed to SARS.
<p>Govender and Citizen Surveys (2008) <i>Formal SMME Tax Compliance Survey Report: Prepared for National Treasury Republic of South Africa</i></p>	<ol style="list-style-type: none"> Income tax, VAT, PAYE, SDL and UIF Telephonic survey interview 998 The study focused on SMMEs defined as businesses with a turnover between R70 000 and R14 million which are registered for and paying tax. 	<ul style="list-style-type: none"> VAT is the tax that takes most time from SMMEs. SMMEs devote between 149 and 260 hours to tax compliance per year. Significantly and disproportionately more time is required by smaller entities to be tax compliant. 58% of SMMEs outsource tax compliance activities to external service providers. 	<p>SARS could improve tax compliance by providing SMMEs with relevant tax information, improving overall communication to taxpayers, and using media advertisements.</p>
<p>Smulders and Stiglingh (2008) <i>Annual tax compliance costs for small businesses: A survey of tax practitioners in South Africa</i></p>	<ol style="list-style-type: none"> Income tax, provisional tax, VAT and employees' tax Survey 3 429 External tax compliance costs were measured for businesses with a turnover below R14 million. 	<ul style="list-style-type: none"> R7 030 is the average fee that tax practitioners charge small business clients to fulfil their tax compliance obligations. Tax compliance costs are regressive, and VAT is the most burdensome tax type investigated. 	<ul style="list-style-type: none"> The government should provide training and mentoring services to assist small businesses in their tax compliance journey. National Treasury should consider making changes to the tax legislative system.
<p>Coolidge et al. (2009) <i>Small businesses in South Africa: Who outsources tax compliance work and why?</i></p>	<ol style="list-style-type: none"> Income tax, VAT, PAYE, SDL and UIF Analysis of the data obtained from the Govender and Citizen Surveys (2008). 	<ul style="list-style-type: none"> Many smaller enterprises (defined as a business with turnover below R300 000) do not outsource their tax compliance activities 	<p>Most businesses that outsource partially could reduce their tax compliance costs by moving to complete outsourcing of all their tax compliance work.</p>

Reference and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
	3. 998 4. The study focused on external tax compliance costs.	because of the high cost of outsourcing. • Most businesses with a turnover of between R300 000 and R14 million outsource their tax compliance activities because tax is a “specialised field”.	
Smulders et al. (2012) <i>Tax compliance costs for the small business sector in South Africa - establishing a baseline</i>	1. Income tax, VAT, PAYE, Customs tax and Excise tax 2. Survey 3. 5 865 4. The study focused on small businesses with a turnover of R14 million or less.	<ul style="list-style-type: none"> • Small businesses spend on average 255 hours on tax compliance activities. • Tax compliance costs are regressive. • VAT is the costliest to comply with. • Recording of information is the most time-consuming activity of all taxes. • 76% of respondents pay for external tax and non-tax services. • Respondents call for a truly simplified tax system. 	Further research is necessary on specifics of a new simplified tax system, or adjustments to the current system are needed.
Matarirano et al. (2019a) <i>Tax compliance costs and small business performance: Evidence from the South African construction industry</i>	1. Income tax, VAT and PAYE 2. Survey 3. 83 4. The study focused on small businesses in the construction sector with a turnover of R14 million or less with between 5 and 51 employees.	<ul style="list-style-type: none"> • Mean tax compliance costs amounted to R66 330. • Tax compliance costs are regressive. • Tax compliance costs have a statistically significant effect on the performance of small businesses. • The current tax system imposes a heavy burden on small businesses. 	<ul style="list-style-type: none"> • A business should manage tax compliance costs effectively to improve performance. • Effective management of tax compliance costs can only be done by employing the “right” people.
PwC and World Bank Group (2020)	1. Corporate income tax, value-added or	It takes on average 201 hours for a South	No recommendations relevant to this study are

Reference and title of study	1. Tax(es) studied 2. Data collection method(s) 3. Number of usable responses 4. Additional information if applicable	Primary outcomes relevant to this study	Recommendations relevant to this study
<i>Paying taxes 2020</i>	sales tax, and labour taxes. 2. Case study based on a hypothetical medium sized company. 3. 190 economies 4. The focus is on medium-sized businesses only.	African business to prepare, file and pay sales, profit and labour tax returns.	provided.

Similar to the findings from an international perspective, it was found that tax compliance costs are regressive and high. In most cases, VAT is the most burdensome tax in terms of compliance costs (Matarirano et al. 2019a; Smulders et al. 2012; Govender & Citizen Surveys 2008; Smulders & Stiglingh 2008; FIAS 2007). Recording and recordkeeping for tax compliance purposes is the most time-consuming activity (Smulders et al. 2012). It is also evident from the summary above that, except for the PwC and World Bank Group's (2020) study, all the South African tax compliance costs studies for SMMEs since 2007 have only considered a small business with a turnover of less than R14 million (Matarirano et al. 2019a: 2; Smulders et al. 2012: 187; Coolidge et al. 2009: 2; Govender & Citizen Surveys 2008: 6; Smulders & Stiglingh 2008; FIAS 2007: 7). The studies by the FIAS (2007) and Coolidge (2009) focused on external tax compliance costs only. Smulders et al.'s (2012) study was a comprehensive study establishing a baseline for small businesses, but larger size businesses (those with a turnover of more than R14 million) which also form part of the vital SMME sector were not investigated – a clear gap in the literature.

Most of the studies employed a survey technique to collect data (Matarirano et al. 2019a; Smulders et al. 2012; FIAS 2007). The PwC and World Bank Group (2020) study estimates the time to comply with taxes based on the methodology developed by Djankov et al. (2010). According to this methodology, the time spent is estimated based on the time to prepare, file and pay (or withhold) three major types of taxes, namely corporate income tax, value-

added or sales tax, and labour taxes, by a hypothetical case-study medium-sized company (Djankov et al. 2010: 37). The PwC and World Bank Group's (2020) study does not distinguish between internal and external tax compliance costs. The time burden measured using this methodology should also be interpreted with caution, because the time estimated by these surveys does not correspond to the time estimated by other empirically based studies in countries where both an empirically based study and a study using Djankov et al.'s (2010) methodology have been conducted (Eichfelder & Vaillancourt 2014: 116).

From the above, it is evident that thus far, no comprehensive tax compliance cost study focusing on the *entire SMME sector* has been performed in South Africa. The gap in the literature regarding the measurement and determinants of tax compliance costs (including the use of power by or trust in the revenue authorities) is discussed in more detail in the next section.

3.4. Elements, measurement and determinants of tax compliance costs

One of the objectives of this research is to measure tax compliance costs. Another is to ascertain the determinants of tax compliance costs for SMMEs in South Africa. To do so, it is necessary to consider the methods that prior researchers (such as those mentioned and reviewed above) employed to measure and ascertain the determinants of tax compliance costs. Tables 3.3 and 3.4 thus present an overview of the methods employed in the studies reviewed in Sections 3.2 and 3.3 to measure tax compliance costs by identifying the elements measured, how these elements were measured, and the determinants of tax compliance costs identified by these studies (where applicable³⁸). These studies provide a sound theoretical base for the methodology employed in this study. International perspectives are considered first (see Table 3.3), followed by a South African perspective (see Table 3.4).

³⁸ Some of the studies reviewed in Tables 3.1 and 3.2 did not specify any detail on the information reviewed in Tables 3.3 and 3.4, and were therefore removed from the list of studies. Some studies that did not measure tax compliance costs and therefore were not included in Tables 3.1 and 3.2, but that did investigate determinants of tax compliance costs were also identified and added to the list of studies reviewed in Tables 3.3 and 3.4.

Table 3.3: Research conducted internationally: Elements, measurement and determinants of tax compliance costs

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
EU: European Commission (2004) <i>European tax survey</i>	Internal and external cost and non-personnel costs.	<ul style="list-style-type: none"> • Respondents were asked to estimate their worldwide income tax and VAT compliance costs. • Compliance costs include all the internal and external costs related to tax compliance. Compliance costs can include salaries or non-personnel costs (e.g. computers). 	Determinants are <ul style="list-style-type: none"> • size of the company; • higher tax compliance costs for companies with cross-border transactions.
UK: Chittenden et al. (2005) <i>PAYE-NIC compliance costs: Empirical evidence from the UK SME economy</i>	<ul style="list-style-type: none"> • Internal costs (including non-labour costs) and external costs. • Psychological and opportunity costs were measured. 	<ul style="list-style-type: none"> • Internal costs are the hours spent by business owners, managers or staff multiplied by hourly rate provided by respondents and non-staff costs. • External costs are payments to professional advisers for taxation services. • Psychological costs are the amount of money respondents believed they should receive from the government for conducting administration on behalf of the government. • Opportunity costs are what it is worth to pay someone else to perform tax compliance duties on the SME's behalf. 	Certain benefits payments from the government increased the complexity of the system and thereby increased tax compliance costs.
Slovenia and Croatia: Klun and Blažič (2005) <i>Tax compliance costs for companies in Slovenia and Croatia</i>	<ul style="list-style-type: none"> • Internal costs, non-labour costs and external labour costs. • Tax planning was included, as were psychological costs, cash-flow costs and benefits, but the study does not state how costs were measured, nor were the results presented separately. 	<ul style="list-style-type: none"> • Slovenia: the average before-tax wage rate for 2002 was used. • Croatia: employees' internal hours were multiplied by the hourly rate provided by the respondents, and the hours of unpaid helpers with half the rate provided by the respondents. 	No determinants are named.

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
New Zealand: Colmar Brunton Social Research Agency (2005) <i>Measuring the tax compliance costs of small and medium-sized businesses – a benchmark survey</i> ; Sullivan (2005) <i>Improving tax compliance cost research – the New Zealand story continues</i>	<ul style="list-style-type: none"> • Internal time and external adviser costs. • Data were collected on psychological costs but not measured in monetary terms. • Cash flow, tax-deductibility and managerial benefits and government cash grants were not included in the measurement of tax compliance costs. 	Owners/managers' and unpaid helpers' hours were multiplied by the hourly rate provided by the respondents, while paid employees' hours were multiplied by hourly rate from salary survey data.	Business size is identified as a determinant of time spent on tax activities.
US: DeLuca et al. (2005) <i>Measuring the tax compliance burden of small businesses</i>	Not specified in the study.	Not specified in the study.	Determinants are <ul style="list-style-type: none"> • firm size; • the use of external advisers; • the firm's legal structure; and • the engagement in a foreign operation.
India: Das-Gupta (2006) <i>Income tax compliance cost of corporations in India, 2000–01</i>	Gross private compliance costs are employee costs, the cost of tax advice, other non-labour expenses as well as bribe costs.	Not specified in the study.	Detailed statistical analysis of determinants is not reported, but it is noted that companies that claimed that the revenue authority of India harassed them had significantly higher tax compliance costs than other companies.
Australia: Commonwealth of Australia (2007) <i>Scoping study of small business tax compliance costs. A report to the Treasurer</i>	No measurement of tax compliance costs in the study.	No measurement of tax compliance costs in the study.	Determinants are <ul style="list-style-type: none"> • size of the business (turnover of the business); • business structure; • employment of staff; • industry the business operates in; • the skills of the owner; and • trading across borders.

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
Malaysia: Abdul-Jabbar and Pope (2008a) <i>The effects of the self-assessment system on tax compliance costs of small and medium enterprises in Malaysia</i>	Internal time spent at an appropriate rate, non-staff costs and external tax fees.	The hourly rate provided by respondents was used to convert internal time spent by four categories of staff employed by the business, namely managers, accounting staff, admin staff and other staff.	Determinants are <ul style="list-style-type: none"> • a self-assessment system, reduces tax compliance costs; • use of an external tax adviser increased tax compliance costs; • simplification measures reduced tax compliance costs.
Northern Malaysia: Mansor and Hanefah (2008) <i>Tax compliance costs of Bumiputera small and medium enterprises in Northern Malaysia</i>	External costs and internal costs (including internal non-labour costs).	Not specified in the study.	Determinants are <ul style="list-style-type: none"> • size of the business; • type of business; • type of external adviser; and • location of the business.
Germany & Belgium: Eichfelder et al. (2010) <i>Tax compliance costs: The effect of authority behavior and taxpayer services</i>	<ul style="list-style-type: none"> • Germany: Sum of personnel costs, external costs and other monetary expenses. • Belgium: the sum of personnel costs and external costs. 	Not given in this study.	Revenue authority behaviour (a more substantial effect is found on the tax compliance costs of smaller businesses).
US: U.S. Small Business Administration (2011) <i>Measuring and modeling the federal income tax compliance burden of small businesses</i>	Not specified in the study.	The average hourly wage rate per industry from survey data on hourly wages was used to monetise hours.	No determinants are named.
Belgium (Flemish): Schoonjans et al. (2011) <i>A survey of tax compliance costs</i>	Only internal and external costs are considered.	Before-tax hourly rates were used to monetise hours. Confirmation that these rates are representative was obtained from internal and external accountants.	Determinants are <ul style="list-style-type: none"> • partly outsourcing of tax activities have a higher tax compliance cost because of duplication of tasks;

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
<i>of Flemish SMEs: Magnitude and determinants</i>			<ul style="list-style-type: none"> • age of the business, industry, and the number of employees influence tax compliance costs; • cross-border transactions reported lower tax compliance costs than non-exporting firms, contrary to other studies.
Australia: Lignier and Evans (2012) <i>The rise and rise of tax compliance costs for the small business sector in Australia</i>	<ul style="list-style-type: none"> • Internal and external costs. • Managerial benefits were recognised, but due to the low response rate, the results were statistically meaningless. 	Respondents were asked to provide an hourly rate for each employee category, and these rates were then benchmarked against external wage rate resources. The wage rate from external sources was used to value time because the rates provided by respondents seemed to be too high.	No determinants are named.
UK: Hansford and Hasseldine (2012) <i>Tax compliance costs for small and medium sized enterprises: the case of the UK</i>	External tax compliance costs and internal tax compliance costs were considered.	The same method was followed as in Lignier and Evans (2012).	No determinants are named.
Malaysia: Palil et al. (2013) <i>Elements of compliance costs: Lesson from Malaysian companies towards Goods and Services Tax (GST)</i>	Internal, external and “additional tax costs” are used. Additional tax costs include costs such as travelling, stationery, buying of tax material.	<ul style="list-style-type: none"> • External costs are payments made to professionals from outside of the company. • Internal costs are measured by multiplying hours spent on tax activities by the manager, accounting and computer staff by the applicable hourly wage rate. • The calculation of the wage rate is not discussed. 	No determinants are named.
New Zealand: Inland Revenue (2014a) <i>SME tax</i>	Internal tax compliance costs, external tax compliance costs and	<ul style="list-style-type: none"> • Internal tax compliance costs are internal time spent on tax compliance activities, converted to a monetary 	No determinants are named.

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
<i>compliance costs 2013</i>	psychological costs were measured.	<p>value by using an hourly rate provided by the respondents for owners/managers and unpaid helpers, while paid employees hours were multiplied by salary survey data.</p> <ul style="list-style-type: none"> • External tax compliance costs are external payments made for tax services from external advisers such as accountants or lawyers. • Psychological costs are qualitatively measured as the level of stress associated with tax compliance activities but not converted to a monetary value. 	
New Zealand: Inland Revenue (2014b) <i>SME tax compliance costs 2004 to 2013</i>	N/A in this study.	N/A in this study.	Changes to tax law and administrative processes can affect tax compliance costs significantly.
Australia, Canada, South Africa and the UK: Evans et al. (2014) <i>Small business and tax compliance costs: A cross-country study of managerial benefits and tax concessions</i>	The sum of internal and external tax compliance costs was explored.	<ul style="list-style-type: none"> • Internal tax compliance costs: internal hours spent on tax compliance activities were converted to a dollar value to compare the different countries' internal tax compliance costs. No hourly rates are given in the study. • External tax compliance costs: the amount spent on the external provision of tax compliance services. 	Transactional taxes such as VAT/GST are responsible for the highest costs and recording information for tax purposes is the activity that takes the most time.
Costa Rica & Uruguay: United Nations and CIAT (2014) <i>Measuring tax transaction costs in small and medium enterprises</i>	Sum of internal and external tax compliance costs, but internal costs include non-labour costs.	<ul style="list-style-type: none"> • Internal costs equal hours spent, multiplied by an hourly value plus administrative (non-labour) costs. • Official national statistics were used to obtain the wage rate. • External costs were defined as spending on tax advisers 	No determinants are named.

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
		or accounting professionals who are needed to assist in tax compliance matters.	
Australia: Lignier et al. (2014) <i>Tangled up in tape: The continuing tax compliance plight of the small and medium enterprise business sector</i>	Explicit (external) tax compliance costs, implicit (internal) tax compliance costs and non-labour costs.	<ul style="list-style-type: none"> • External costs mean amounts paid to external parties. • Internal costs represent time spent by owners, paid and unpaid employees multiplied by an hourly rate. • Non-labour costs equal amounts spent on overheads such as equipment, computers and travel. • External sources' salary survey hourly rates were used to monetise owners' and paid employees' rates; for unpaid employees, the hourly rate provided by the respondents was used after it was benchmarked against salary survey rates. 	Determinants are <ul style="list-style-type: none"> • the business's size and the number of taxes a business has to report on influence tax compliance costs, but not the business's legal form; • tax law complexity and compliance requirements imposed by revenue authority.
Nigeria: Eragbhe and Modugu (2014) <i>Tax compliance costs of small and medium scale enterprises in Nigeria</i>	Internal tax compliance costs, external tax compliance costs, bribery costs and psychological costs were included.	Not specified in the study	Determinants are <ul style="list-style-type: none"> • size of the business; • age of the business; • industry in which the business operates; • use of external tax advisers; and • cross-border activities.
Belgium: Eichfelder and Kegels (2014) <i>Compliance costs caused by agency action? Empirical evidence and implications for tax compliance</i>	Sum of personnel and external cost.	Not specified in the study.	The revenue authority's behaviour has a significant impact on tax compliance costs.
UK & Australia: Bain et al. (2015) <i>The internal costs of VAT compliance: Evidence from Australia and the</i>	Only internal tax compliance costs were included.	Not specified in the study.	Many factors were investigated. The main factor influencing tax compliance costs is the registration threshold for VAT/GST (a lower threshold means more

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
<i>United Kingdom and suggestions for mitigation</i>			businesses must register, and due to the regressivity of tax compliance costs, it increases tax compliance costs).
Malaysia: Pematuhan et al. (2015) <i>Compliance costs of Goods and Services Tax (GST) among small and medium enterprises</i>	Internal, external and additional tax compliance costs were included.	<ul style="list-style-type: none"> • Internal tax compliance costs consist of money and time spent internally on tax compliance activities. • External tax compliance costs were defined as payments made to obtain financial services from various parties. • Additional tax compliance costs meant non-labour costs or overheads such as travel, postage and stationery. • Internal time was monetised by multiplying the hours consumed by managers, accounting members and the IT team with the hourly rate provided by the respondents. 	No determinants are named.
New Zealand: Gupta and Sawyer (2015) <i>The costs of compliance and associated benefits for small and medium enterprises in New Zealand: Some recent findings</i>	Internal and external tax compliance costs were included.	<ul style="list-style-type: none"> • Internal costs: the hours spent by owners, paid employees, and unpaid friends or relatives multiplied by an hourly rate from an external salary survey. • External tax compliance costs are measured by asking respondents whether they have used tax advisory services and, if so, the amount spent. 	No determinants are named.
Brazil: CIAT et al. (2015) <i>Measuring tax transaction costs in small and medium enterprises in Brazil</i>	Internal (including non-labour costs) and external tax compliance costs were included.	<ul style="list-style-type: none"> • Internal cost means the time that staff members spend on tax compliance activities; hours are multiplied by an average rate of tax analysts working in a small company plus administrative services (non-labour) costs. • External costs were defined as costs paid by a business 	No determinants are named.

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
		to third parties to comply with its tax obligations.	
Australia: Tran-Nam et al. (2016) <i>The impact of recent tax changes on tax complexity and compliance costs: The tax practitioners' perspective</i>	N/A in this study.	N/A in this study.	<ul style="list-style-type: none"> • Drivers of tax complexity were investigated, not drivers of tax compliance costs per se. • Tax practitioners perceive the three dominant drivers of tax complexity to be the frequency of tax changes, revenue authority requirements and tax law uncertainty.
Greece: Stamatopoulos et al. (2017) <i>Corporate income tax compliance costs and their determinants: Evidence from Greece</i>	Internal costs, external costs and non-labour costs.	<ul style="list-style-type: none"> • Internal costs: hours were multiplied by the wage rate for different types of employees published by an external source. • External costs consisted of the financial cost of external services, and the cost incurred by companies internally to collaborate with external advisers. • Non-labour costs were calculated by adding 25% to the internal wage costs. 	Determinants are <ul style="list-style-type: none"> • size of the company; • number of employees; • location; and • the sector or industry.
Slovak Republic: Nemec et al. (2017) <i>An estimation of the compliance costs of Slovak taxation</i>	Internal and external costs were included, and what the study calls indirect compliance costs, which is the value of time.	<ul style="list-style-type: none"> • Value of time was calculated at double the average wage rate in Slovakia. • Internal and external costs details are not given in the study. 	A complicated tax system increases tax compliance costs.
Ethiopia: Yesegat et al. (2017) <i>Tax compliance costs in developing countries: Evidence from Ethiopia</i>	In-house costs of time spent by individuals on tax compliance costs, outsourcing costs, and non-labour costs were included.	<ul style="list-style-type: none"> • Internal hours were multiplied by salary noted by respondents in the survey. • Outsourcing costs meant costs paid to outside professionals performing tax compliance tasks. • Non-labour costs were the cost and maintenance of hardware, software, 	Determinants are <ul style="list-style-type: none"> • size; • the use of external tax advisers; • sector; and • the use of sale register machines and computers.

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
		dataware for the last five year. The total costs were divided by 5 to calculate a one-year average.	
Algeria: Mansor and Ferdjani (2017) <i>VAT compliance cost for SMEs in Algeria: Burden, complexity and business factors</i>	N/A in this study.	N/A in this study.	Determinants are <ul style="list-style-type: none"> • business size; • business type; and • use of external advisers.
Malaysia: Mansor (2017) <i>Compliance cost under the Monthly Tax Deduction (MTD) Scheme for SMEs in Malaysia</i>	Gross total monetary spend and internal hours spent on payroll activities were included.	No information is given in the study.	Size of a business.
Kenya: Abdul and Wang'ombe (2018) <i>Tax costs and tax compliance behaviour in Kenya</i>	Tax compliance costs refer to the actual money paid for tax compliance (the actual amount of money paid to external advisers, employees who deal directly with tax matters) and legal costs of compliance.	No information is given in the study.	Determinants are <ul style="list-style-type: none"> • tax law complexity; • the compliance and regulatory tax requirement; and • the number of changes of tax legislation.
Indonesia: Fauzati and Kassim (2018) <i>The effect of business characteristics on tax compliance costs</i>	Internal, external and non-labour tax compliance costs were included.	<ul style="list-style-type: none"> • Internal costs mean expenses incurred were used to calculate, pay and report taxes. • Non-labour costs included the cost of using stationery, internet payment, software purchases. • External costs mean the cost of hiring professionals, for example, tax consultants. 	Risk management was identified as a possible driver of tax compliance costs but contrary to other studies, age, sector, and business size did not affect tax compliance costs.
Europe: KPMG (2018) <i>Study on tax compliance costs for SMEs</i>	Internal, external and non-labour tax compliance costs were studied.	Hours were monetised by multiplying the hours with the average labour costs for that specific country.	Determinants are <ul style="list-style-type: none"> • size of the business; • country; • sector; • dependence structure; • cross-border transactions; and

Country, reference, and title of the study	Elements of tax compliance costs	Measurement of tax compliance costs and valuation of time	Determinants of tax compliance costs identified
			<ul style="list-style-type: none"> the level of outsourcing.
New Zealand: Inland Revenue (2018) <i>2018 study on the time and cost of doing business taxes incurred by NZ small businesses</i>	Internal and external tax compliance costs were studied.	The previous study's (Inland Revenue 2014a) wage rates adjusted with inflation were used.	No determinants are named.
Belgium: Eichfelder and Hechtner (2018) <i>Tax compliance costs: Cost burden and cost reliability</i>	Internal and external tax compliance costs were included.	<ul style="list-style-type: none"> Internal tax compliance costs mean the time of employees, managers, and directors. Respondents self-assessed hourly rates were used to monetise hours. External tax compliance costs are the costs incurred by paying tax advisers and tax accountants. 	No determinants are named.
Uganda: Musimenta (2020) <i>Knowledge requirements, tax complexity, compliance costs and tax compliance in Uganda</i>	Internal and external tax compliance costs were studied.	Not given in this study.	Tax complexity is significant and negatively related to compliance costs.
Indonesia: Santi et al. (2020) <i>Relationship behavior of tax compliance with tax compliance costs, reliance on government and implementation of online tax technology</i>	Although this was not expressed, the costs identified in the study imply internal, external, and some non-labour costs.	Tax compliance costs consisted of time required for taxpayers to prepare and file tax forms, time and costs to study tax legislation and rules, storage costs related to taxation rights/obligations, and the cost to pay for the services of external tax consultants.	No determinants are named.

As the table above indicates, the following elements of tax compliance costs were measured in these studies: internal, external, and non-labour costs. In some studies, attempts were made to measure psychological costs. Some studies measured internal and external costs

(Musimenta 2020; Eichfelder & Hechtner 2018; Inland Revenue 2018; Nemec et al. 2017; Gupta & Sawyer 2015; Eichfelder & Kegels 2014; Evans et al. 2014; Hansford & Hasseldine 2012; Schoonjans et al. 2011; Eichfelder et al. 2010; Colmar Brunton Social Research Agency 2005). Others measured internal, external as well as non-labour costs (Santi et al. 2020; KPMG 2018; Fauziati & Kassim 2018; Stamatopoulos et al. 2017; Yesegat et al. 2017; CIAT et al. 2015; Pematuhan et al. 2015; Eragbhe & Modugu 2014; Lignier et al. 2014; United Nations & CIAT 2014; Palil et al. 2013; Abdul-Jabbar & Pope 2008a; Mansor & Hanefah 2008; Das-Gupta 2006; Chittenden et al. 2005; Klun & Blažić 2005; European Commission 2004). Similarly, the current study also measured internal, external and non-labour costs, as discussed in Section 2.3.1.

The measurement of the elements of tax compliance costs and the identification of determinants of tax compliance costs vary, depending on the focus of each study reviewed. Therefore, most tax compliance cost studies identify the types of tax compliance costs to be investigated and then provide a framework or definition for how the study's costs are measured. Some of the studies reviewed above focused on the measurement of tax compliance costs only, ignoring determinants of those costs (Santi et al. 2020; Inland Revenue 2018; Eichfelder & Hechtner 2018; CIAT et al. 2015; Gupta & Sawyer 2015; Pematuhan et al. 2015; Inland Revenue 2014a; United Nations & CIAT 2014; Palil et al. 2013; Hansford & Hasseldine 2012; Lignier & Evans 2012; U.S. Small Business Administration 2011; Klun & Blažić 2005). Others did identify determinants of tax compliance costs (as indicated in the summary above). A detailed discussion on the measurement and determinants of tax compliance costs follows after the review of the research conducted in South Africa on these aspects, as set out in Table 3.4.

Table 3.4: Research conducted in South Africa: Elements, measurement and determinants of tax compliance costs

Reference and title of the study	Elements of tax compliance costs	Tax compliance cost measurement and time valuation	Determinants of tax compliance costs identified
FIAS (2007) <i>South Africa: Tax compliance burden for small business: a survey of tax practitioners</i>	Only external costs were considered.	Hours were valued at R200 per hour, but no indication was given where the rate per hour came from. From the study, it seems that rate is an average market cost for tax advisers per hour.	No determinants are named.
Govender and Citizen Surveys (2008) <i>Formal SMME Tax compliance survey report: Prepared for National Treasury Republic of South Africa</i>	Internal, external and incidental tax compliance costs were studied.	Tax compliance costs consisted of <ul style="list-style-type: none"> • recordkeeping and associated costs; • preparation and submission of tax returns costs and the value of employees' time in ensuring compliance with the tax laws; • costs incurred for the services of external tax advisers; • all other costs incurred in tax compliance activities, including incidental and travel costs. 	No determinants are named.
Coolidge et al. (2009) <i>Small businesses in South Africa: Who outsources tax compliance work and why?</i>	Internal, external and incidental tax compliance costs were considered.	Based on the Govender and Citizen Surveys (2008)	No determinants are named.
Smulders et al. (2012) <i>Tax compliance costs for the small business sector in South Africa - establishing a baseline</i>	<ul style="list-style-type: none"> • Internal and external costs were included. • The study attempted to measure tax compliance benefits, but found that it is not possible to measure these costs accurately, and that further research is therefore required. 	<ul style="list-style-type: none"> • Internal costs were the cost of collecting, paying and accounting for tax for a business which includes the costs of acquiring the knowledge to perform these duties. • External costs meant the costs of external tax service providers to the business. 	No determinants are named.

Reference and title of the study	Elements of tax compliance costs	Tax compliance cost measurement and time valuation	Determinants of tax compliance costs identified
		<ul style="list-style-type: none"> For the hourly rate, respondents' self-reported values were benchmarked against local salary surveys rates. 	
Smulders, Stiglingh, Franzsen and Fletcher (2016) <i>Determinants of internal tax compliance costs: Evidence from South Africa</i>	N/A in this study.	N/A in this study.	Determinants (of internal tax compliance costs) are <ul style="list-style-type: none"> number of employees; sector; business legal form; age of the business; turnover; respondents' education levels; respondents' accounting knowledge; use of external service providers; and type of accounting system used.
Smulders et al. (2017) <i>Determinants of external tax compliance costs: Evidence from South Africa</i>	N/A in this study.	N/A in this study.	Determinants (of external costs) are <ul style="list-style-type: none"> the legal form of the business; age of the business; turnover; use of small business tax concessions; respondents' qualifications; and the accounting system used.
Matarirano et al. (2019a) <i>Tax compliance costs and small business performance: Evidence from the South African construction industry</i>	External, internal and non-labour tax compliance costs were included.	In this study, <ul style="list-style-type: none"> external tax compliance costs referred to monetary amounts paid to external tax advisers; internal tax compliance costs referred to time spent by the taxpayer, unpaid helper, and paid employees; and non-labour tax compliance costs referred to business overhead costs. 	No determinants are given relevant to tax compliance costs.

Reference and title of the study	Elements of tax compliance costs	Tax compliance cost measurement and time valuation	Determinants of tax compliance costs identified
		Hourly rates used to monetise internal tax compliance hours for the different type of employees were obtained from data and information of independent company gathering payroll information.	
Matarirano, Chiloane-Tsoka and Makina (2019b) <i>Factors driving tax compliance costs of small businesses in the South African construction industry</i>	N/A in this study.	N/A in this study.	This study focused on the construction industry only, and established that number of employees, the age of business, and type of qualifications of the tax preparer significantly affect tax compliance costs.
PwC and World Bank Group (2020) <i>Paying taxes 2020</i>	No distinction was made between internal and external tax compliance costs.	The PwC and World Bank Group (2020) estimated the time to comply with taxes based on the methodology developed by Djankov et al. (2010). According to this methodology, compliance time was estimated based on the time to prepare, file and pay (or withhold) three major types of taxes, namely corporate income tax, VAT or GST, and labour taxes, by a hypothetical case-study medium-sized company on tax compliance.	No determinants are given relevant to tax compliance costs.

From the table above, as in the case of the international studies, internal, external, and non-labour costs were measured depending on the study's objective. In line with this, the current study measured all three elements, as discussed in Section 2.3.1.

The studies by the FIAS (2007) and Smulders (2012) focused on filing and pre-filing tax compliance costs. The Govender and Citizen Surveys (2008) measured objection and appeal costs, but only for small businesses. No research could be identified where post-

filing tax compliance costs (for example, costs related to following up on tax refunds, reviews, audits, objections and appeals, etc.) were measured as part of the total tax compliance costs burden for SMMEs, revealing a clear gap in the literature.

From the literature review of international and South African studies regarding the elements, measurement and determinants of tax compliance costs, the first element of tax compliance costs (internal tax compliance costs) is usually measured by estimating the time spent by the owner and/or the employees of a business, or an unpaid friend or relative, on tax compliance activities, and multiplying this time by an hourly rate (Santi et al. 2020; Matarirano et al. 2019a; Eichfelder & Hechtner 2018; Stamatopoulos et al. 2017; Smulders et al. 2012). Most estimates of tax compliance costs can, however, only be indicative at best (Evans, 2008: 453). A fundamental problem in measuring tax compliance costs (which will include estimates of time) lies in the reliability of the taxpayers' estimates (Eichfelder & Schorn 2009: 8). Evidence has been found for under or over estimation of these costs, that is, taxpayers can overestimate these costs on the one hand due to political reasons but on the other hand, these can be underestimated because taxpayers just forget about them or do not know that certain hours are spent on certain tax compliance activities (Eichfelder & Schorn 2009: 8). To avoid this, Eichfelder and Hechtner (2018: 6) suggest that the questionnaire is set up in such a way that the tax compliance costs are itemised so that they are not forgotten and also not considered more than once. This was the approach followed in the current study.

Specific methodological issues identified by the researcher must be discussed. The hourly rate to be used in monetising the first element of tax compliance costs (internal tax compliance costs) has been a contentious matter for a long time (Evans et al. 1997: 9; Allers 1994: 54). This debate centres around the valuation of individual taxpayers' time when they complete their income tax returns (Evans et al. 1997: 9), whereas valuing business taxpayers' time is less problematic (Turner et al. 1998: 67). According to Sandford et al. (1989: 36), an appropriate method to value employees' time is the wage rate calculated from the employee's cost to the employer. However, since tax compliance activities are performed by different levels of employees in an SMME, it is suggested that a more realistic valuation of the internal cost can be obtained if the time spent on tax activities is separated for the different levels of employees, and these hours must then be multiplied by the wage rate(s)

for the applicable level(s) of employee(s) (Tran-Nam et al. 2000: 241; Tran-Nam 1999: 168; Evans et al. 1997: 11). This valuation method of internal tax compliance costs was followed in this study, in line with local and international studies on measuring tax compliance costs for small businesses (Gupta & Sawyer 2015; Coolidge 2012: 54; Smulders et al. 2012).

The next conceptual challenge regarding the first element of tax compliance costs refers to the accounting/taxation overlap (Evans 2008: 452; Tran-Nam 1999: 161). Most accounting and recordkeeping activities overlap with tax compliance activities in a business environment. For example, taxpayers use accounting software to generate customer invoices, issue statements to debtors and various other accounting activities, and then use the same information to prepare a VAT submission report for tax compliance purposes, using the same software. As the issuing of invoices and other accounting activities are the basis for most tax-related activities, SMMEs may be under the impression that they are only keeping records for tax compliance purposes (Turner et al. 1998: 65). Conversely, they may regard tax compliance as a mere by-product of the accounting function (Tran-Nam 1999: 161). Due to the difficulty in separating pure tax compliance costs from pure accounting costs, one may be tempted not to separate these costs (Blaufus & Hoffmann 2019: 175), but not separating tax compliance costs from accounting costs causes an overestimation of tax compliance costs (Yesegat et al. 2017: 80) – for example, accounting costs might include the costs of following up on outstanding debtors (a pure accounting function), which cannot be classified as direct tax compliance costs. Other than for tax purposes, there are many other reasons why SMMEs should keep at least some essential accounting records.

In South Africa, incorporated SMMEs must keep proper accounting records and prepare annual financial statements in terms of section 56 and 58 of the *Close Corporation Act 69 of 1984* (RSA 1984) and sections 28 and 30 of the *Companies Act 71 of 2008* (RSA 2008). Another reason for keeping accounting records is that a positive correlation has been found between keeping proper accounting records and the performance of small enterprises (Abul-Rahamon & Adejare 2014: 14). SMMEs should keep accounting records, but tax compliance adds an additional recordkeeping compliance burden on SMMEs. For example, SMMEs that trade as a CC should keep a record of credit sales and purchases in terms of section 56(1)(d) of the *Close Corporation Act* (RSA 1984), which states that records must be kept “of all goods purchased and sold on credit, and services received and rendered on credit, in

sufficient detail to enable the nature of those goods or services and the parties to the transactions to be identified". This requirement seems simple enough; however, according to SARS (No date(b)) if the business is registered for VAT, the invoice has to adhere to the following requirements to be valid for VAT purposes. The invoice must contain the following:

- The words "Tax Invoice", "VAT Invoice" or "Invoice"
- The name, address and VAT registration number of the supplier
- The name, address and where the recipient is a vendor, the recipient's VAT registration number
- The serial number and date of issue of invoice
- An accurate description of goods and or services (indicating where applicable that the goods are second-hand goods)
- The quantity or volume of goods or services supplied
- The value of the supply, the amount of tax charged and the consideration of the supply (value and the tax).

These additional requirements undoubtedly add to the recordkeeping compliance burden of SMMEs.

The tax deductibility of costs incurred by an SMME may also be an issue that requires further attention from the SMME. It seems that although any SMME should keep proper accounting records, the tax regime enforces so many extra compliance burdens on SMMEs that SMMEs perceive themselves to be keeping proper accounting records mainly for tax purposes. This perception is supported by previous research, which has found that tax is an important reason for keeping accounting records (Lignier & Evans 2012: 656; Smulders et al. 2012: 206). Therefore, in line with previous research, and to prevent an over-estimation of internal tax compliance costs, an attempt has been made in the current study to separate tax compliance activities from core accounting activities (Gupta & Sawyer 2015: 91; Hansford & Hasseldine 2012: 297; Smulders et al. 2012: 204; Tran-Nam et al. 2000: 244).

The second element, external tax compliance costs, refers to monetary compensation paid to someone outside a business for tax-related activities (Santi et al. 2020: 1434; Matarirano et al. 2019a: 3; Eichfelder & Hechtner 2018: 7; Fauziati & Kassim 2018: 356; Stamatopoulos et al. 2017: 246; Yesegat et al. 2017: 86; Smulders et al. 2012: 188). As in the case of internal tax compliance costs, every attempt must be made to distinguish between the costs paid to external parties for accounting and other services, versus tax-related services to measure the external tax compliance costs of an SMME.

The third element, non-labour costs, can be studied as a percentage of internal wage costs based on the standard cost model methodology (Stamatopoulos et al. 2017: 244), but most studies investigated measure non-labour costs separately by defining non-labour costs for the purposes of the particular study and asking a respondent to estimate these costs (Matarirano et al. 2019a: 4; Fauziati & Kassim 2018: 356; Yesegat et al. 2017: 86; CIAT et al. 2015: 36). The same approach was followed in the current study.

The last aspect reviewed in prior research is the determinants identified in the studies summarised in Tables 3.3 and 3.4. An investigation of the determinants of tax compliance costs is essential to understand what drives tax compliance costs (Smulders et al. 2017: 137). The literature reviewed reveals that various factors might influence tax compliance costs in some way. For example, previous international studies have identified the *size of businesses* to be an important determinant. Size might be defined in studies either by the number of employees or by turnover, but the studies tend to agree that size (in whatever form) does influence tax compliance costs (KPMG 2018: xv; Mansor & Ferdjani 2017: 32; Stamatopoulos et al. 2017: 257; Yesegat et al. 2017: 96; Eragbhe & Modugu 2014: 83; Lignier et al. 2014: 245; Mansor & Hanefah 2008: 39; Commonwealth of Australia 2007: 7; DeLuca et al. 2005: 93; Colmar Brunton Social Research Agency 2005: 10; European Commission 2004: 41).

Trading across international borders also seems to influence tax compliance costs. International studies confirm that cross-border activity is a determinant of tax compliance costs. For example, if an EU company has subsidiaries in other countries, the compliance costs are higher for such a company than for companies without subsidiaries. Furthermore, the compliance costs increase with the number of subsidiaries abroad (European Commission 2004: 5). For example, businesses with foreign operations spend approximately 132% more money on tax compliance costs than the total sample in a study done in the US (DeLuca et al. 2005: 89). Higher tax compliance costs for a business engaged in operations across state and international borders in Australia have also been reported, compared to costs for businesses who operate in one state only (Commonwealth of Australia 2007: 9). Although in Belgium, companies with cross-border transactions reported lower tax compliance costs than non-exporting companies (Schoonjans et al. 2011: 614), a later study by KPMG (2018: 38) found that in the 20 European countries investigated,

cross-border activities increased tax compliance costs. However, relative to size (measured using turnover), the tax compliance costs decreased in comparison to companies which only traded within national borders (KPMG 2018: 38). The researchers suggested two possible reasons for this finding. First, companies dealing with cross-border activities have more efficient processes to deal with tax compliance activities and are thus more cost-efficient than companies trading only on a national level (KPMG 2018: 41). Secondly, because turnover was used to measure size, the companies that engaged in cross-border trade had a significantly higher turnover than companies that only traded locally. Relative to size, then, tax compliance costs decreased for companies with cross-border transactions (KPMG 2018: 42).

Another determinant of tax compliance costs is the effect of *tax complexity* on tax compliance costs. In a UK study (Chittenden et al. 2005: 649-650), certain benefit payments introduced by the government to the PAYE system increased the system's tax complexity and thereby increased the tax compliance costs of SMEs. Evidence that tax complexity increases tax compliance costs have also been reported in Uganda (Musimenta 2020: 16) and Slovakia (Nemec et al. 2017: 83). In Kenya, the complexity of the tax laws, the compliance framework and the frequency of changes in tax legislation were found to be the most critical drivers of tax compliance costs (Abdul & Wang'ombe 2018: 12). More supporting evidence comes from respondents in Australia, who rated the complexity of the tax law and the compliance requirements from revenue authorities as important factors which influence tax compliance costs (Lignier et al. 2014: 245). Conversely, there is evidence that where tax simplification measures are introduced by revenue authorities, that may decrease tax compliance costs (Abdul-Jabbar & Pope 2008a: 306). Changes in tax law and the administrative processes around it thus appear to influence tax compliance costs, either positively or negatively (Inland Revenue 2014b: 63).

The decision to *use external advisers* to assist in tax compliance activities has been identified as a determinant of tax compliance costs. DeLuca et al. (2005: 93) refer to the decision to use an external adviser as the preparation method chosen by a business, and show that the level and composition of tax compliance costs are significantly affected by businesses' decision to prepare and submit tax returns themselves, or to do so with the help of an external adviser. With the increase in tax complexity when a range of choices,

concessions, and thresholds were introduced for small businesses in Australia, small businesses were forced to seek external professional advice, resulting in increased tax compliance costs for these businesses (Commonwealth of Australia 2007: 9). Therefore, the use of external advisers is also influenced by the *tax complexity* faced by a business. Not only the use of external advisers but also the type³⁹ of external advisers appears to influence tax compliance costs (Mansor & Hanefah 2008: 39). According to Schoonjans et al. (2011: 614), another reason businesses using external tax advisers face higher tax compliance costs may be that some tasks are duplicated, but they did not find a significant statistical difference in tax compliance costs between firms which do not outsource tax compliance activities and firms which partially outsource. Contrary to the finding by Schoonjans et al. (2011), Yesegat et al. (2017: 96) found that the use of external tax advisers had a positive and statistically significant impact on tax compliance costs in Ethiopia. Similarly, a positive, statistically significant impact on tax compliance costs when businesses used external tax advisers was reported by Mansor and Ferjani (2017: 32) and KPMG (2018: xv).

The next determinant identified by previous studies is the *legal structure of the business*. There are various legal structures to choose from in carrying on a business, and each of these legal business structures has unique characteristics; hence, it is possible that the type of legal structure chosen may influence the level of tax compliance costs (DeLuca et al. 2005: 83). A business may start with a simple business structure, but, as the business grows, it may decide to move into a more complex structure involving trusts and companies, for example, and thereby increase the level of tax compliance costs incurred by the business (Commonwealth of Australia 2007: 7). Mansor and Hanefah (2008: 39) found that in Malaysia the type of business was the most important determinant of tax compliance costs after the size of the business. However, in Australia, a study reports that the legal form does not show any significant relationship with the level of tax compliance costs (Lignier et al. 2014: 245). In Ethiopia, the type of business does influence the level of tax compliance costs, and it seems that sole proprietors incur lower tax compliance costs than other forms of business structure (Yesegat et al. 2017: 96). Similar findings are reported for Algeria

³⁹ Types of external advisers in Malaysia were divided between the big four accounting firms – Ernst & Young (E&Y), PricewaterhouseCoopers (PwC), Klynveld Peat Marwick Goerdeler (KPMG), and Deloitte KasimChan (Deloitte) – and non-big four firms (Mansor & Hanefah 2008: 34).

(Mansor & Ferdjani 2017: 32). KPMG (2018: 40) found that the dependence structure⁴⁰ of a business, which is related to its legal structure, influences tax compliance costs.

The influence on tax compliance costs by the *industry or sector in which a business operates* has also been investigated. For example, in Australia, evidence was found that businesses in the construction, restaurant and catering, agricultural and mining industries incur significant regulatory costs (including tax compliance costs) (Commonwealth of Australia 2007: 53). The industry was also found to be a possible determining factor in Belgium (Schoonjans et al. 2011: 614), Greece (Stamatopoulos et al. 2017: 257), Ethiopia (Yesegat et al. 2017: 99), and the 20 European countries investigated in a KPMG (2018) study, but Fauziati and Kassim (2018: 357) did not find similar evidence that the sector in which a business operates influenced tax compliance costs for Indonesia.

The next determinant is the influence of *revenue authority behaviour*. Even though very few studies have investigated this factor as a determinant of tax compliance costs, it seems that revenue authority behaviour may indeed have an effect. For example, in Germany and Belgium, it was found that revenue authority behaviour is an important determinant of tax compliance costs, especially for smaller businesses (Eichfelder & Kegels 2014: 210; Eichfelder et al. 2010: 58). In India, it was noted that companies that claimed the revenue authority harassed them had significantly higher tax compliance costs than other companies (Das-Gupta 2006: 20). However, no South African studies were found that investigated the influence of revenue authority behaviour on tax compliance costs.

Other determinants of tax compliance costs identified in previous international studies are the *employment of staff* (number of employees) (Stamatopoulos et al. 2017: 257; Schoonjans et al. 2011: 614; Commonwealth of Australia 2007: 8), the *age* of the business (Eragbhe & Omoye 2014: 619; Schoonjans et al. 2011: 614), the *risk management strategies of the business* (Fauziati & Kassim 2018: 357), the *skills of the owner* (Commonwealth of Australia 2007: 8), and the *use of computers* (Yesegat et al. 2017: 96; Commonwealth of Australia 2007: 8).

⁴⁰ The dependence structure is similar to what is known as the group structure, namely whether an entity is a stand-alone business, or a member (subsidiary) of a group, or a holding company (KPMG 2018: 5).

In South Africa, three studies were found that consider determinants of tax compliance costs for small businesses, specifically ones with a turnover of less than R14 million. Smulders et al. (2016) used multiple regression analysis to identify determinants of internal tax compliance cost, more specifically, to identify the determinant per tax type. In 2017, the same authors published a further study identifying the determinants for external tax compliance costs. These studies therefore distinguish between determinants that affect external tax compliance costs and determinants that affect internal tax compliance costs. These two studies report the same determinants as the international studies, and show the determinants' influence on different tax types. For example, number of employees is identified as a determinant for PAYE compliance costs, while the sector (industry) that a business operates in only affected CGT and Customs duty compliance costs (Smulders et al. 2016: 724). Another determinant not included in previous studies but relevant for South Africa were the influence of *small business tax concessions* on tax compliance costs (Smulders et al. 2017: 146; 2016: 726). The third study, Matarirano et al. (2019b), focused on the construction industry only and established that number of employees, the age of the business, and the type of qualifications of the tax preparer significantly affect tax compliance costs.

In summary, the literature has identified various determinants that could influence the tax compliance costs incurred by SMMEs. These include the size of the business, whether it trades across borders, tax complexity, the use of external tax advisers, the legal structure of the business and the industry in which it operates, the influence of revenue authority behaviour, the number of employees employed by a business, its age and risk management, the skills of the owner of the business, the use of computers and small business tax concessions. However, while research has investigated the determinants of tax compliance costs in South Africa for small businesses, the studies did not focus on SMMEs. Furthermore, no study could be found investigating the effect of the use of power by SARS and/or trust in SARS on the tax compliance costs incurred by SMMEs in South Africa.

3.5. Conclusion

The chapter commenced with a review of research conducted internationally and in South

Africa on SMME tax compliance costs, summarising these studies' primary outcomes and recommendations. The review indicates that tax compliance costs are generally high, regressive, and have a significant impact on SMMEs. Because of the high levels of tax compliance costs and their impact on SMMEs, continuous research on tax compliance costs and their effect on SMMEs is strongly advocated by researchers.

The review of international and local studies has highlighted the array of choices available regarding the methodology and techniques that can be used for this kind of research. The most popular methodology is a quantitative approach. The techniques used to obtain the empirical data vary, but most studies appear to opt for surveys. The chapter has also provided an overview of the measurement methodologies to determine the value that should be placed on individuals performing the tax compliance activities for SMMEs, and noted that the accounting/taxation overlap needs to be addressed in tax compliance cost research.

The review identified various determinants of tax compliance costs reported in previous tax compliance cost research. These determinants include size of a business, trading across borders, tax complexity, the use of external tax advisers, the legal structure of the business, the industry in which it operates, the influence of revenue authority behaviour, the number of employees employed, the age and risk management of the business, the skills of the owner of the business, the use of computers and the influence of small business tax concessions.

An apparent gap in the literature that emerged from the review is that previous research focused on small businesses with a turnover of less than R14 million, ignoring a crucial sector of SMMEs, namely medium-sized businesses. Nor has there been a comprehensive study measuring the internal, external and non-labour costs of South African SMMEs – the previous studies did not comprehensively measure post-filing tax compliance costs for this sector. The literature review suggests that revenue authority behaviour may influence tax compliance costs for SMMEs, but no South Africa study could be found that specifically investigated this suggestion. This current study therefore attempts to fill these gaps.

This chapter has thus given insight into the extent of the research in the SMME tax compliance costs field, and exposed the lacunae in the knowledge on this field from a South

African perspective, highlighting the need for this research. The next chapter presents the research methodology of the study.

CHAPTER 4: RESEARCH METHODOLOGY

4.1. Introduction

In the preceding chapter, the importance of this study was highlighted by identifying the gap in the literature regarding the tax compliance costs of SMMEs from a South African perspective. This review exposed the lacunae in the literature on this topic and provided a useful theoretical underpinning for the development of the research design for the current study. As with any other economic or accounting measurement exercise, the assessment of tax compliance costs needs to be based on a sound research design. Hence, this chapter sets out the research philosophy adopted in this study and the chosen research paradigm, followed by an explanation of the research design selected as the most appropriate. Next, data collection including the questionnaire design, pilot testing, and the number of usable responses received are discussed. Then, the data analysis process is described, and the steps taken to improve the data quality are indicated. The chapter ends with a clarification of the ethical considerations, and some concluding remarks.

4.2. Research philosophy and paradigm

According to McKerchar (2008: 6), a research philosophy reflects how individual researchers see the world (ontology) and how they believe that knowledge is created (epistemology). Saunders, Lewis and Thornhill (2019: 133-134) refer to ontology and epistemology as research assumptions that guide us to distinguish between research philosophies and add one more assumption,⁴¹ namely axiology, which refers to the effect of individual researchers' own ethics and values regarding their research. Another dimension that assists researchers in defining their research philosophy is the political or ideological orientation of individual researchers towards the social world they investigate (Saunders et al. 2019: 138), which provides them with philosophical, theoretical, instrumental, and methodological foundations

⁴¹ According to Saunders et al. (2019: 133), there are more assumptions, but only the three main assumptions are discussed.

(Žukauskas, Vveinhardt & Andriukaitienė 2018: 123) for their endeavour. Because in this study, the researcher aims to assess tax compliance costs for SMMEs within the framework of how things are done, this research is conducted from a regulation perspective (dimension). As indicated in Section 1.6, this study's research philosophy leans towards positivism, because the researcher prefers to assess tax compliance costs from an independent objective stance. Positivism is linked to the philosophical position of most natural scientists and involves working with an observable social reality to produce law-like generalisations (Saunders et al. 2019: 144). Combined then with the regulatory perspective of the study, this research falls within a functionalist paradigm (Saunders et al. 2019: 140), as the study is concerned with measuring the tax compliance costs for SMMEs, identifying possible determinants of those costs, and investigating the effect of the use of power by SARS and/or trust in SARS on SMMEs' tax compliance costs.

4.3. Research design

The research design of a study should be selected in such a way that the research methodology fits within a paradigm that is understood and accepted by others, has a fundamental structure, employs appropriate strategies of research methods, and allows the research objectives of the study to be met (McKerchar 2008: 9). As was noted in Section 3.2, there is evidence that tax compliance costs are regressive and high, and have a significant impact on SMMEs, as well as that tax compliance costs are not diminishing over time. There is also evidence that certain factors (determinants) may influence tax compliance costs. Moreover, revenue authority behaviour (the use of power by or trust in revenue authorities) may also influence tax compliance costs. Since this study aims to assess the tax compliance costs of SMMEs in South Africa (as expressed in the research objectives of the study), the research design must address the measurement of tax compliance costs for SMMEs, and must be able to identify determinants of tax compliance costs, as well as to investigate any possible relationship between the use of power by SARS and/or trust in SARS on SMMEs' tax compliance costs.

The next step after choosing a research philosophy, paradigm and design was to make a methodological choice, which should be related to a researcher's philosophical position and

the given study's research objectives (Saunders et al. 2019: 175; Žukauskas et al. 2018: 121; Holden & Lynch 2004: 16). According to Neuman (2014: 203), researchers should follow either a quantitative or a qualitative research design⁴² to measure a study's data. A *qualitative* research design is built on an inductive process, where from observation, questions are developed that the researcher then attempts to explain (Neuman 2014: 203; Williams 2007: 67). Because a qualitative study presents the data observed in various nonstandard shapes, sizes, and forms (Neuman 2014: 204), the focus is often on a small sample and there must be a robust correlation between the researcher and the data (Williams 2007: 67). This research design is not suitable for this study. A *quantitative* research design attempts to measure something precisely (Cooper & Schindler 2014: 146) and is used to test objective theories by examining the relationship between variables (Cooper & Schindler 2014: 146; Creswell 2014: 32) and then making generalisations about the relationships examined in the context of a broader population (McKerchar 2008: 10). Quantitative research is typically associated with a positivist research philosophy (Saunders et al. 2019: 176). It has five main characteristics, namely that the research is based on a systematic logic, that it uses “hard” data (e.g. numbers), that it relies on positivist principles, and that there is an emphasis on measuring variables and the testing of hypotheses, and that it is used to confirm or disprove a pre-existing relationship/hypothesis (Paterson, Leung, Jackson, MacIntosh & O’Gorman 2016: 169). Because these characteristics apply to the approach to and scope of the current study, the quantitative method was selected to measure the tax compliance costs of SMMEs and analyse the data in the study to identify the determinants of tax compliance costs and any possible effect of SARS’s behaviour on SMMEs’ tax compliance costs. Two open-ended questions were asked at the end of the survey to give some perspective to the close-ended questions, but they were not integrated with the close-ended questions as would be required in a mixed method approach; therefore this study did not follow a mixed methods approach, as described by Creamer (2018: 2).

The data collection techniques used to achieve the research objectives are the next point of discussion. There are many techniques that can be used to obtain empirical data. Previous tax compliance costs studies seemed to favour the use of large-scale surveys (see Table 3.1). Quantitative research is predominantly associated with experimental and survey

⁴² A mixture of quantitative and qualitative methods is also possible and is known as a mixed method research design (Saunders et al. 2019: 175).

research techniques (Saunders et al. 2019: 178; McKerchar 2008: 10), of which surveys are the most widely used data-gathering technique in a positivist approach to social science research (Neuman 2014: 316-317). As has been mentioned previously, the objectives of the study included measuring the tax compliance costs of SMMEs in South Africa, ascertaining the determinants of SMMEs' tax compliance costs in South Africa, and investigating any possible relationship between the use of power by SARS and/or trust in SARS on SMMEs' tax compliance costs. A survey technique was deemed a suitable method to research these objectives, because a survey is a measurement process used to collect information where questions are carefully created and asked in an identical form to each participant to originate comparable data on the selected sample frame to find similarities and differences (Cooper & Schindler 2014: 218-219). The current study therefore employed an online survey to collect data. This technique was considered the most suitable for three main reasons. Firstly, online surveys are much quicker and cheaper when one is trying to access a large sample over a wide geographical area (Cooper & Schindler 2014: 219). Secondly, they allow quantitative data to be collected for statistical analysis purposes. Thirdly, previous studies on tax compliance costs in South Africa have successfully adopted this technique (Smulders 2012; FIAS 2007).

Notwithstanding the suitability of this technique to collect the data, it does have limitations. These limitations include the fact that the response rate is usually low for online surveys, that no interviewer intervention is available for probing or explanation, that a survey can be long and complicated, and that there may be anxiety among participants (especially if the survey is from the local revenue authority) (Varghese, Moore & Earnhart 2017: 2; Cooper & Schindler 2014: 225). Therefore, online surveys may not be the ideal survey distribution method for South Africa. Still, as indicated above, it was the most time and cost-efficient option under the circumstances – two critical components for this study. Considering the funding and time constraints (due to SARS's internal deadlines and business tax compliance timelines and obligations), it appeared to be justified to use an electronic online questionnaire as the data collection instrument. The advantages of this technique for collecting data suggested that the method chosen would be the most suitable one to ensure that the objectives of this study were met.

This research was cross-sectional, in that it is a study that sought to ascertain the incidence

of a particular phenomenon at a particular time, as described by Saunders et al. (2019: 212). In this study, therefore, the existence and extent of tax compliance costs for SMMEs at a particular time, which was the respondents' financial year ending between 1 April 2018 and 31 March 2019, was probed. The online questionnaire distribution to SMMEs in South Africa occurred on 18 March 2019, and respondents were asked to complete the survey before 18 April 2019.⁴³ The survey was administered using the survey platform Qualtrics.

4.4. Population

In an ideal world, all SMMEs in South Africa should have been included in the survey. However, as indicated in Section 2.2, one of the main challenges in evaluating tax compliance costs for SMMEs is that there is no universal definition of the term "SMME" that may be used as a starting point. After investigating the term from an international and South African perspective, it was considered practical to classify an SMME as any business trading in South Africa with a turnover of R250 million or less (see Section 2.2.4). Therefore, the target population was SMMEs in South Africa meeting that criterion and registered with SARS for tax purposes. Because the target population was SMMEs registered with SARS, the SARS database was considered the best database containing the population that needed to be surveyed.

When the research began, access to the SARS database was denied. Therefore, the link to the survey was distributed to respondents using the following channels: SAICA, two social media platforms (LinkedIn and Facebook), and the researcher's e-mail contacts. In addition, recipients were requested to forward the survey to other taxpayers, including friends and family, in other words, adopting a snowball technique (Saunders et al. 2007: 611) to enlarge distribution. A radio interview was also held with the researcher on Radio Sonder Grense,⁴⁴ where a brief background to the study was given, and listeners were asked to go online and complete the survey. However, even though the researcher attempted to distribute the survey extensively through these channels, only 134 respondents submitted answers to the

⁴³ The online survey was only closed by the survey platform two weeks after the closing date to afford enough time to complete the survey to respondents who started late.

⁴⁴ Radio Sonder Grense is an Afrikaans-language radio service run by the South African Broadcasting Corporation (SABC) and broadcasting to the whole of South Africa.

survey, and of those, only 84 surveys were fully completed.⁴⁵ Subsequently, the researcher and two other researchers from UNISA engaged with SARS, and SARS approved the survey and agreed to distribute the link to the questionnaire to SARS's database, subject to certain conditions imposed on the researcher, as contained in a memorandum of understanding signed between UNISA and SARS.

The memorandum of understanding between UNISA and SARS stipulated that SARS (and not the researcher) was to send out the link to the electronic questionnaire developed for this study to SMMEs. A further condition imposed was that only the researcher, SARS, the supervisors, and the statistician would obtain copies of the data files, due to the confidential nature of the study. The statistician also signed an agreement where she undertook to maintain the confidentiality of the data collected. Furthermore, these data files were not to be shared on an open-source platform. These conditions were onerous, but there is evidence that the most successful tax compliance costs research undertaken thus far has been performed with revenue authorities' support (Smulders et al. 2012: 216; Turner et al. 1998: 80). Therefore, obtaining assistance from SARS to distribute the survey was an important step to ensure that this study provided meaningful results.

The unit of analysis and population consisted of SMMEs in South Africa that were registered with SARS (for any tax) and that had an annual turnover of R250 million or less. A further criterion was that only SMMEs whose e-mail addresses were known to SARS when the link to the questionnaire was distributed were included in the target population, which probably led to the exclusion of the smallest and least sophisticated businesses (those that do not have computers or internet access). The fact that an online questionnaire was chosen as the data collection instrument necessitated this criterion. Because businesses that did not have access to the internet were excluded from the study, it may have contributed to an underestimation of tax compliance costs, as it has been argued that the availability of technology to prepare and submit tax returns may lower tax compliance costs (Guyton, Korobow, Lee & Toder 2005: 440). Therefore, businesses without internet access and/or computers might have higher tax compliance costs if they manually submit their tax returns.

⁴⁵ None of these responses were used in the statistical analysis, because this survey did not cover the same financial period as the final survey which was sent out at a later stage, and the number of usable responses was not large enough for meaningful statistical analysis.

A further qualification was that SMMEs with e-mail addresses similar to those of tax practitioners were removed to ensure that SMMEs and not their tax practitioners completed the questionnaire. This decision was made for two reasons. Firstly, it was feared that if tax practitioners completed the survey on behalf of taxpayers, the SMMEs would incur additional fees from their tax practitioners. Secondly, only the SMME itself (through the owner/director or its employees) has access to all the information required to complete the survey.

To ensure that the questionnaire was received (and completed) by the correct and most knowledgeable person in the SMME, the following sentence was included in the covering letter to the questionnaire: "This survey should be completed by the person who knows about, or is chiefly responsible for the tax affairs of the company."⁴⁶ However, this inclusion did not address a situation where the tax practitioner received the e-mail instead of the SMME. In this instance, some confusion may have arisen because a tax practitioner would not know which client this survey related to, or whether it related to their own business. One reason for this confusion was that a bulk generic e-mail containing the covering letter and survey link was sent to all SMMEs that met the study's definition, and the e-mails were not addressed to a particular taxpayer. A challenge related to the e-mail link distribution is that even though SARS attempted to remove tax practitioners from the population by removing all taxpayers with e-mail addresses similar to a tax practitioner e-mail address, some tax practitioners still received e-mails on behalf of their clients. Therefore, when the researcher was contacted by tax practitioners, the tax practitioners were asked to forward the e-mail received to their SMME clients and told that they were not responsible for submitting the survey on behalf of their clients.

Notwithstanding the above problem areas, the e-mail containing the link to the survey (see Appendix C) was sent out by SARS to 193 957 e-mail addresses (contacts provided by SARS). Of these, 148 605 e-mails were successfully delivered in March 2019 (Moshoeite 2019a). Since the whole database (as described above) was selected, a census approach was followed by sending the link to the questionnaire to the entire database. Thus, no sampling techniques were applied.

⁴⁶ An exported copy of the full questionnaire is included in Appendix A.

4.5. Data collection

This section describes how the quantitative data were collected for further analysis. The design of the final questionnaire is discussed first, followed by information on the pilot testing of the questionnaire and the response rates and usability of the responses.

4.5.1. *Questionnaire design*

The questionnaire (see Appendix A) used to achieve this study's objectives of measuring tax compliance costs and discovering the determinants of tax compliance costs, and of investigating the effect (if any) of the use of power by SARS and/or trust in SARS on SMMEs' tax compliance costs was adapted from a survey of tax compliance costs on the small business sector in Australia (Lignier & Evans 2012). The questions in the questionnaire specifically relating to the type of taxes and small business tax concessions were adjusted for South Africa's particular tax system.

A detailed literature review was performed, as described in Sections 3.2 to 3.4, to establish what research had previously been conducted locally and internationally. The outcome of this literature review served as a theoretical underpinning for the researcher's inputs into the development of the questionnaire used for this particular survey. The questionnaire was thus developed taking cognisance of the review performed on the tax compliance costs literature. Although other local studies (Matarirano et al. 2019a; Smulders et al. 2012; Govender & Citizen Surveys 2008; Smulders & Stiglingh 2008; FIAS 2007) of a similar nature have been conducted before, the extent to which their research questionnaires could be replicated or incorporated into the current questionnaire was limited, because of the differences between the current and previous studies discussed in Section 3.3.

In modifying the survey to reflect the South African perspective, the researcher also invited constructive comments from various stakeholders, including SARS, SAICA and local and international academics in taxation, to ensure that the survey was technically sound and practically relevant. The questionnaire contained mainly closed questions aligned with the survey objectives. It also included some open-ended questions to enable the researcher to obtain more insight into the detail of or reasons for specific responses.

The questionnaire had to be designed in such a way as to gather information from the respondents to meet the study's objectives. The Qualtrics survey platform was used to administer the online questionnaire, because the software used by this platform can handle a complex questionnaire with display and skip logic to improve ease-of-use for the respondents, and the time it takes to complete a survey. This means that, based on the information supplied by a respondent, the survey display logic hides or displays specific questions to the respondents, whereas skip logic transfers the respondent to the next applicable question. Display logic was used as follows: if, for example, a respondent indicated that an SMME was not registered for VAT, then questions relating to costs or hours spent on VAT compliance activities were not displayed to that participant. Skip logic allowed participants to skip to the next applicable section or question in the questionnaire. For example, if a respondent indicated that the SMME did not spend money on external tax services, the respondent was transferred to the next section, which dealt with internal time and costs spent on tax compliance activities.

A summary of the questions grounded on the study's objectives, and the further reasoning behind the inclusion of the questions in each section of the questionnaire are presented next.

The questionnaire was divided into an introduction and seven broad categories:

- an introduction dealing with the purpose of the study and informed consent;
- background information on the SMME;
- money spent on external tax-related and accounting-related activities (external costs);
- internal time and costs spent on tax compliance (internal costs) and non-labour tax compliance costs incurred by SMMEs;
- small business tax concessions;
- drivers of tax compliance costs (determinants);
- interaction with SARS; and
- closing questions to identify the respondents' position in the SMME and two open-ended questions focusing on reducing tax compliance costs and any further comments from the respondents.

4.5.1.1. *Introduction and informed consent*

The questionnaire commenced with an instruction to read a few introductory lines before completing the survey. This introduction was designed to ensure that participants understood the context and purpose of the study, and agreed voluntarily to complete the online questionnaire by electing to proceed with the survey. The information provided in this introduction included the target population and the approximate time required to complete the questionnaire (45 minutes). It was also made clear that the survey responses were collected independently from SARS, and that the anonymity of all information provided by the respondents was guaranteed and cannot be linked back to SARS's database. Reference was also made to the ethical clearance received for this survey by the UNISA College of Accounting Sciences Research Ethics Review Committee. Once respondents elected to proceed, they could start completing the survey.

4.5.1.2. *Background*

In the background section of the questionnaire, respondents were requested to provide details about the characteristics of the SMME by providing information about the turnover, main activity, demographic area, legal structure, years of trading, the financial year-end, business profitability, number of employees, and type(s) of tax the SMMEs needed to report on for the financial year ending between 1 April 2018 and 31 March 2019. It was considered appropriate to include these questions, because, besides standard demographic categorisation, some of these elements may be determinants of tax compliance costs, as discussed in Section 3.4. After that, respondents were asked whether the SMME undertook post-filing tax activities such as tax queries, lodging an objection or appeal to any tax assessment, or being involved in any litigation with SARS. If a respondent answered "yes" to any post-filing question, the display logic prompted the respondent to indicate to which type of tax the post-filing activity applied. These questions were included in the questionnaire, because it has been suggested that post-filing activities can be the most complex tax activity between taxpayers and revenue authorities, and therefore may be a determinant of tax compliance costs (PwC 2017: 3). Finally, a question was asked to understand the extent of a respondent's tax risk management, strategy and governance processes, because it was found that risk management could influence tax compliance costs

(Fauziati & Kassim 2018: 357).

4.5.1.3. External costs

The next category of questions was designed to collect information on the money spent by SMMEs on external tax-related activities (external costs). This area was identified as one of the key elements of tax compliance costs (Evans 2008: 451). Based on the findings of previous studies, where it was estimated that 57% (Coolidge et al. 2009: 25) and 76% (Smulders et al. 2012: 202) of small South African businesses used tax practitioners to assist them with their tax compliance, it is thus clear that the money spent on these external service providers (tax practitioners, accountants, lawyers) could affect tax compliance costs. The use of external tax service providers was also identified as a determinant of tax compliance costs (see Section 3.4 above). Hence, the questions in this category tried to gauge the extent of the use of external service providers, why SMMEs seek external service providers' assistance, and the amount of money spent on non-tax-related and tax-related services supplied by the external service providers. Respondents were asked to differentiate between tax-related services costs and non-tax-related services costs in an attempt to address the accounting/taxation overlap (Evans 2008: 452; Tran-Nam 1999: 161) discussed in Section 3.4.

After establishing the amount spent on tax-related services, respondents were asked to indicate the percentage allocation of the external tax compliance costs between the different tax types. This question was included because the previous literature indicated that VAT or GST is the most burdensome tax when it comes to tax compliance costs (KPMG 2018: 47; Lignier & Evans 2012: 655; Schoonjans et al. 2011: 611), thereby suggesting that different tax types have different compliance burdens. Finally, the last question in this section asked respondents to allocate the external tax compliance costs to different tax activities, as advocated by Blumenthal and Slemrod (1995: 39). The activities identified in Blumenthal and Slemrod's (1995) study formed the basis of the activities provided to the respondents. Still more activities were added after comments were received from the stakeholders who were invited to participate in the questionnaire development, and where the literature identified activities that were not included in the original list, for example, tax risk management (Fauziati & Kassim 2018: 357).

4.5.1.4. *Internal and non-labour costs*

Next, the questionnaire asked respondents to estimate the internal time and costs spent on tax compliance and the non-labour tax compliance costs incurred by the SMME. The questions in this category endeavoured to address the time it takes SMMEs to perform specific tax and accounting functions, who performs these functions within a business, and the non-labour costs incurred by SMMEs on tax compliance activities. Questions 4.1 to 4.29 focused on SMMEs that formed part of a group structure. Questions requested respondents to estimate these businesses' internal tax compliance costs per tax type and per tax activity. Using skip logic, respondents who did not form part of a group structure were transferred to Question 4.30, from where the questions focused on SMMEs that did not form part of a group structure.

Questions 4.30 and 4.31 asked respondents to report how many hours individuals in the business spent on core accounting activities per type of employee during the financial year. These questions were asked to help respondents recognise that certain core accounting activities are not undertaken for tax purposes and should not be included in the tax compliance hours estimation. The questionnaire was therefore designed in such a way to cater for over- or underestimation by splitting accounting and tax activities and then listing the different tax compliance activities to ensure that they were not underestimated.

Question 4.32 formed the basis of the internal tax cost calculation of the study. First, respondents were asked to indicate the estimated average time spent by individuals in the business on tax-related activities. The respondents were then asked to complete the hours per tax type and per tax activity. After estimating the hours, the respondents were asked to estimate the percentage of the time spent on the different taxes by the type of employee who performed the activity. The types of employee who perform the activity were grouped as owners (directors of companies, members of CCs, sole proprietors, or partners), paid employees and unpaid helpers or friends.

A matrix format was used to collect the information regarding the time spent by the respondents on tax-related activities per tax type, as in the studies by Lignier and Evans (2012: 624), Smulders et al. (2012: 192) and the Colmar Brunton Social Research Agency

(2005: 38). The activity per tax type was asked because it is believed that some taxes impose a higher tax compliance burden on businesses than others (Evans et al. 1997: 54), as discussed above – it was found in the previous literature that VAT/GST is the most burdensome in terms of compliance costs. Therefore, the following five options were provided in the survey: income tax, VAT, employment-related taxes, withholding taxes, and customs and excise duties, as the main taxes that SMMEs have to report on during a financial year.

The tax compliance activities described in the rows of the matrix in Question 4.32 were based on the processes and procedures that an SMME must follow to be tax-compliant in any one tax year – that is, after registration. These activities included time spent on pre-submission activities on tax returns (such as recordkeeping), and post-submission activities (for example, time spent preparing and submitting objections). Similar to the activities identified for the external cost calculation above, the activities were based on previous studies (Smulders et al. 2012: 194; Colmar Brunton Social Research Agency 2005: 38; Blumenthal & Slemrod 1995: 39) and were adjusted after comments were received from the stakeholders invited to participate in the questionnaire development. Recordkeeping makes up a significant source of tax compliance costs (Matarirano et al. 2019b: 8; Gupta & Sawyer 2015: 155; Roth et al. 1989: 89). This activity was, therefore, specifically included in the list of activities. The following activities, also listed in the questionnaire, namely calculating, completing and paying tax returns, dealing with SARS, tax planning and advice, dealing with tax advisers, and learning about tax activities, were derived from the list used by Smulders et al. (2012). These activities focused on pre-filing and filing tax activities.

The following post-filing activities were identified in the literature and arose from discussions with stakeholders in the questionnaire development stage. They were added to the existing activities derived from Smulders et al.'s (2012) study:

- the time spent on obtaining refunds from SARS;⁴⁷

⁴⁷ Due to numerous complaints received, the Tax Ombud investigated the alleged delayed payment of refunds to taxpayers (Office of the Tax Ombud 2017). It was therefore decided to add the time spent in obtaining refunds as a tax compliance activity.

- collection and submission of information for SARS queries, inspections or audits; preparation and submission of objections and appeals; time spent on litigation (Blumenthal & Slemrod 1995: 39);
- information technology requirements relating to tax matters (Azmi et al. 2016: 12; European Commission 2013: 28);
- tax risk management strategy and governance (Fauziati & Kassim 2018: 357; Eichfelder & Schorn 2009: 17), and
- third-party returns (although these form part of normal recordkeeping and the submission of returns to SARS, they were added to the list of activities as a separate activity).

The listing of different tax compliance activities in the questionnaire has two advantages. In the first place, it can help with comparisons to prior or future research. Secondly, it is also helpful in reminding taxpayers of the various types of activities performed in complying with their tax obligations, as suggested by Ibrahim (2017: 174).

Another consideration when determining the hours spent on the various tax compliance activities is that for each tax type there is a different period in which returns must be submitted, and payments must be made. For instance, PAYE needs to be calculated, submitted and paid monthly, whereas for VAT this needs to be done every two months for most SMMEs. By contrast, provisional tax generally needs to be calculated every six months, and the final income tax return needs to be completed annually. Because of these differences, it was decided to ask respondents in Question 4.32 to estimate the average time spent by individuals in the business on tax compliance activities during the financial year ending between 1 April 2018 and 31 March 2019. This question's phrasing contrasts with that in the study by Evans et al. (1997: 34), who requested respondents to provide a monthly average of the time spent on activities undertaken for tax compliance purposes. There are, however, concerns that asking annual hours instead of monthly averages may affect hourly estimates (Eichfelder & Hechtner 2018: 23).

It is uncertain which form of the time dimension of cost measurement (monthly or annual hours) will lead to more realistic cost estimates (Eichfelder & Hechtner 2018: 24). Since the estimation of monthly time is more closely related to recent experience, respondents might

more easily remember these figures. Then again, a shorter estimate period may be misleading if a tax activity is not performed monthly (for example, the submission of an annual income tax return). Overestimation may also occur if an activity that requires an unusually high number of hours took place in the most recent month, such as submitting an objection against an assessment. Therefore, it was decided that it would be more useful for the respondents to multiply the time taken for each activity to get to an annual figure than to divide their time by the number of months to get to a monthly figure. It was hoped that using this method would increase the reliability of the data, minimising the risk of poor-quality data.

Once the hours spent internally on various tax compliance activities per year were established, it was necessary to determine how much this time cost the business. Before this could be achieved, it was essential to determine who performs these tax compliance activities within the business, as the value of the time spent depends on the individual who performs these activities. This approach was used because splitting the time spent on various tax compliance activities by different categories of persons improves estimates of tax compliance costs (Sullivan 2005: 3). The three types of employees who perform tax compliance activities in the business considered in the current study were identified in a previous study by Smulders et al. (2012:192), namely owners (members of CCs, directors of companies, sole proprietors or partners of partnerships), paid employees, and unpaid helpers or friends.

To attach a Rand value to the hours reported by the respondents (hours spent on tax activities per type of employee), the hours were multiplied by a rate per hour. It was thus essential to establish an applicable rate per hour to use. Placing a value on this internal time usually involves subjective estimates (Reekmans & Simoens 2010: 5). To ensure, as far as possible, that these estimates are valid, alternative estimates should be obtained. For comparative purposes, the valuation of internal time spent on tax compliance activities in the current study was thus based on the methodology used by local and international studies on the evaluation of tax compliance costs for small businesses (Gupta & Sawyer 2015; Coolidge 2012: 254; Smulders et al. 2012). This methodology involved requesting respondents to provide values for time spent on tax compliance activities for each type of employee in the business. Respondents were therefore asked in Question 4.34 what they thought the approximate hourly value for the time spent by each type of employee was.

These values were then benchmarked against publicly available external salary information to ensure that there was some degree of quality control over the values provided by the respondents.

After these questions dealing with internal tax compliance costs, the next section of the questionnaire asked respondents to estimate non-labour tax compliance costs. It is challenging to allocate non-labour costs to tax compliance activities (Pope 2000: 16). It has been suggested that it may be prudent for practical reasons to exclude these costs from estimating/calculating tax compliance costs in studies on small businesses (Sandford 1995b: 396). However, this would have the effect of an underestimation of tax compliance costs (Tran-Nam et al. 2000: 236). In this study, an attempt was made to estimate non-labour tax compliance costs by asking respondents in Question 4.35 the cost incurred on the non-labour cost items identified by the researcher in the literature (Tran-Nam et al. 2000: 236) and based on discussions with stakeholders. However, respondents were specifically asked to exclude any capital non-labour costs, in line with the suggestion by Evans and Tran-Nam (2014: 10), because a computer may, for example, be used for tax and business purposes.

The last two questions in this section asked whether the business incurred any tax-related penalties or interest during the period under investigation. If so, respondents were asked to indicate the reasons for the penalties and the interest. These questions were included because taxpayers may consider these measures by revenue authorities to be burdensome (IFC 2017: 8), and penalties may have an impact on the tax compliance behaviour of taxpayers (Nuridayu, Rosiati & Norul 2017: 90), thereby influencing tax compliance costs of taxpayers in their efforts to be tax-compliant. Penalties and interest which result from taxpayer non-compliance may also indicate tax complexity, which may also increase tax compliance costs for taxpayers (Torgler 2007: 56).

4.5.1.5. *Small business tax concessions*

Special tax relief for SMMEs is popular with governments, which often believe they can appeal to voters by making promises of help through the tax system to this sector (Dixon,

Freedman & Yesegat 2019: 235). These concessions⁴⁸ were therefore introduced to provide relief for the tax compliance burden (including relief from tax compliance costs), but it was found that these relief measures seem to add to the complexity of the tax system (Dixon et al. 2019: 264; Gluckman 2012: 33). There is a perception that these concessions may be more complex than useful, and not worth the effort (Smulders et al. 2012: 216). Contrary to these findings, it has also been found that the use of small business tax concessions reduced external tax compliance costs for small businesses (Smulders et al. 2017: 146). This category of questions (Questions 5.1 to 5.9) therefore attempted to establish the extent of eligibility and use of small business tax concessions by SMMEs in South Africa, as well as the usefulness and complexity of these concessions from the perspective of SMMEs, because these factors all ultimately have a bearing on businesses tax compliance costs. Using skip and display logic, SMMEs that did not qualify for small business tax concessions were transferred to the next category of questions. Respondents who were unsure or did not know whether they were eligible for any small business tax concessions were asked to provide reasons regarding why they were unsure or did not know.

4.5.1.6. *Determinants of tax compliance costs*

This category of questions was asked to determine the respondents' perception regarding determinants that could drive the tax compliance costs for an SMME. Respondents were therefore asked whether their overall tax compliance burden had increased or decreased during the last five years. Next, they were asked to rank the type(s) of tax they were registered for, in order of most burdensome to least burdensome. Lastly, they were asked to indicate their perception of the impact of a list of determinants (given to them in the question) on tax compliance costs, from no impact to enormous impact, using a Likert scale-type method⁴⁹ of questioning. The determinants provided to the respondents were identified in Evans et al. (2016), Lignier et al. (2014), the literature reviewed (see Section 3.4) and the comments received from the stakeholders involved in the development of the questionnaire.

⁴⁸ For a list of small business tax concessions available for South African SMMEs see Section 2.2.3.

⁴⁹ A Likert scale is a summative scale that adds up the scores of items to measure an attitude towards a statement (Joshi, Kale, Chandel & Pal 2015: 397), to provide a holistic view of respondents' opinions.

4.5.1.7. *Interaction with SARS*

This category of questions was asked to obtain respondents' perceptions regarding the various issues affecting the climate of the interactive nexus between SMMEs and SARS concerning tax matters. Because one of the objectives of this study was to investigate the effect of the use of power by SARS and/or trust in SARS on SMMEs' tax compliance costs, some of the questions in this section focused on understanding the dimensions of the power of and/or trust in revenue authorities in line with the extended SSF (see Section 2.3.5). The other questions identified determinants of tax compliance costs and their influence on the climate of interactions between SMMEs and SARS. The questions dealing with dynamics and interaction of power and/or trust are discussed first.

To measure the respondents' perception of SARS's coercive power, seven items were provided to respondents in Question 8.10, which the respondents had to rate from strongly disagree to strongly agree. These items focused primarily on the use of "harsh" power by SARS (see Section 2.3.5) and were adapted from Lozza et al. (2013: Appendix A) and Gobena and Van Dijke (2016: 34) for South African taxpayers. Five items were included in the questionnaire to gauge the respondent's perception of SARS's legitimate power. Question 8.4 was set up in such a way that a high score of 5 on the strongly agree to strongly disagree scale indicated that SARS has the power to manage tax evasion. These items were adapted from Kogler et al. (2013: 178).

As mentioned in Section 2.3.5, the extended SSF differentiates between different forms of trust. The reason-based trust of respondents in SARS was assessed by Question 8.5. Eight items were provided to the respondents where they had to indicate their perception of the expertise and abilities of SARS officials who interact with the SMME, rating this from strongly agree to strongly disagree. If a respondent strongly agreed with the items, it indicated that the respondent perceived that there are reasons for the respondent to trust SARS. To measure respondents' implicit trust in SARS, Question 8.6 provided five items that respondents had to reply to. The reason-based trust and implicit trust questions were adapted from Gobena and Van Dijke's (2016: 34) study. They in turn developed the questions from a study investigating the nature and functioning of interpersonal trust relationships among managers and professionals in organisations by McAllister (1995: 37).

The concept of the perceived fairness of SARS (in the respondents' opinion) was measured by focusing on a respondent's perception of the three main aspects of fairness, namely procedural, distributive and retributive justice (Tan & Braithwaite 2018: 228). Procedural justice deals with the whole decision-making process of resource allocation; distributive justice focuses on the outcome of the resource allocation; and retributive justice refers to the perceived fairness of the sanctions imposed if rules are broken (Wenzel 2002: 45 & 46). According to Kirchler et al. (2008: 219), perceived fairness is connected to the SSF because the just treatment (procedural and distributive justice) of taxpayers by revenue authorities assists in improving trust between the parties; retributive justice is concerned with penalties imposed on tax evaders through the power of revenue authorities (Kirchler et al. 2008: 219). Accordingly, procedural justice was measured by Questions 8.7, 8.8 and 8.11; distributive justice was measured by Question 8.9; and retributive justice (as a proxy of coercive power) was assessed by Question 8.10. Because procedural justice assists in the perception that the revenue authority's actions are fair, and that it does not abuse its power (Gobena & Van Dijke 2016: 26), and because it deals with the whole decision-making process, as indicated above, three questions were put to the respondents to gauge their perception of the administrative procedures of SARS (Question 8.7), their perception of the fairness of the decisions made by SARS (Question 8.8), and their perception of the consultation process from SARS's side with taxpayers (Question 8.11). These questions were adapted from previous studies investigating the relationship between procedural fairness and tax compliance (Gobena & Van Dijke 2016: 33 & 34; Tan & Eva 2016: 542 & 544). Four items were provided to respondents in Question 8.9 to measure their perception of distributive justice. These questions were modified for the South Africa taxpayer's viewpoint from Tan and Eva's (2016: 542) study.

The dynamics between the power of and trust in revenue authorities (taking into account the fairness perception of taxpayers) may create three different relationship climates between taxpayers and revenue authorities – an antagonistic, service or confidence climate; these climates may lead to different levels of cooperation by taxpayers (Gangl et al. 2019: 4). The climate between taxpayers and revenue authorities was measured by providing respondents with nine items in Question 124, where respondents had to indicate their level of agreement (from strongly disagree to strongly agree) with these items. These nine items consisted of three items each for the three different climates, and were adapted for South Africa

taxpayers from previous studies (Hofmann, Hartl, Gangl, Hartner-Tiefenthaler & Kirchler 2017: Appendix; Gangl et al. 2015: 20) to identify the perception of respondents of the relationship climate between SMMEs and SARS.

According to the extended SSF, the three interactive climates may be the catalyst for the level of cooperation by taxpayers, namely enforced tax compliance, voluntary cooperation and committed cooperation (Gangl et al. 2015: 19; Gangl, Hofmann, De Groot, et al. 2015: 16). Enforced compliance is the result of an antagonistic climate, as measured by Question 123. Five scale items were taken from Kirchler and Wahl (2010: 344) and were given to respondents. They had to indicate their response to the items, from strongly disagree to strongly agree, to gauge whether the respondents felt forced to comply with South African tax laws and regulations. Voluntary cooperation, which should flow from a service climate, was measured by Question 8.12. Again, five items were provided to respondents from Kirchler and Wahl's (2010: 344) study to measure respondents' perception regarding the level of voluntary cooperation from SMMEs. The third cooperation level, namely committed cooperation, was measured by Question 8.13. The items used in this question were adopted from Gangl, Hofmann, De Groot et al.'s (2015: 19) study.

According to Eichfelder and Kegels (2014: 212), the administration quality of revenue authorities may be a way for revenue authorities to build trust, and revenue authorities have the power to increase or decrease tax compliance costs by increasing or decreasing tax complexity. Therefore Question 8.2 was included in this study to measure the perceived administration quality of SARS. Question 8.3 was added to measure the perception of SMMEs regarding tax law complexity in South Africa. These questions were adapted for South African taxpayers from Eichfelder and Kegels's (2014) study.

4.5.1.8.*Closing questions*

This last section contained five questions where respondents had to indicate their position in the business, their highest qualifications and their accounting knowledge. At the end, two open-ended questions were asked, where respondents could suggest how they thought tax compliance costs could be reduced for SMMEs, and to give any other information relating to tax compliance costs that the respondents wanted to draw to the researcher's attention.

4.5.2. *Pilot testing*

To detect weaknesses in the design of the questionnaire and the procedures and protocols used during the data collection process, pilot testing was initiated and completed before sending out the link to the final questionnaire to the respondents, as advocated by Saunders et al. (2019: 540). The initial pilot testing involved the use of academics. An e-mail containing a covering letter explaining the purpose of the research and the link to the survey platform hosting the online questionnaire was sent out to the various local academics and two international academics actively involved in tax compliance cost research. Their responses provided insight into potential questionnaire problems,⁵⁰ as well as future analysis considerations. The recommendations made by the academics were taken into consideration and adjusted. The questionnaire was then distributed to respondents through the following channels: SAICA, social media platforms (namely LinkedIn and Facebook), and the researcher's e-mail contacts. However, as indicated in Section 4.4, due to the low response rate, SARS was approached in an attempt to increase the number of respondents.

After the memorandum of understanding between UNISA and SARS was signed, the questionnaire was pilot-tested again before the final distribution to the respondents. This second pilot test involved SARS's internal personnel. A detailed list of their comments was mailed to the researcher, and their comments and suggestions were attended to. Changes were made where necessary to the questionnaire. After this, SARS sent the link to the updated questionnaire to 90 randomly selected SMME taxpayers in the final pilot testing phase. The only concern raised by the final pilot testing was the length of the survey, but due to the nature of the study, and the data required to achieve the research objectives, it was decided not to remove any questions. After that, the link to the final questionnaire was distributed by SARS to the target population.

4.5.3. *Responses received and number of usable responses*

The e-mail containing the link to the final questionnaire for SMMEs was sent out by SARS on 18 March 2019. SARS sent out a reminder e-mail on 26 March 2019 to remind the

⁵⁰ Potential questionnaire problems identified included display logic issues and some unclear questions.

respondents of the survey's closing date (12 April 2019). The number of valid responses added up to 4 557, representing a response rate of 3.06%. For the purposes of this study, fully completed surveys were needed to achieve the research objective of calculating the tax compliance costs of SMMEs, so only 771 of the responses were usable after data cleaning, which represents a response rate of 0.51%.⁵¹ It should also be noted that the number of usable responses in this study is in line with the *number* of usable responses obtained in other studies (see Table 3.1 for the number of usable responses from international studies, which ranged between 40 and 6 003 usable responses). Nevertheless, the response rate in the current study is considered low. It is also evident that this response rate is not a true reflection of the actual response rate.

Many respondents were willing to respond to the survey and actually tried to do so. However, they could not complete or submit their answers due to various problems that were experienced. Because the survey was sent via a bulk e-mail, some e-mail system operators may have identified it as spam (unsolicited e-mail). In such cases, the email was either not sent to the recipient or was marked as spam on the mail, which may have caused the recipient to delete it immediately. In addition, some e-mail addresses for the businesses on the SARS database were incorrect. Others could have changed, but changes were not communicated to SARS. The e-mails were therefore delivered to the wrong e-mail address or not delivered at all. It may also be that targeted persons were out of the office and had no access to their e-mails. Some respondents requested the questionnaire in Afrikaans, but due to financial and time constraints, this request could not be accommodated, and responses may thus have been lost due to this factor.

The completion time of the survey was stipulated as 45 minutes, which is relatively long. This time requirement, coupled with the detailed nature of the questions, might have caused some taxpayers not to attempt the survey. They may have decided that it was too difficult to complete and abandoned it altogether. There might also have been some level of “survey fatigue”. The same respondents had been sent various other tax-related and non-tax-related

⁵¹ Saunders et al. (2019: 507) indicate that internet-based surveys outside organisations typically have a response rate of 10% or lower. In a study in Germany focusing on the tax compliance costs of private households, a response rate of 0.54% was documented, but when only usable responses were taken into account, the response rate dropped to 0.33% (Blaufus et al. 2019: 932-935).

(for instance, statistical) surveys in the last few months before receiving the current survey. Responses could have been lost because respondents perceived the survey as a hoax or spam mail. This assertion is supported by the fact that some respondents contacted either the researcher or SARS to confirm whether the survey was authentic. The cause of this might have been various hoax e-mails that were sent to the public during this time dealing with and relating to SARS and taxpayers.

Although every effort was made to ensure that the survey was conducted without any problems, the list above offers plausible explanations of factors that could have had an impact or caused the low response rate. Notwithstanding these challenges, a total of 771 usable responses should provide useful information and understanding into this research area despite these limitations.

4.6. Data analysis

This section explains the methods of analysis and the statistical techniques that were applied to the data to achieve the research objectives. The responses collected from Qualtrics were first exported into Excel. These results were then “cleaned” by the researcher (see Section 4.7). After cleaning the results, the data were imported into a statistical analysis programme to assist with the statistical analysis. The most appropriate method of analysis to address the research aim and objectives was chosen for this survey – as in many tax compliance cost surveys,⁵² the Statistical Package for the Social Sciences (SPSS) was used as the analysis programme. All statistical tests performed as part of the data analysis process were conducted under the supervision of a qualified statistician.⁵³

Standard descriptive statistics (mean, trimmed mean, median, standard deviation, skewness and kurtosis) were calculated and are discussed in detail in Chapter 6, where the results for the measurement of tax compliance costs are analysed. Standard descriptive statistics and regression analysis were used to identify the determinants of tax compliance costs, as discussed in Chapter 7.

⁵² See, for example, Smulders et al. (2016: 716) and Gupta and Sawyer (2015: 149).

⁵³ Dr Marthi Pohl.

In addition to standard descriptive statistics and regression analysis, the SEM technique was used to investigate the effect of the use of power by SARS and trust in SARS on SMMEs' tax compliance costs. SEM uses various models to investigate a series of dependent relationships among variables, with the primary goal of providing a way to test a theoretical model developed by the researcher (Schumacker & Lomax 2010: 2). This technique offers an advantage over first-generation statistical tools such as regression, because SEM enables a researcher to model relationships among independent and dependent constructs simultaneously (Gefen, Straub & Boudreau 2000: 3; Anderson & Gerbing 1988: 422). Another advantage of this technique is that measurement error is considered in the data analysis process (Schumacker & Lomax 2010: 7).

The graphic depiction of a complete SEM model, known as a path diagram, indicates the relationships that employ specific conventions for the constructs and the measured variables and the relationships between them (Geffen et al. 2000: 24, Ullman and Bentler 2012: 661). Lines represent relationships between variables. If there is no line connecting variables, no direct relationship exists. Lines with one arrow indicate the dependence relationship between the latent construct and the measured variables, and a line with two arrows indicates a correlation relationship (Ullman and Bentler 2012: 661). The researcher must accept or reject the entire model, determining whether the overall model fit is acceptable. SEM will therefore assess how well the proposed model fits reality as represented by the data of the study (Geffen et al. 2000: 26)

The models were then evaluated based on goodness-of-fit indices to test whether the proposed measurement models fitted the data. Several goodness-of-fit indices, which reflect the extent to which a model can be considered an appropriate means of data representation, are suggested. The following goodness-of-fit indices were used in this study (Hair et al. 2010): First, the chi-square value (CMIN). A test statistic of the goodness-of-fit model is used when testing the null hypothesis to establish whether the model fits the analysed covariance matrix perfectly. The model is rejected when the p-value is smaller than a pre-set significance value. Next, the root mean square error of approximation (RMSEA): This indicator considers model complexity, with less rigid requirements for degree of fit. Its primary principle is to evaluate the extent to which the model fails to fit the data. Next, the Tucker-Lewis index (TLI) and the incremental fit index (IFI) compare the chi-square value

against a baseline or independent model, assuming that all covariances are zero. Lastly, the comparative fit index (CFI) compares a proposed model with the null model, assuming no relationships between measures.

Lastly, open-ended questions where respondents could suggest how they thought tax compliance costs could be reduced for SMMEs and any other information relating to tax compliance costs that the respondents wanted to bring to the researcher's attention were grouped according to categories using Excel, following an inductive approach. The researcher categorised them according to the themes that emanated from the literature review and confirmed these with other academics who have worked in this research area.

4.7. Validity and reliability

Several strategies were employed to ensure that valid and reliable data support the conclusions reached. Many types of validity are defined in research. Regarding questionnaires, criterion-related validity, construct validity and content validity applies (Saunders et al. 2007: 366-367). Criterion-related (predictive) validity is concerned with the ability of the measures (questions) to make accurate predictions (Saunders et al. 2007: 367). As the study objective is not to make any predictions, criterion-related validity does not apply. Construct validity refers to the extent to which the measurement questions actually measure the presence of the constructs they intended to measure. Construct validity of the questions included in the questionnaire quantifying the tax compliance costs and which were discussed in Section 7.2 was assessed using exploratory factor analyses. Content validity refers to whether the questionnaire adequately addresses the research question. Judging content validity is done through a panel of experts in the field which assess each measurement question in the questionnaire to determine if they are “essential”, “useful but not essential”, or “not necessary” (Saunders et al. 2007: 366). In this study, the questionnaire was reviewed by experienced local and international academics involved in tax compliance costs research. The questionnaire was also tested by means of a pilot survey (see Section 4.5.2) before being used in the final survey. Further procedures were also performed to ensure that the results of the survey were reliable and valid. These are discussed below.

The Qualtrics survey platform includes several validation rules, which are available in the design process of the online questionnaire. These were used to ensure the accuracy of the captured data. For example, questions that required numerical answers were formatted not to accept any alphabetical characters, and where respondents had to apportion hours between different types of employees, a constant sum valuation rule was used to ensure that, where appropriate, percentages always added up to 100.

Once the survey closed, the data were cleaned by inspection and by removing any obvious errors and inconsistencies. After this, the initial data analysis was performed, which further assisted in detecting errors or inconsistencies (including extreme outliers). Finally, the “other” and “please describe” options available on various questions to accommodate respondents who wanted to respond to other aspects not covered by the categories provided were analysed. The “other” category for each of these questions was analysed and re-allocated to the original categories if possible. Where this was not possible, the response was left in the “other” category. These procedures were employed to ensure improved data quality, as recommended by Van den Broeck, Cunningham, Eeckels and Herbst (2005: 966) and Rahm and Do (2000: 3).

Regarding the questions relating to determinants of tax compliance costs and the SSF questions, construct validity was investigated by using exploratory factor analysis. Factor analysis is a multivariate statistical procedure used to define the underlying structure among variables in an analysis (Taherdoost, Sahibuddin & Jalaliyoon 2014; Hair, Black, Babin & Anderson 2010). It provides researchers with tools to analyse the interrelationship structure among many variables by defining sets of highly interrelated variables. These sets of variables, known as factors, are assumed to represent dimensions in the data. Two main techniques are used in factor analysis. First, confirmatory factor analysis attempts to confirm hypotheses based on instruments that have already been established in research. Second, exploratory factor analysis attempts to uncover complex patterns and relationships between measured variables by exploring the dataset and testing predictions (Taherdoost et al. 2014; Hair et al. 2010). Confirmatory factor analysis was not considered appropriate for the current study, as the items grouped under each construct were adapted from different instruments to suit the current research content, a strategy described by Yahaya, Idris, Suandi and Ismail (2018: 275).

Exploratory factor analysis starts by checking the suitability of the data for factor analysis. According to Hair et al. (2010), the data are considered suitable for factor analysis if Bartlett's Test of Sphericity, which is a statistical test for the overall significance of all correlations within a correlation matrix, shows a statistically significant value less than 0.05. In such a case, the variables are sufficiently correlated to provide a reasonable basis for factor analysis. In addition, using the Kaiser-Meyer-Olkin (KMO) criterion, the value should exceed 0.5. If both these criteria are met, factor analysis is considered appropriate. Next, a decision should be made regarding the factor extraction method and rotation method. For this study, principal axis factoring and promax rotation were used because they should generally give the best result for this type of study (Costello & Osborne 2005: 2 & 3). Then, the number of factors was identified, taking into account only factors based on the eigenvalue criterion of eigenvalues greater than 1.0 (Field 2018). Once the number of factors had been identified, it was necessary to determine the pattern of items⁵⁴ for each factor. Only factors with a loading greater than 0.3 were considered for further analysis (Tabachnick & Fidell 2001).

Reliability determines whether the questionnaire will have consistent findings at different times and under different conditions. Three types of reliability testing exist. They are reliability over time (test re-test reliability), reliability across items (internal consistency) and reliability across different researchers (inter-rater reliability) (Saunders et al. 2007: 367). The first type concerns itself with measuring the same instrument with the same respondents at a different point in time with as near equivalent conditions as possible. This reliability was not tested in the current study as the respondents replied to an online questionnaire distributed by SARS and retesting at a different time point was not feasible. The second type, internal consistency, measures the consistency of responses across all the questions or a subgroup of the questions from a questionnaire. There are a variety of methods for calculating internal consistency. Cronbach's alpha was used in this study to measure internal consistency. Finally, inter-rater reliability refers to the degree of agreement among independent observers who rate, code, or assess the same phenomena. This type of reliability does not apply to the current study.

As indicated Cronbach's alpha value was used to assess the internal consistency (reliability)

⁵⁴ Items grouped under each construct.

of the elements to ensure consistent measurement across various items in the survey instrument. A large alpha value indicates that a large proportion of the variance in the test is attributable to general and group factors (Hair et al. 2010). To measure the reliability of the elements (the manner in which visitors responded to similar questions in similar ways), Cronbach's alpha was determined for each factor. A good reliability score (alpha) should exceed the threshold of 0.7, but George and Mallery (2003) argue that a Cronbach alpha value of 0.5 is generally accepted in exploratory factor analysis. Hence, factors with Cronbach alpha values between 0.5 and 0.6 were also considered acceptable, as they were deemed important for this study, and they were retained for further analysis (Field 2018).

4.8. Non-response bias

A relatively low response rate was achieved, so it was considered necessary to evaluate the possibility of non-response bias to establish whether it affected the survey results. Non-response refers to a situation where a respondent refuses to participate in a questionnaire or to answer certain questions in a questionnaire. Where there are such non-responses, there may be bias in the findings (Saunders et al. 2019: 302 & 810).

Previous tax compliance cost research did not identify non-response bias as a major problem affecting tax compliance costs research findings (Eichfelder & Hechtner 2018: 5; Evans et al. 2014: 458), probably because there are theoretical and empirical arguments for overestimating and underestimating tax compliance costs (Eichfelder & Kegels 2014: 201). Nevertheless, a wave analysis was done in the current study to mitigate such bias, if any, as advocated by Lindner, Murphy and Briers (2001: 51) and Tran-Nam et al. (2016: 467). This method assumes that late respondents are basically non-respondents (Lindner et al. 51). Analysing the differences between the late respondents and the first wave of respondents (those who answered the questionnaire first) would detect any non-response bias (Tran-Nam et al. 2016: 467; Lignier 2009: 22). According to Lindner et al. (2001: 52), there is no clear definition of a late respondent, but they recommend that late respondents are classified as respondents in the last wave, after the last reminder has been sent out for respondents to complete, and that the minimum number of late respondents should be at least 30 for analysis to be possible.

In line with this recommendation, the tax compliance cost estimates of the first 77 respondents (10% of the usable responses) and the last 77 respondents who submitted their responses were compared to each other. Differences between early and late respondents were tested using an independent-sample t-test and a non-parametric test. Even though the last wave of respondents did show a higher tax compliance cost estimation than the first wave, there was no significant difference between the two groups. Therefore, assuming that late respondents can be used as a proxy for non-respondents in line with previous research, the results suggest the absence of non-response bias, implying that the results are not biased in this respect.

4.9. Research ethics

Research ethics refers to the standard of a researcher's behaviour regarding the rights of those who are the subject of the research and/or the rights of those who will be affected by the research (Saunders et al. 2019: 253). Since this study involved human participation, approval from UNISA's College of Accounting Sciences Research Ethics Review committee was sought at the commencement of the research. It was essential to obtain ethics approval to confirm that the questionnaire's content conforms to the relevant ethical standards and that the researcher will comply with the ethical principles set out in UNISA's policy of research ethics. Ethics approval for this study was subsequently obtained from the committee on 22 August 2017 (see Appendix D), and the research was conducted according to the methods and procedures set out in the approved application.

There are a number of core ethical principles associated with internet-mediated research, as identified by Saunders et al. (2019: 259-260). These were adhered to in this study – they are each participant's right to be fully informed, the requirement of informed consent, the right to withdraw from the research, the right to confidentiality/anonymity, and the proper management and storing of data. These ethical considerations were explained in the informed consent form which was provided to all participants as the first question of the survey instrument (see Appendix A). Respondents could also indicate their consent by electing to proceed to complete the survey.

4.10. Conclusion

This chapter described the researcher's philosophical stance (positivism) and the functionalist paradigm into which the research fits. The choice of a quantitative research design was explained. The target population was established and the data collection method employed in the current study was discussed – an online survey technique was chosen as the best available technique to collect the data. The design of the questionnaire was explained in detail, as well as how it was developed and improved by means of pilot testing. The number of usable responses received was put into perspective, after which the statistical tests used during the data analysis process were identified. The techniques used to enhance the validity and reliability of the research outcome were also described, and it was established that the results were not affected by any non-response bias. Lastly, the ethical considerations relevant to this study were provided. The next chapter presents the data obtained regarding the respondents' business characteristics, small business tax concessions and the profile of the respondents.

**CHAPTER 5:
ANALYSIS OF RESULTS –
BUSINESS CHARACTERISTICS, SMALL BUSINESS TAX CONCESSIONS
AND PROFILE OF RESPONDENTS**

5.1. Introduction

In the previous chapter, the research design of this study was discussed, and the choice of an online questionnaire as a data collection method to obtain information from the respondents was explained. As discussed in Section 4.5.1, the questionnaire was designed to incorporate all the elements necessary to achieve this study's research objectives of measuring tax compliance costs, ascertaining the determinants of such costs, and investigating the effect of the use of power by SARS and/or trust in SARS on SMMEs' tax compliance costs. To achieve a better understanding of the responses provided by the respondents to specific questions in the survey and possibly assist with the interpretation of some of the results received, and to discern information regarding the most likely determinants of tax compliance costs, this chapter begins by analysing the results from the survey explicitly relating to the business characteristics of SMMEs.

As indicated in Section 3.4, the uptake of small business tax concessions has been identified in the literature as a possible determinant of tax compliance costs. Therefore, in addition to establishing South African SMMEs' business characteristics, this chapter analyses the extent to which the SMMEs were eligible for small business tax concessions, the respondents' general attitude towards these concessions, and their perceptions of the usefulness and complexity of these concessions. In the final section of the chapter, the profiles of the respondents – specifically, their position in the business, level of education and accounting knowledge – are discussed. The responses received from the survey are documented below, starting with the analysis of business characteristics. This analysis was also used to analyse the representativeness of the results.

5.2. Business characteristics

This section of the chapter discusses the responses received regarding the business characteristics of SMMEs to assist with the analysis of the results. These responses established the following data on the respondents:

- the turnover (size) of the business;
- the main activity of the business;
- the province(s) in which the business operates, and whether the business operated internationally;
- the legal structure of the business;
- the age of the business;
- whether the business is making a profit or a loss;
- the number of full-time employees employed by the business;
- the different types of taxes and incentives the business must report on;
- whether the business was subject to any tax queries, inspections or audits from SARS in the tax year under review;
- whether the business lodged an objection;
- whether the business lodged an appeal to SARS; and
- whether the business was involved in litigation with SARS, and/or used the advanced tax ruling (ATR) system.

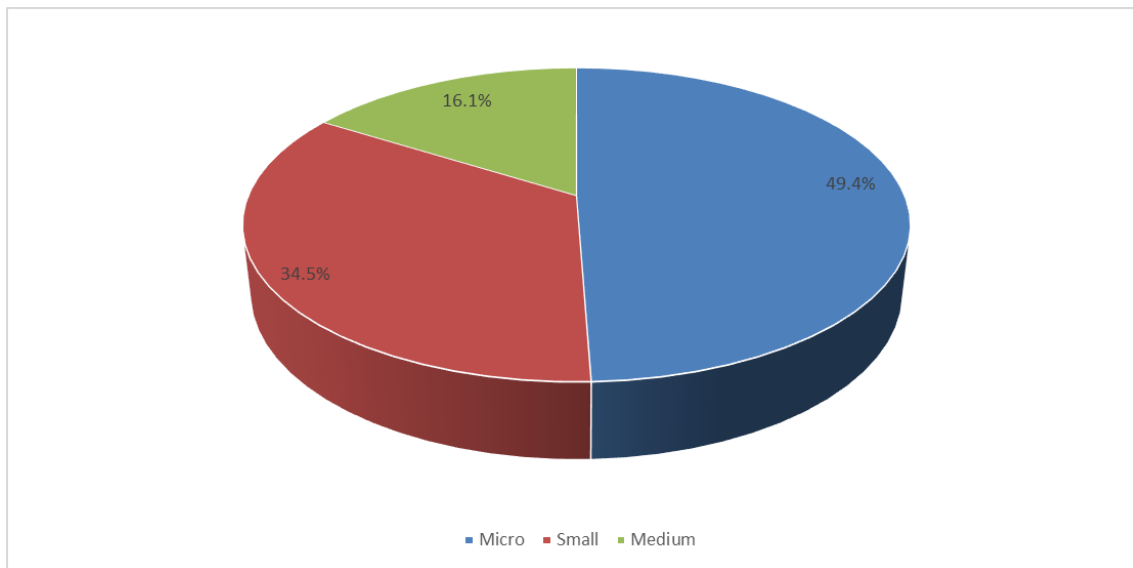
These characteristics are discussed in order below.

5.2.1. *Turnover (size) of the business*

As mentioned in Section 2.2.4, it was decided to segment taxpayers across the SMME sector by using businesses' turnover as a criterion. Thus Question 2.4 asked the respondents to indicate the business's turnover for the financial year ending between 1 April 2018 and 31 March 2019. To ensure that all the results received were comparable, the turnover excluding VAT was asked, because it was possible that some SMMEs were not registered for VAT. Turnover categories were provided to the respondents in the form of a drop-down list. These categories were based on the cut-off limits for the micro, small and medium segments of SMMEs, namely R1 million or less for micro entities, more than

R1 million but not exceeding R20 million for small entities, and more than R20 million but not exceeding R250 million for medium-sized entities.⁵⁵ A “more than R250 million” category was provided to respondents, but respondents selecting this category were redirected to a survey on large businesses that was conducted by another UNISA student. Only those respondents who indicated that they had a turnover of R250 million or less were included in the survey to ensure adherence to the definition of an SMME for this study (see Section 2.2.4). The results for this question are set out in Figure 5.1.

Figure 5.1: Turnover (size) of businesses



Source: Own computation from data collected

All turnover categories were represented. Most (49.4%) responding businesses fell into the micro business turnover category. The higher end of the turnover categories (medium businesses) contained 16.1% of the respondents. In total, 50.6% (small and medium businesses combined) of the respondents reported a turnover of more than R1 million.

Since details of the total SMME population on the SARS database were not available at the time of the research, it cannot be conclusively determined whether these respondents are representative of the whole SMME population liable to pay tax in South Africa. The only information provided to the researcher by SARS was a breakdown of the 193 957 e-mail

⁵⁵ The segments were established by using the turnover brackets of SARS for micro businesses (R1 million or less), SBCs (R20 million or less) and medium businesses (above R20 million but limited to R250 million) (see Section 2.2.4).

addresses (contacts provided by SARS) in the turnover segments. According to this breakdown, micro businesses represented 69% of the contacts, while small and medium businesses represented 23% and 5% of the respondents, respectively, with 3% classified as unknown (Moshoette 2019b). This may indicate the breakdown of the population into turnover segments, but it should be noted that only 148 605 e-mails were successfully delivered. Also, e-mail addresses of SMMEs that appeared to belong to tax practitioners⁵⁶ were also not added to the contact list, which may have influenced SARS's breakdown.⁵⁷ Therefore the breakdown provided by SARS cannot be assumed to be a definite breakdown of the SMME population. Despite this limitation, it was found that the segment breakdown of the realised sample of respondents appears to follow a noticeable common trend or shared pattern with the breakdown provided by SARS, in that it appears that most of the respondents were micro businesses, followed by small and lastly medium businesses.

From the above, it is evident that it is not possible to deduce conclusively that the SMMEs that responded to the current study were entirely representative of the SMME population that are liable to pay tax in South Africa. However, the data do indicate that the businesses that responded in this study were generally in line with the SMME sector of South Africa as derived from the only database available to the researcher.

5.2.2. *Main activity of the business*

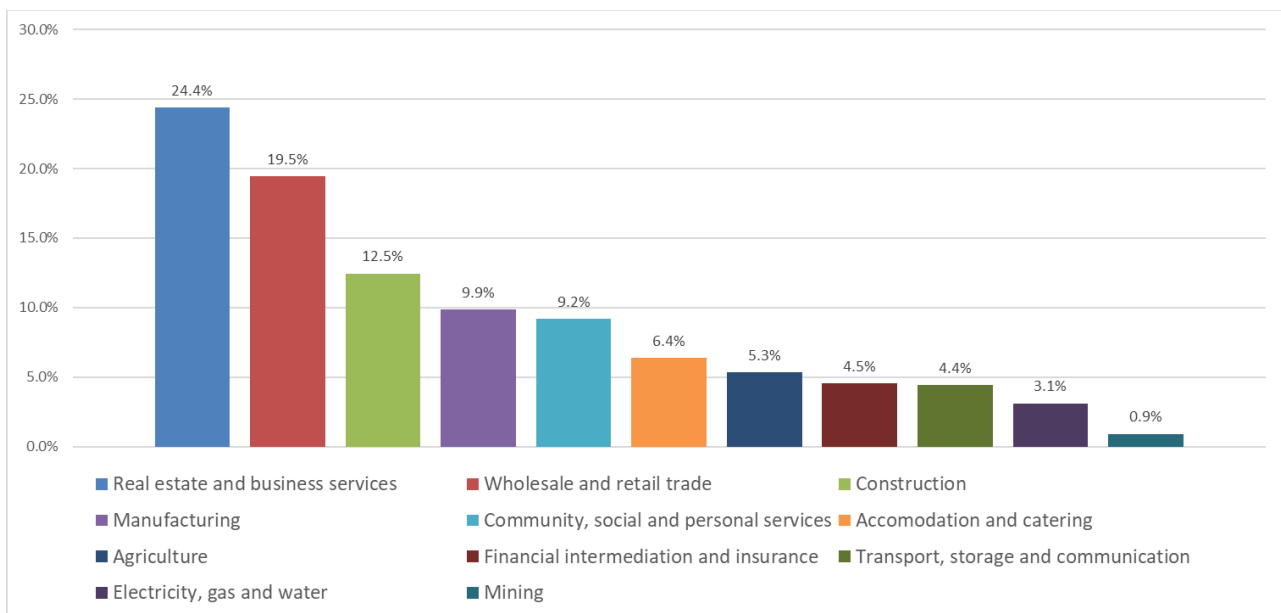
Question 2.1 asked the respondents what the business's main activity was. Besides standard business characteristics (for example, size or age), which may influence tax compliance costs, this question was asked because the literature review identified the business activity or industry which a business operates in as a possible determinant of tax compliance costs (see Section 3.4). The respondents were therefore given a list of activities based on broad sectors of the economy. The list of activities agreed largely with the Standard Industrial Classification codes (SIC codes), which are internationally accepted for

⁵⁶ Tax practitioners sometimes capture their own e-mail addresses as the registered e-mail address of the taxpayers whom they assist with the submission of tax returns.

⁵⁷ According to Smulders et al. (2012: 202), the use of external tax advisers (tax practitioners) increases as the turnover of businesses increases, and this may have resulted in the exclusion of several small and medium businesses from the SARS list, because the e-mail address registered on the SARS database for these entities appeared to be a tax practitioner's e-mail address.

the standard classification of all economic activities in a country (Statistics South Africa 2012: 12). The only difference between the list of activities provided in the survey and those provided in the SIC codes was that a few of the activities included in the SIC codes were split into separate activities in the survey to provide more detailed information for analysis purposes. The use of these categories was thus justified because Statistics South Africa recommends using SIC codes, since their use provides a standardised framework for collecting, tabulating, analysing, and presenting statistical data on businesses internationally (Statistics South Africa 2012: 11). In addition to the SIC-based list of activities, the question also provided the respondents with “other” and “please describe” options to accommodate respondents who were unsure under which main activity their business operates. These “other” responses were analysed and allocated to the correct main activity listed in Question 2.1. The responses to this question in the survey are detailed in Figure 5.2.

Figure 5.2: Main activity conducted by SMMEs⁵⁸



Source: Own computation from data collected

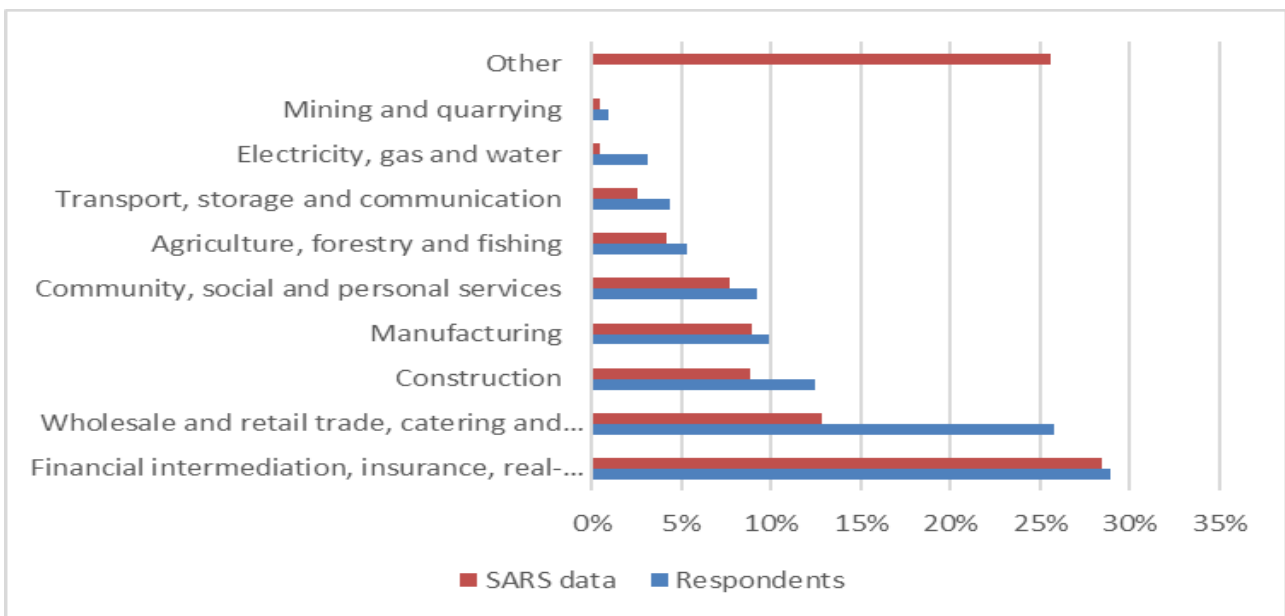
As shown in Figure 5.2, all the main activities in the SIC codes were represented in the responses received from the survey. Furthermore, it is evident that most of the respondents operated in the real estate and business services sector (24.4%). Wholesale and retail trade are the next largest category of activity (19.5%) in which the respondents were involved.

⁵⁸ Due to rounding, the respondents' total added up to 100.1% instead of 100%.

The mining sector was the least represented sector (0.9%). However, this should not materially affect the representativity of the results, as the mining sector is subject to a very specialised field of taxation that was not the focus of this study.

As indicated in Section 5.2.1 above, there are no details of the SMME population on the SARS database available to the researcher, or on the number of SMMEs per business activity in South Africa. The only public data available are the taxable income and tax assessed by economic activity from the annual tax statistics publication (National Treasury & SARS 2020: 179). These data were considered a suitable option against which the results of this survey could be compared to evaluate whether the results of the current study represented the fuller population. The comparison is displayed in Figure 5.3.

Figure 5.3: Comparison to companies by economic activity from SARS statistics



Source: Own computation from data collected and National Treasury and SARS (2020: 179)

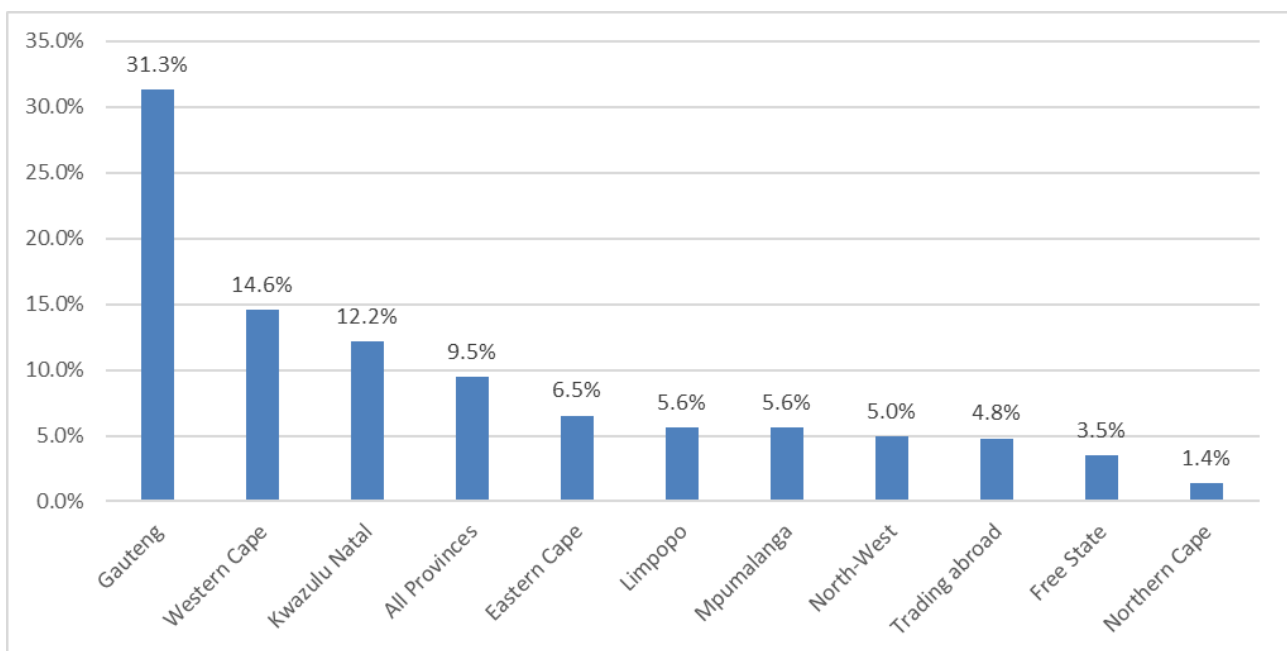
There are a few limitations with this comparison. First, the information from SARS includes all companies; thus, the SARS data include large businesses too. Secondly, the data from SARS do not include businesses trading as sole proprietors, or businesses trading in the form of a trust. Thirdly, the data from SARS include 25.6% of companies that trade in the “other” category. Lastly, the SARS data are not fully aligned with the SIC system that Statistics South Africa uses. Nevertheless, when one compares the respondents of the

current study after aligning them with the taxable income and tax assessed by economic activity breakdown of SARS, it seems that the spread of the respondents was very similar to the results from the annual tax statistics publication.

5.2.3. *The province where the business operates and/or international trade*

Question 122 asked respondents to state in which province(s) the business operates. All nine provinces were listed in the question, and options for operating in all provinces and trading abroad were also provided to the respondents. The main aim of the question was to identify respondents whose businesses trade across borders (national and/or international) because trading across borders was identified as a determinant of tax compliance costs in the literature review in Section 3.4. The results for Question 122 are set out in Figure 5.4.

Figure 5.4: Geographic areas where SMMEs operate



Source: Own computation from data collected

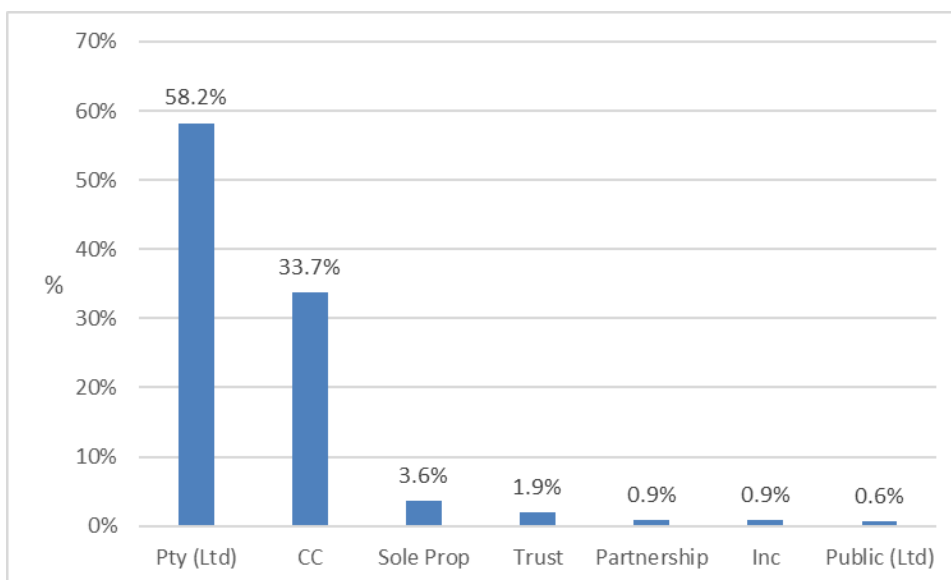
Figure 5.4 indicates that 31.3% of respondents traded in Gauteng. As expected, the majority traded in Gauteng, the Western Cape and Kwazulu-Natal (58.1%). Only 9.5% indicated that they traded in all nine provinces. A mere 4.8% of respondents indicated trading abroad. Because there are no statistics available from the annual tax statistics publication to indicate where companies operate, it was not possible to compare the results to the annual tax

statistics as in Section 5.2.2. A comparison could, however, be made to the Small Enterprise Development Agency's "SMME Quarterly Update – 1st Quarter 2019" Report (Small Enterprise Development Agency 2019: 18). This report shows that 62% of SMMEs operate in Gauteng, the Western Cape and KwaZulu-Natal. Results included in this report for the other provinces are similar to those found in the current study except Limpopo, where according to the quarterly update, 11.6% of respondents operate. The quarterly update, however, does not report on the number of SMMEs who trade in all nine provinces or abroad. This information does, however, indicate that the geographical area of where the SMMEs that responded in this study operate were generally in line with statistics published by the Small Enterprise Development Agency.

5.2.4. *The legal structure of the business*

In Question 2.2, the respondents were requested to select the legal structure in which the business(es) that they represented conducted operations from a drop-down list. The legal structure of an SMME may be a determinant of tax compliance costs, as indicated in Section 3.4, hence the inclusion of this question. Figure 5.5 indicates the responses received in respect of this question.

Figure 5.5: Legal structure of SMMEs⁵⁹



Source: Own computation from data collected

⁵⁹ Due to rounding, the respondents' total added up to 99.8% instead of 100%.

According to the results of this survey, private companies represent the legal form in which most (58.2%) SMMEs operated. This form was followed by CC's (33.7%). In addition, 3.6% of respondents indicated that they traded as a sole proprietor, and 1.9% traded through a trust. Only 0.9% of SMMEs indicated that they formed part of a partnership or traded as a personal liability company. Five respondents (0.6%) indicated that they traded as a public company.

The only publicly available data to compare the number of SMMEs per legal structure is the number of VAT vendors by type of enterprise registered at SARS for the 2019/20 tax year as published in the annual tax statistics publication (National Treasury & SARS 2020: 241). Table 5.1 sets out a comparison of the results of the current study to the data from the National Treasury and SARS' (2020) publication.

Table 5.1: Comparison of the legal structure of SMMEs to SARS-registered VAT vendors⁶⁰

Legal structure	SARS data		Current study	Over or (under)-represented
	Number of registered vendors	%	%	%
CC, Pty (Ltd), Ltd and Inc	352 771	79.23%	93.51%	14.28%
Sole Proprietor/Individual	72 575	16.31%	3.63%	(12.68%)
Partnership	7 009	1.57%	1.95%	0.38%
Trust	12 880	2.89%	0.91%	(1.98%)
Total	445 235	100%	100%	

Source: Own computation from data collected and adapted from National Treasury and SARS (2020: 241)

If the current study's results are compared to SARS's data, CCs and companies were overrepresented (14.28%), but sole proprietors were underrepresented (12.67%).

⁶⁰ For comparison purposes, the results from the current study for CCs, private, public, and personal liability companies were combined in Table 5.1, because SARS's data do not distinguish between these legal structures.

Partnerships are slightly overrepresented (0.38%), and trusts were slightly underrepresented (1.98%) in the current study.

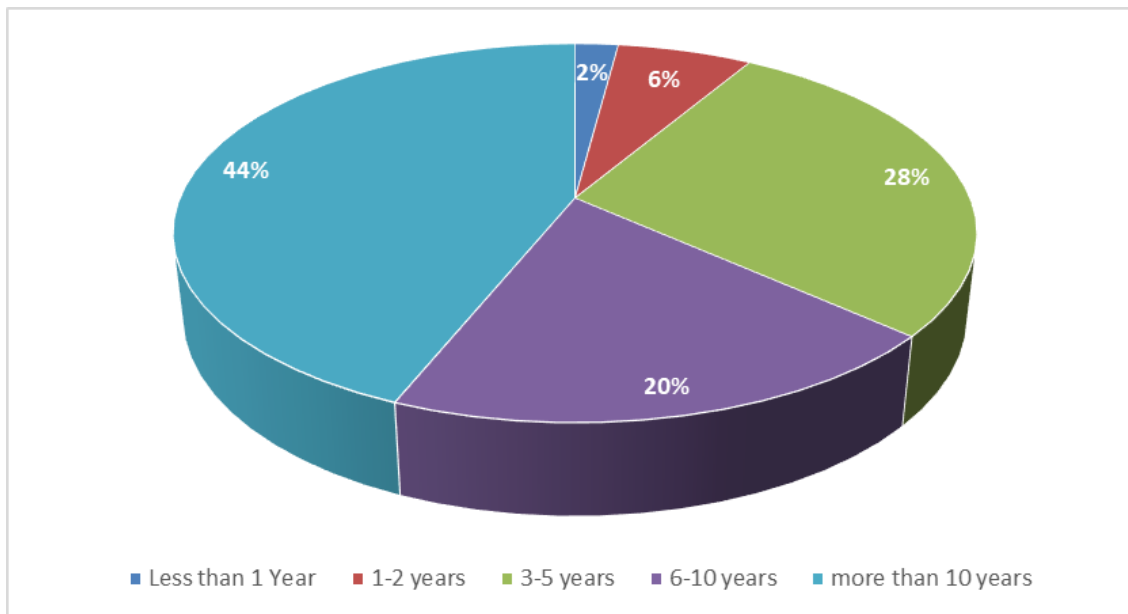
Caution should be exercised in analysing the above results for three reasons. Firstly, the National Treasury and SARS's data refer only to VAT-registered vendors, thereby excluding all SMMEs with a turnover of less than R1 million, except those that registered voluntarily for VAT, even though their turnover was less than R1 million. Secondly, the number of CCs and companies in SARS's data includes large businesses, as no clear distinction is made in the SARS document. Lastly, the number of trusts in SARS's data includes estates, as no distinction is made in the SARS document between these two types of taxpayers.

From the above, it is evident that it is impossible conclusively to deduce that the SMMEs that responded to the current study were nationally representative in terms of their legal structure. However, this information does indicate that the legal structures of the SMMEs that responded in this study were generally in line with those of the VAT-registered vendors in South Africa, and that a corporate structure (CC or company) was the principal choice of legal structure, followed by sole proprietorships. Only a low percentage of SMMEs used a partnership or trust as a legal structure.

5.2.5. *Age of the business*

Question 2.3 requested respondents to indicate the number of years for which the business had been trading. They were given a drop-down list of categories to select from. The categories and responses received are reflected in Figure 5.6. The inclusion of this question assists in gaining insight into how well-established the SMME was. The decision to include the age of a business hinged on the fact that age has been identified in the literature as a possible determinant of tax compliance costs.

Figure 5.6: The number of years the business has been trading



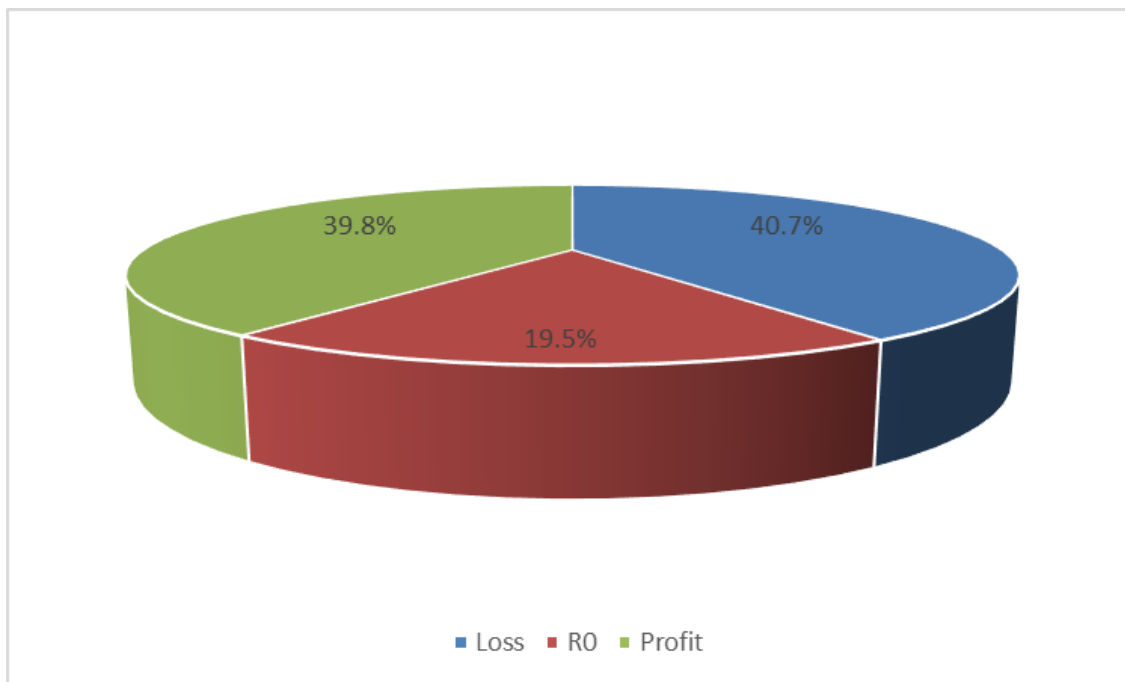
Source: Own computation from data collected

From Figure 5.6, it is clear that most respondents' businesses (64%) were experienced and established businesses that had been trading for more than five years. This result is encouraging, as the mature status of the respondents should result in more reliable and objective data.

5.2.6. *Is the business making a profit or a loss?*

Question 98 asked respondents which category best described the taxable income of the business. The respondents had to choose between “less than R nil (loss)”, “R nil” or “greater than R nil”. The results are set out in Figure 5.7.

Figure 5.7: Distribution by taxable income



Source: Own computation from data collected

The results indicated that most SMMEs (40.7%) made a loss in the 2019 tax year, with 39.8% of respondents reporting that the business made a profit, and 19.5% of respondents reporting that their taxable income was R0. These results can be compared to the annual tax statistics publication of the National Treasury and SARS (2020). According to this publication, the number of companies that reported a loss constituted 31.1% of the population, while 28.8% of companies made a profit, and 40.1% of companies had a taxable income of R0 (National Treasury & SARS 2020: 175). Even though the National Treasury and SARS statistics only show the results for companies, 93.51% of respondents in this study indicated that they either traded as a company or as a CC (see Table 5.1). Therefore, these results could be compared to each other. However, caution should again be exercised in comparing these results, because the number of CCs and companies in the SARS data includes large businesses, as no distinction is made in the SARS document.

Considering the results and bearing the above in mind, companies with R0 profit are underrepresented in the current study, as the National Treasury and SARS's (2020) data indicate 40.1% of the population, while this study reported only 19.5%. However, it should be kept in mind that most companies with an R0 profit are dormant, which means that they

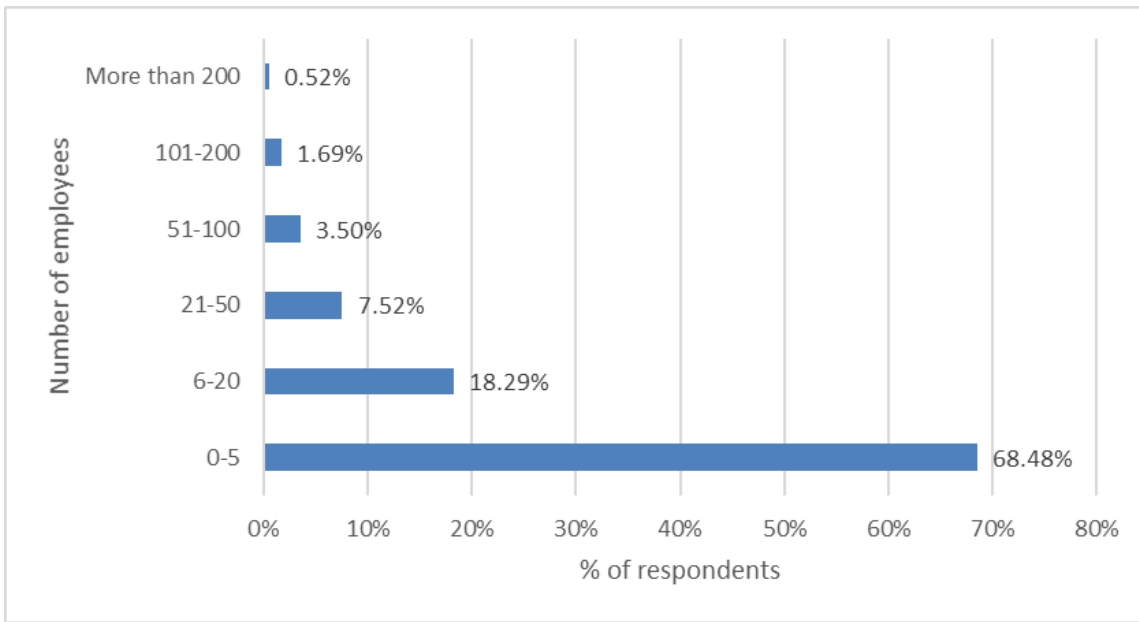
have minimal tax compliance costs. The inclusion of dormant companies would therefore cause an underestimation of tax compliance costs. Something that is similar in both studies' results is that the percentage of companies reporting a profit and the percentage of companies reporting a loss are very close to each other: the current study reported 39.8% and 40.7% respectively, while the National Treasury and SARS's (2020) results show 28.8% and 31.1%. This information indicates that the SMMEs that responded in this study were generally in line (in terms of taxable income) with those that submitted their 2019 income tax returns.

5.2.7. *Number of full-time employees employed by the business*

SMMEs are essential providers of employment opportunities to the labour force (see Section 1.1). In addition, the number of employees may also be a determinant of tax compliance costs (see Section 3.4). Question 2.6 asked respondents how many full-time employees the SMME employed for the financial year ending between 1 April 2018 and 31 March 2019. To ensure that only full time-employees were reported, respondents were reminded that employees did not include independent contractors who bill the business for their time. Consideration was given to adding a question asking respondents how many part-time employees the SMME employs. However, this would have added to the length and complexity of the survey, and the question was therefore not included, although consideration must be given to the fact that this might skew the results to some extent. Respondents were given a drop-down list of categories to select from. These categories and the results on the number of full-time employees employed by SMMEs are shown in Figure 5.8.

Of the respondents, 18.29% indicated that they employed six to 20 employees, but most respondents, just over two thirds (68.48%), employed only five or fewer full-time employees.

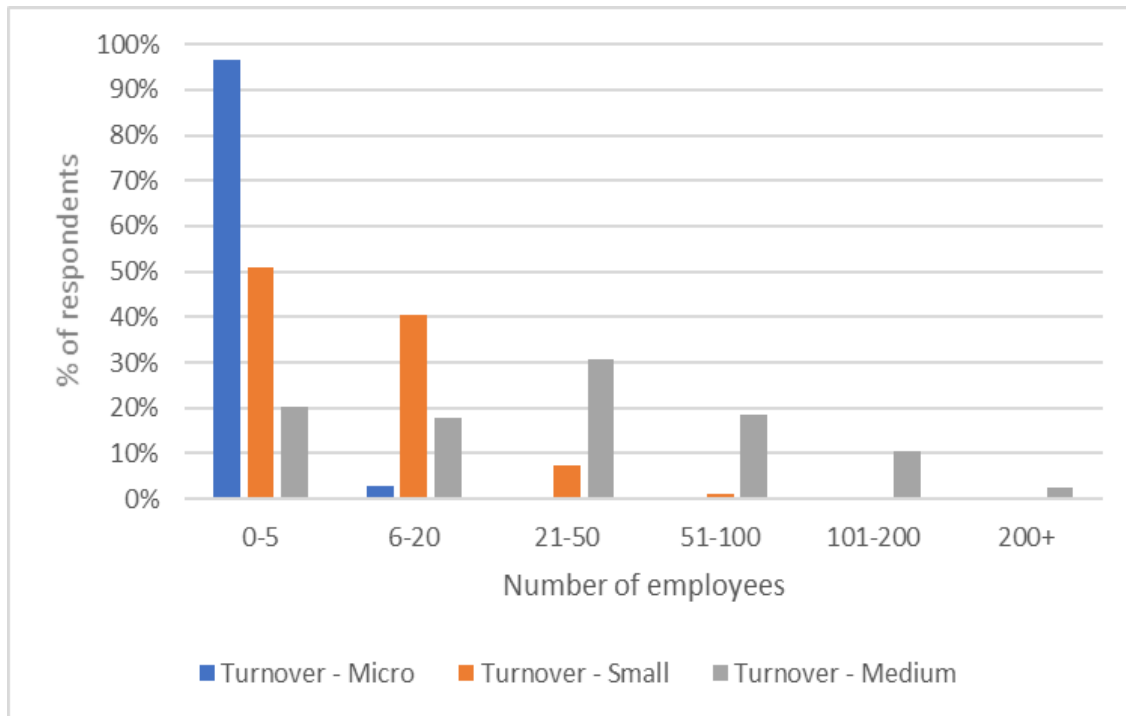
Figure 5.8: Number of full-time employees



Source: Own computation from data collected

Turnover was chosen as the criterion to determine the size of a business for the purposes of this study (as explained in Section 2.2.4). However, the number of employees is also sometimes used to determine the size of a business (see Section 2.2.1). Therefore, to determine whether similar results would have been achieved if the number of employees rather than turnover had been chosen as the qualifying criterion to classify businesses into various size categories, a cross-tabulation was done to determine the association between turnover and the number of employees in the responding SMMEs. The Pearson Chi-Square test for independence conducted on the contingency table indicated a statistically significant association between the number of employees and turnover (Pearson value = 511.27; $P < 0.05$). Figure 5.9 presents the relationship between the two variables.

Figure 5.9: Size determined by turnover versus the number of employees



Source: Own computation from data collected

From Figure 5.9, it seems that most of the respondents (96.6%) categorised as micro businesses in terms of turnover employed no employees to five employees. Thus very few micro businesses employ more than five people. By contrast, 50.8% of the respondents categorised as small businesses in terms of turnover employed no employees to five employees, and 40.6% of respondents categorised as small businesses in terms of turnover indicated that they employed six to 20 employees, while only 7.52% of respondents categorised as small businesses in terms of turnover employed 21 to 50 employees. Contrary to small businesses, 30.6% of the respondents categorised as medium businesses in terms of turnover employed 21 to 50 employees. Of these medium businesses, 18.5% employed 51 to 100 employees, and medium businesses were the only respondents that employed more than 100 employees. Some medium businesses with high turnovers also fell into the 0 to 20 employees brackets, but this is quite plausible for a business that does not involve labour-intensive operations. Therefore, a clear association between turnover and the number of employees employed by a respondent can be seen from the results in the case of micro businesses. For small and medium businesses, the strength of a positive linear relationship between turnover and employees was evident but weaker because of the

possibility that many of these businesses are not labour intensive. These findings validate the argument that the results would not differ substantially if number of employees rather than turnover were used to classify businesses into different size categories.

5.2.8. *Different types of tax the business must report on*

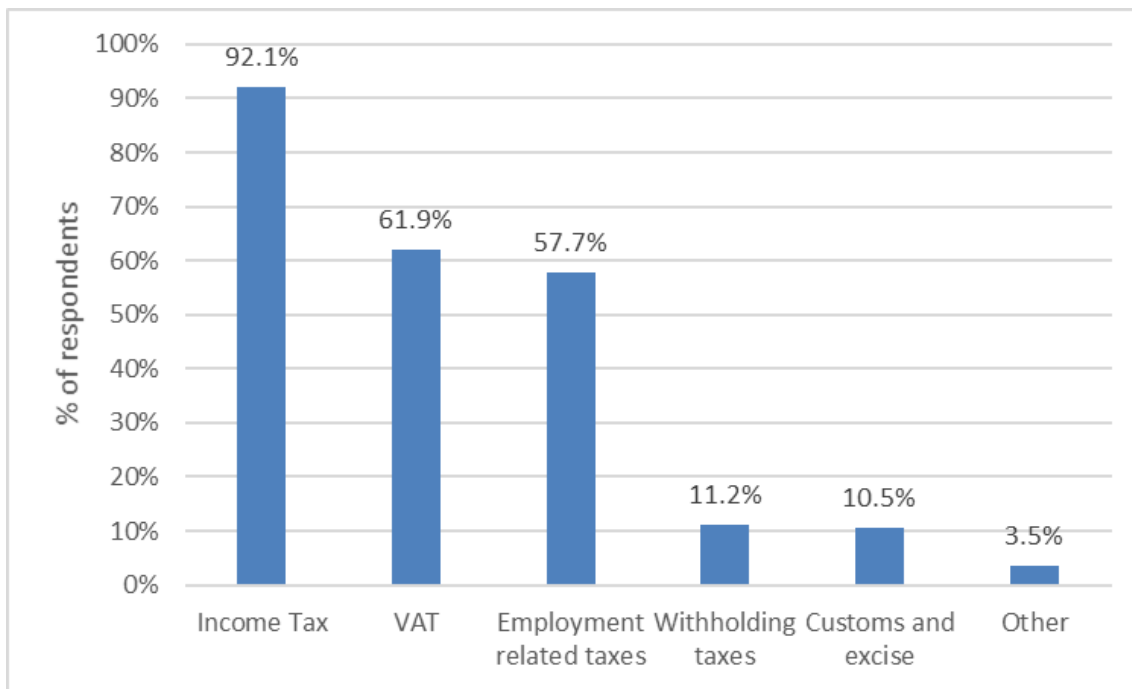
Question 2.7 asked respondents which types of tax the business had to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019. The following options were provided: “income tax (including provisional tax, CGT, turnover tax and SBC tax)”, “VAT”, “employment-related taxes (PAYE, UIF, SDL and the Employment Tax Incentive (ETI))”, “withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property)”, “customs and excise duties” and “other”. If respondents selected “other”, respondents were requested to specify the type(s) of tax they had to report on, but which was/were not among the options provided. A review of the “other” taxes provided by the respondents revealed that respondents had to calculate or report on air passenger tax, securities transfer tax and other non-tax related levies such as contributions to the compensation fund in terms of the Compensation for Occupational Injuries and Diseases Act and Financial Advisory and Intermediary Services levies.⁶¹ Because these types of taxes or levies do not form part of the main types of tax most SMMEs had to report on, and only 27 of respondents indicated that they had to report on such “other” taxes, the results for the time spent and costs incurred for the “other” category were ignored in the calculation of the tax compliance costs of SMMEs.

The question on the different types of tax a business had to calculate and report on was included for two reasons. The first was to assist in measuring the tax compliance costs per tax type to identify which tax type incurs the highest tax compliance costs. The second was that, using the display logic function of Qualtrics referred to in Section 4.5.1, respondents were only asked to complete hours and other information in the rest of the questionnaire for the tax types selected in this question, thereby removing unnecessary questions for respondents.⁶² The results of this question are presented in Figure 5.10.

⁶¹ Financial Advisory and Intermediary Services levies are levies payable by financial service providers.

⁶² For example, if a respondent was not registered for VAT, all the questions in respect of the hours or costs for VAT were not displayed for this respondent.

Figure 5.10: Tax types that SMMEs had to calculate or report on



Source: Own computation from data collected

The vast majority (92.1%) of the respondents indicated that they had to calculate or report on income tax, while 61.9% indicated they calculated or reported on VAT. In addition, 57.7% of respondents calculated or reported on employment-related taxes, 11.2% on withholding taxes and 10.5% on customs and excise. The relatively lower number of respondents who calculated or reported on employment-related taxes, compared to income tax and VAT, is in line with the result that more than two thirds (68.48%) of the respondents employed five or fewer full-time employees (see Figure 5.8).

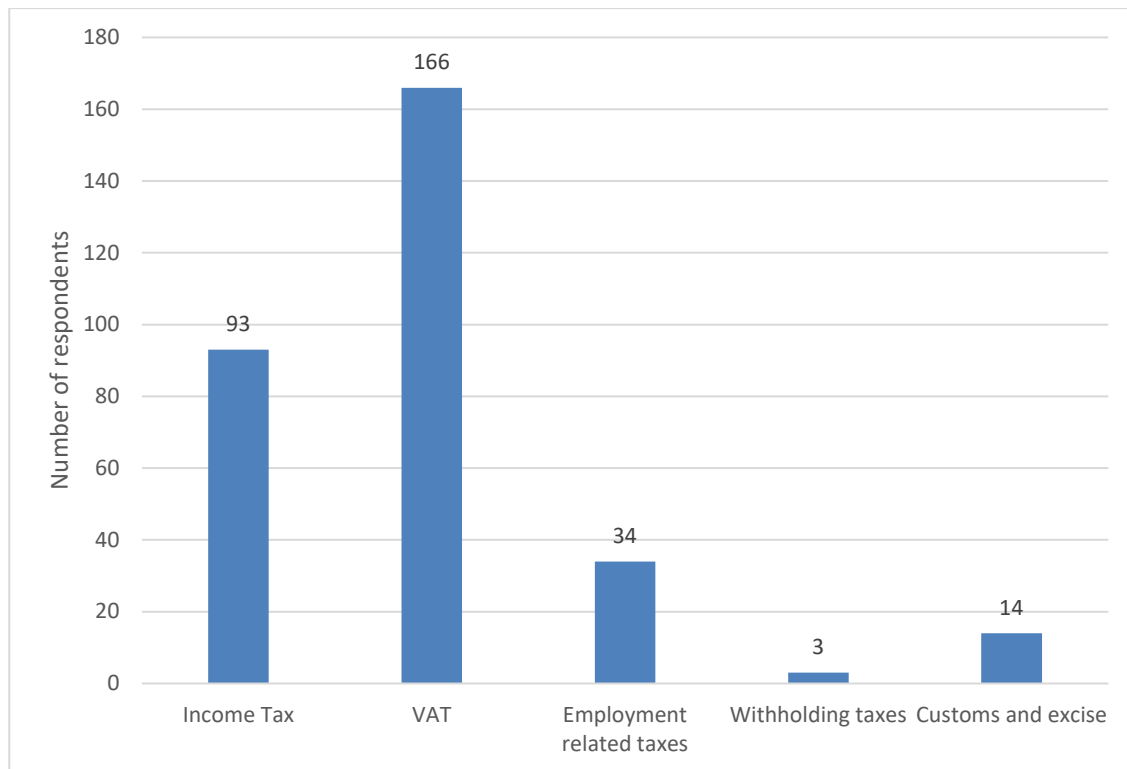
5.2.9. Was the business subject to tax queries, inspections or audits from SARS?

Related to the types of tax the respondents had to calculate or report on, the respondents were asked in Question 2.8 whether or not they were subject to any tax queries (including reviews), inspections or audits from SARS during the applicable financial year. If so, the respondents had to indicate in Question 2.9 which type of tax was the focus of the tax queries, inspections or audits. This question (as well as Questions 2.10, 2.12 and 2.16) was included to identify how many respondents were subject to post-filing tax compliance activities. As indicated in Section 3.4, previous studies did not include (or only partially

included) post-filing tax activities in measuring tax compliance costs.

Of the respondents, 30.1% indicated that their business was subject to a tax query, inspection or audit from SARS during the financial year. The distribution of the tax queries, inspections or audits between the different types of taxes are presented in Figure 5.11.

Figure 5.11: Distribution of tax queries, inspections or audits by tax type

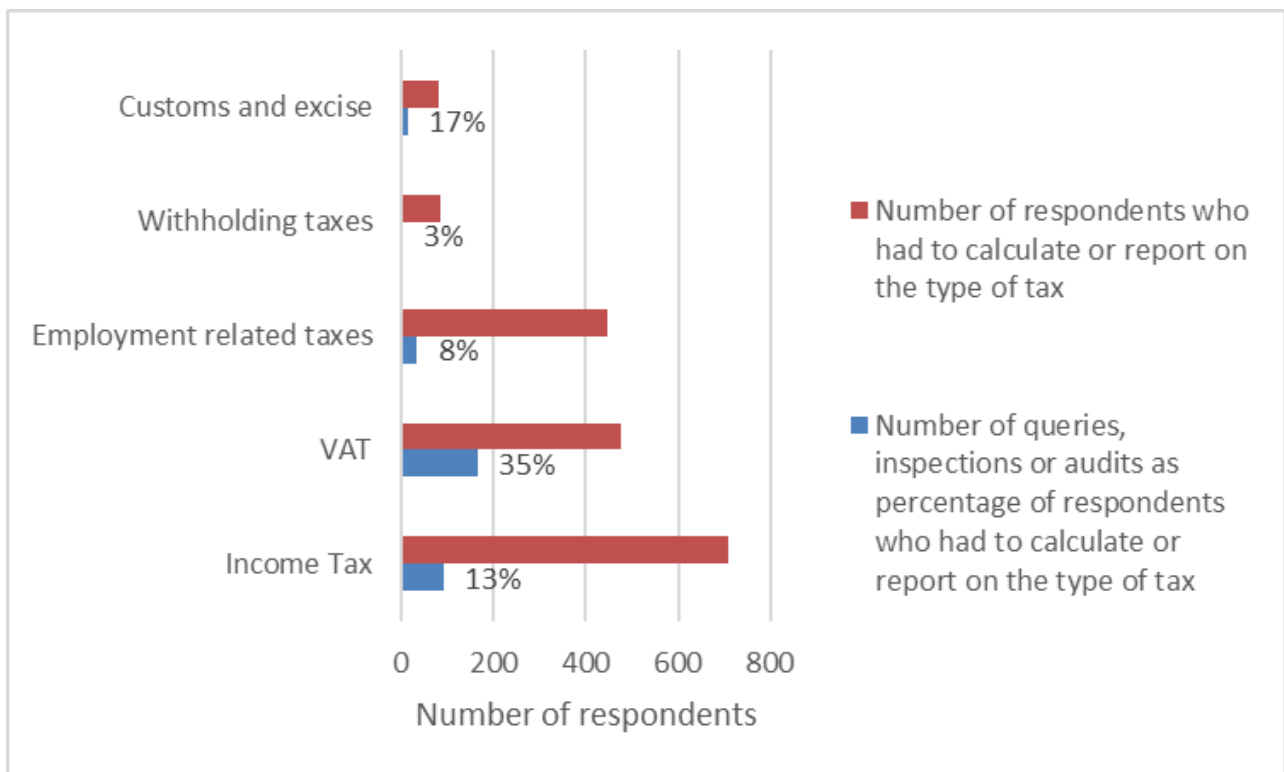


Source: Own computation from data collected

From Figure 5.11, it is clear that most tax queries, inspections or audits from SARS focused on VAT (166 respondents), followed by income tax (93), employment-related taxes (34), customs and excise (14), and lastly, withholding taxes (3). When this result is read in relation to the total number of respondents registered for the different types of tax, it seems that percentage-wise, VAT was the tax type subject to most queries, inspections or audits from SARS. Customs and excise was the second highest type of tax subject to queries, inspections or audits from SARS. Possible reasons for these two types of tax being subject to the most queries may include the fact that, because a VAT return is submitted on a self-assessment basis, there are many ways in which VAT can be fraudulently exploited (Smith & Keen 2007: 7). Where the possibility of fraud exists, SARS must guard against it.

Therefore one should expect queries, inspections or audits from SARS for this tax type. Regarding customs and excise, one of the objectives of the legislation is to prevent counterfeit and illicit trade (RSA 1964), so SARS needs to combat any potential trade malpractices with queries, inspections or audits. The results from Question 2.9 in relation to the total number of respondents registered for the different types of tax are illustrated in Figure 5.12.

Figure 5.12: Number of queries, inspections or audits as a percentage of respondents per tax type



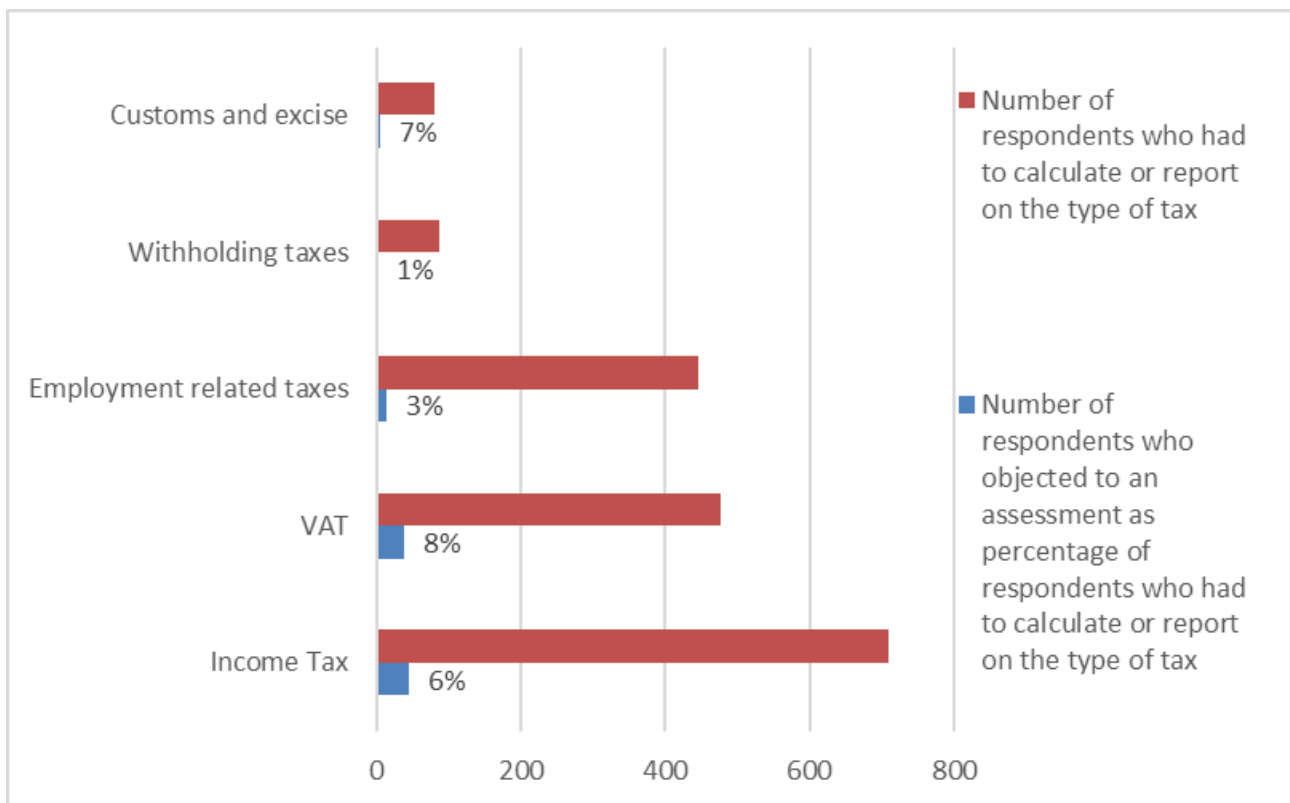
Source: Own computation from data collected

This result showed that 35% of respondents who had to calculate or report on VAT were subject to queries, inspections, or audits from SARS. By comparison, 17% of respondents who had to calculate or report on customs and excise, 13% of those who had to calculate or report on income tax, 8% of those who had to calculate or report on employment-related taxes, and 3% of those who had to calculate or report on withholding taxes, were subject to queries, inspections or audits from SARS. Because SARS does not provide details about the number of tax queries, inspections or audits they raise/do/conduct focussing on SMMEs, no further analysis could be performed on this data.

5.2.10. *Did the business lodge an objection with SARS?*

Question 2.10 asked respondents whether they had objected to any tax assessment during the financial year ending between 1 April 2018 and 31 March 2019. If their answer was affirmative, the respondents were asked in Question 2.11 to indicate the type of tax that was the focus of the objection. Of the respondents, 10.8% indicated that they had objected to an assessment from SARS. As in Figure 5.12, the number of objections is shown in Figure 5.13 relative to the number of respondents who had to calculate or report on that type of tax.

Figure 5.13: Number of respondents who objected to an assessment as a percentage of respondents per tax type



Source: Own computation from data collected

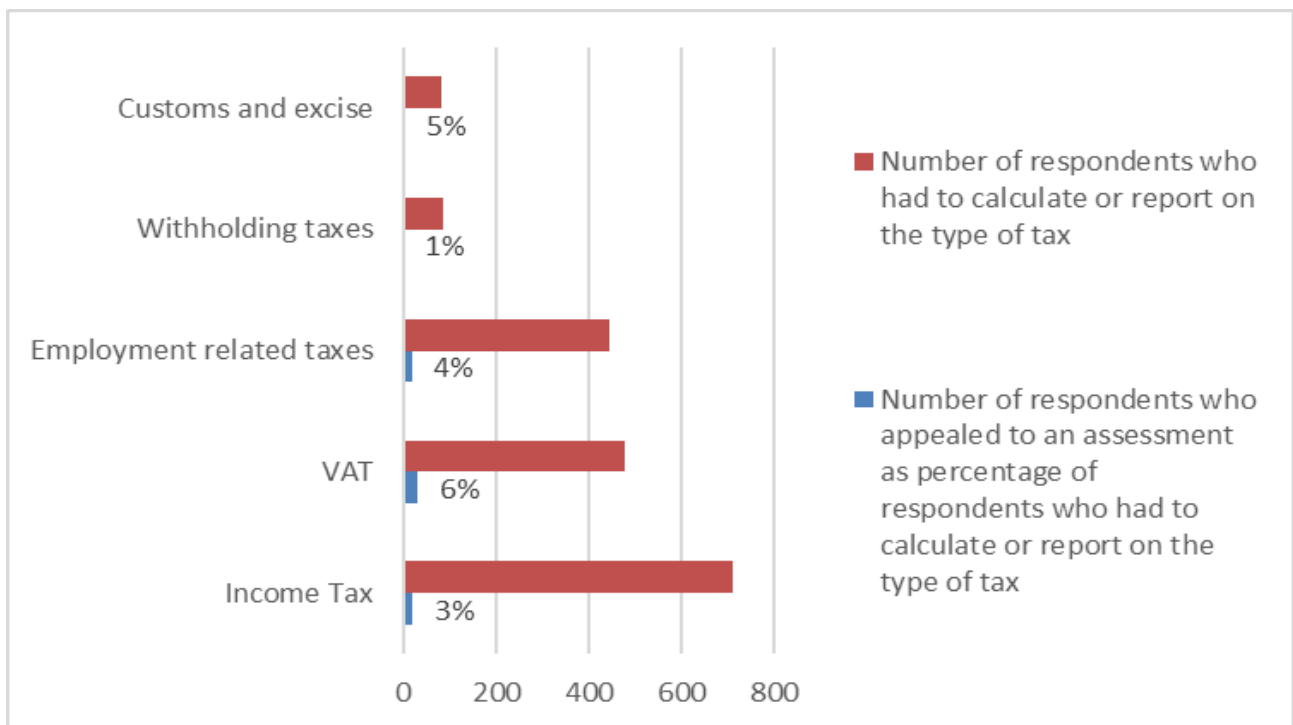
This analysis shows that 8% of respondents who had to calculate or report on VAT objected to an assessment raised by SARS. By comparison, objections were raised to a SARS assessment by 7% of respondents who had to calculate or report on customs and excise, 6% of those who had to calculate or report on income tax, 3% of those who had to calculate or report on employment-related taxes and 1% of those who had to calculate or report on

withholding taxes. This result is similar to the results in Section 5.2.10 where it seems concerning the total number of respondents registered for the different types of tax, percentage-wise, VAT was the tax type in respect of which most objections were raised (to an assessment by SARS), followed by customs and excise, income tax, employment-related taxes and finally withholding taxes. As SARS does not provide details about the number of objections lodged by SMMEs, no further analysis could be performed on this data.

5.2.11. Did the business lodge an appeal against SARS?

Question 2.12 asked the respondents whether the business had lodged any appeals against SARS during the financial year ending between 1 April 2018 and 31 March 2019. If their answer was affirmative, the respondents were asked in Question 2.13 to indicate the type of tax that was the focus of the appeal. Of the respondents, 7.8% indicated that they had lodged an appeal against SARS. As in Figure 5.12, the number of appeals is shown in Figure 5.14 relative to the number of respondents who had to calculate or report on that type of tax.

Figure 5.14: Number of respondents who appealed against an assessment as a percentage of respondents per tax type



Source: Own computation from data collected

Similar to the results of the number of tax queries, inspections or audits from SARS, and the number of objections, VAT was the type of tax to which the highest number of the respondents lodged appeals, relative to the number of respondents who had to calculate or report on VAT (6%). This was followed by customs and excise, with 5% of respondents indicating that they had appealed against SARS. The results also indicated that 4% of respondents had lodged an appeal against SARS focusing on employment-related taxes; 3% had lodged an appeal concerning income tax; but only 1% of respondents who calculated or reported on withholding taxes had submitted an appeal focusing on this type of tax. As SARS does not provide details about the number of appeals lodged by SMMEs, no further analysis could be performed on this data.

5.2.12. *Was the business involved in litigation with SARS, and did the business make use of the ATR system?*

The last two questions of the background section asked respondents whether the business was involved in any litigation with SARS (Question 2.16) and whether the business used the ATR system (Question 2.18) during the financial year ending between 1 April 2018 and 31 March 2019. In both instances, if the respondents answered yes, they were prompted to indicate the type of tax that was the focus of the litigation, or the ATR. Very few respondents answered in the affirmative on these questions – only four respondents (0.5%) indicated that they had been involved in litigation with SARS, and only 16 respondents (2.1%) indicated that they had used the ATR system. No further breakdown of the results was considered due to the low number of affirmative responses received.

5.3. Small business tax concessions

Governments across the globe, including South Africa, have introduced various small business tax concessions to reduce the tax compliance cost burden for SMMEs (see Section 1.1). It was therefore considered necessary to determine the effect of small business tax concessions on South African SMMEs. In investigating the effect of these concessions on SMMEs, the study first investigated SMMEs' eligibility for specific tax concessions in South Africa, and then surveyed whether SMMEs actually used these concessions.

The specific tax concessions applicable to SMMEs and selected for the survey after discussion with the stakeholders involved in the development of the questionnaire were the following:

- the SBC concession (already discussed in Section 2.2.3);
- the turnover tax system (see Section 2.2.3);
- the CGT concession (see Section 2.2.3)
- accelerated depreciation relief in Urban Development Zones (UDZs), a concession which provides an allowable deduction in the form of an accelerated depreciation allowance for the erection, acquisition or improvement of buildings in an UDZ (this deduction is available until 31 March 2023 and is also available to large businesses);
- the ETI, which is an incentive to encourage employers to hire young work seekers, implemented with effect from 1 January 2014 (this concession is available to large businesses as well).

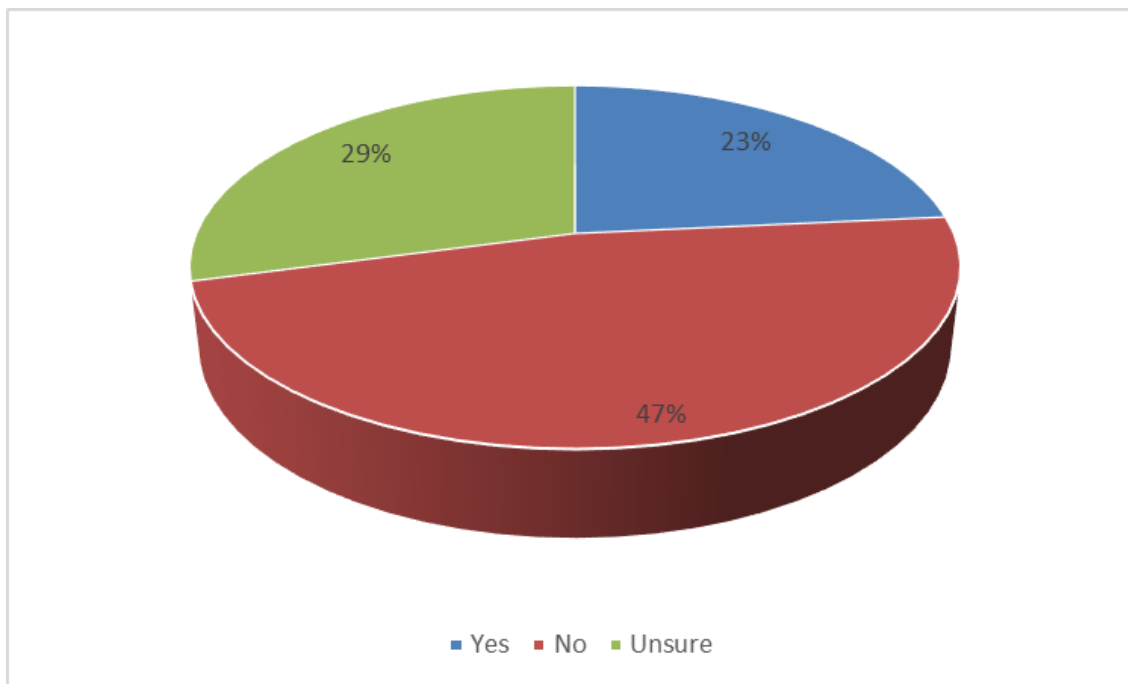
If SMMEs elected not to use these concessions, but were eligible to use them, this decision was investigated further by asking respondents in a follow-up question to indicate the extent to which they agreed with the statements on why the business chose not to use the concessions. Respondents who indicated that they did use a concession were then asked which tax concessions they used. Next, the respondents' general attitudes towards the concept of small business tax concessions were considered. Finally, the respondents' perceptions of the usefulness and complexity of these concessions were also sought. Using the display logic function of Qualtrics, only respondents who indicated that they were eligible for or used these tax concessions were allowed to respond to these questions dealing with small business tax concessions. Respondents were also first given a list of the tax concessions available to SMMEs with a short description of each concession before answering the questions.

5.3.1. *Eligibility for and usage of tax concessions available to SMMEs*

Question 5.2 asked respondents whether the business was eligible for any of the small businesses tax concessions specified in the survey during the financial year ending between 1 April 2018 and 31 March 2019. The responses to this question dealing with eligibility for

any of the listed small business tax concessions are depicted in Figure 5.15.

Figure 5.15: Eligibility for small business tax concessions⁶³



Source: Own computation from data collected

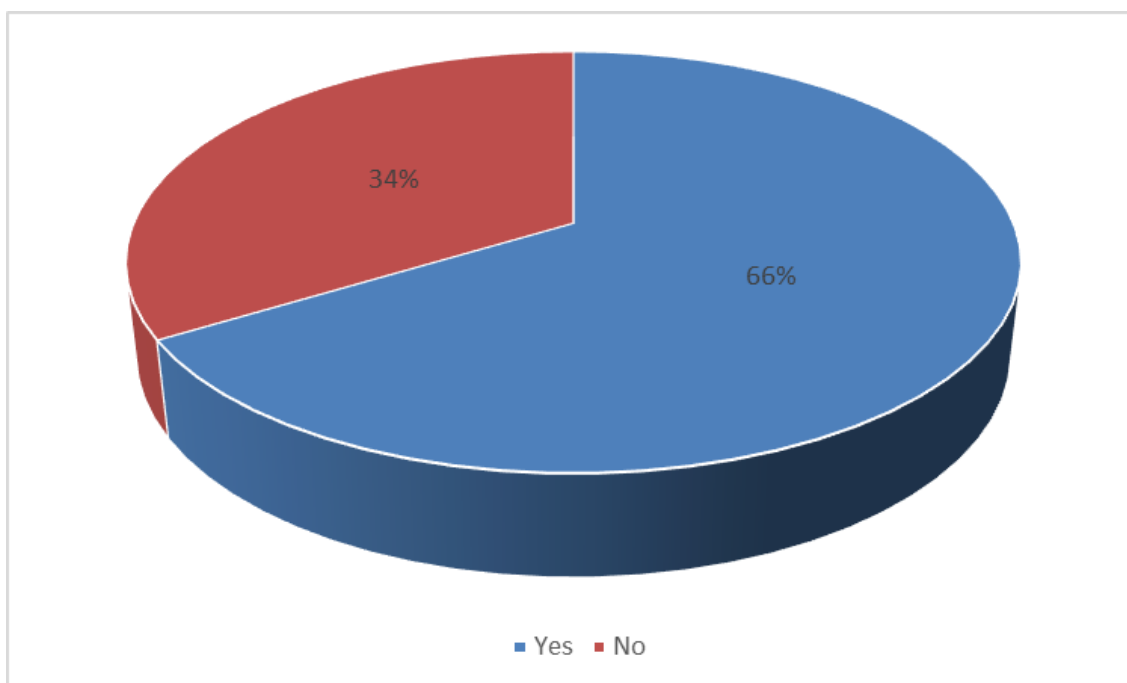
Almost half (47%) of the respondents indicated that they were not eligible for any small business tax concessions, but 29% indicated that they were unsure. Only 23% indicated that they were eligible for one or more small business tax concessions. These results can be compared to those of a previous study by Smulders et al. (2012), although that study dealt only with small businesses with a maximum gross income of R 14 million (the previous maximum gross income for a business to qualify for the small business tax concessions). Smulders et al.'s (2012: 212) study also reported that 47% of respondents were not eligible for small business tax concessions, while 41% were unsure and 12% indicated that they were eligible. It thus seems that the number of respondents not eligible for small business tax concessions in 2012 remained the same for the 2018 to 2019 period of the current study, but that the percentage of respondents who were unsure dropped from 41% to 29%, which may be an indication that taxpayers are now better informed about small business tax concessions, compared to those in the previous study. It remains a concern that almost half

⁶³ Due to rounding, the respondents' total added up to 99% instead of 100%.

of the respondents in this study, as in the earlier study, are not eligible for small business tax concessions, which may indicate that the qualification requirements for these concessions are too restrictive.

Next, the uptake of these concessions was investigated by asking all the respondents who indicated that they were eligible for the concessions whether they actually used any of the concessions. This question was necessary because, in some instances, despite being eligible for a concession, it may not always be to an SMME's advantage to use a particular concession. This situation arises, for example, with the turnover tax concession, where a business that is eligible for this concession may choose not to use the concession because it may mean that the business ends up paying more tax than if it was on the normal tax system (Dixon et al. 2019: 261). Knowing the extent of the uptake of these concessions will also provide insight into the success of the concessions. For example, low uptake of a concession may indicate that the concession has not managed to reach its objective of lessening SMMEs' tax compliance burden. The results for this question are presented in Figure 5.16.

Figure 5.16: Use of small business tax concessions



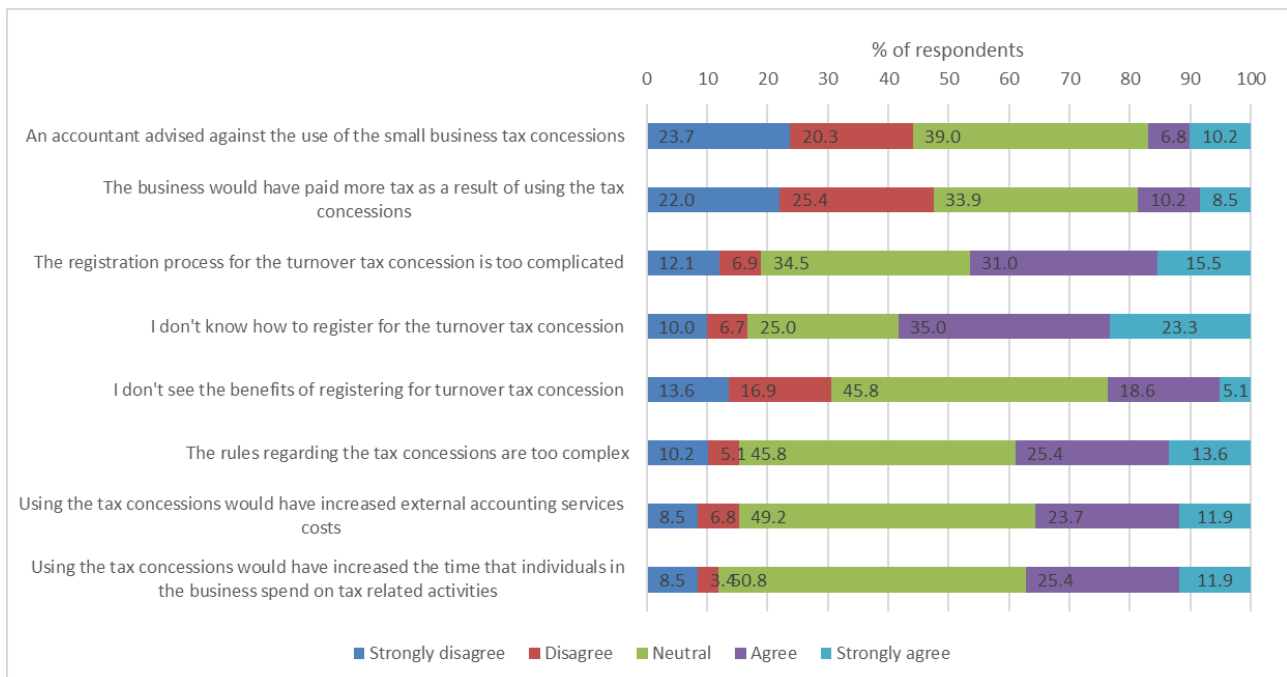
Source: Own computation from data collected

Of all the respondents who indicated that they were eligible, 120 respondents (66%) indicated that they used the available small business tax concessions. This finding is again similar to the findings of Smulders et al. (2012: 212), who reported that 68% of eligible respondents indicated using small business tax concessions. Thus, even though the uptake of the tax concessions seems quite good, one has to wonder why just more than a third of respondents who were eligible for tax concessions would choose not to use them. Therefore, all the eligible respondents for the tax concessions but that chose not to use them were asked in a follow-up question (Question 5.5) to indicate the extent to which they agreed with the statements on why the business chose not to use the concessions. The respondents were provided with the following statements, which they had to rate using a five-point Likert scale that ranged from “strongly disagree” to “strongly agree”:

- An accountant advised against the use of the small business tax concessions.
- The business would have paid more tax as a result of using the tax concessions.
- The registration process for the turnover tax concession is too complicated.
- I don't know how to register for the turnover tax concession.
- I don't see the benefits of registering for the turnover tax concession.
- The rules regarding the tax concessions are too complex.
- Using the tax concessions would have increased external accounting services costs.
- Using the tax concessions would have increased the time that individuals in the business spend on tax-related activities.

Because only respondents who qualified for concessions but did not use them were allowed to answer this question, only 58 respondents answered this question. The responses are set out in Figure 5.17.

Figure 5.17: Reasons for not using small business tax concessions



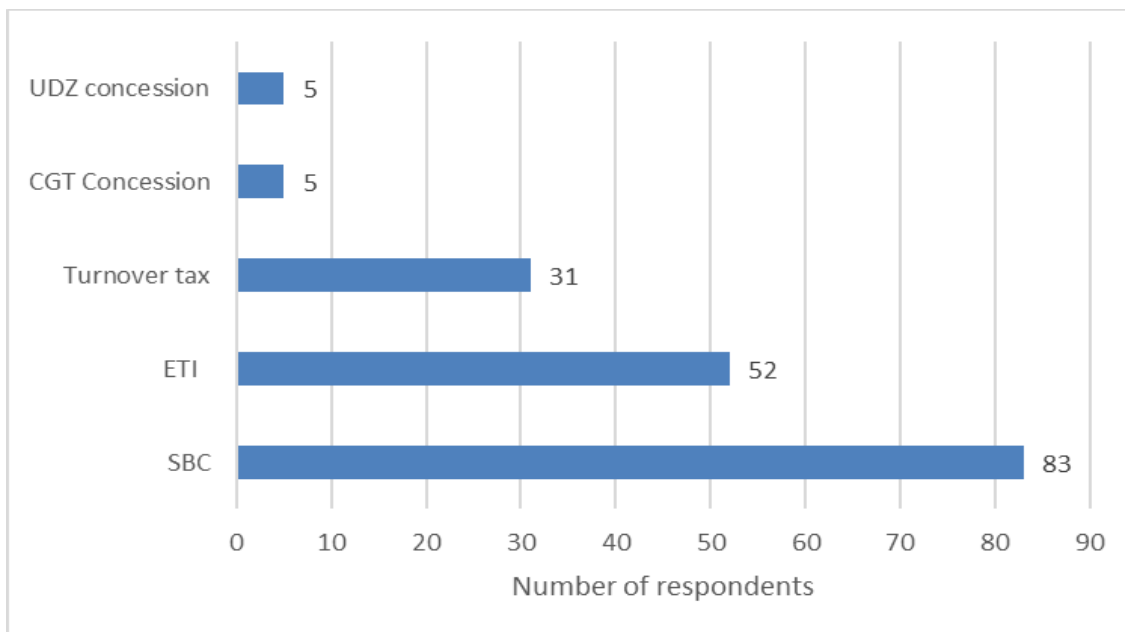
Source: Own computation from data collected

From Figure 5.17, it appears that most of the SMMEs that did not use the small business tax concessions, despite being eligible for them, opted not to use them because they did not know how to register for the turnover tax concession (58.3% either agreed or strongly agreed), and because the registration process for the turnover tax concession is too complicated (46.5%). Both these reasons are directly related to the registration for the turnover tax concession, which suggests that complexity regarding the registration for this specific tax concession is an obstacle to uptake. In addition, 39% of respondents indicated the rules regarding the tax concessions are too complex. This result is in line with the findings of Smulders et al. (2012), who reported that one of the main reasons for not using small business tax concessions was that the rules of the concessions were too complex (Smulders et al. 2012: 212). This result is a matter for concern because small business tax concessions such as the turnover tax concession were specifically introduced to reduce the administrative burden for micro businesses (SARS 2020b: 5), and this objective will not be achieved if there is too much complexity around the registration process. More than 40% of respondents disagreed or strongly disagreed with the statements that the business would have paid more tax as a result of using tax concessions, and fewer than 20% agreed that accountants had advised against the use of these concessions.

For this question, there were only 58 responses. Hence, although the number of responses compared to the number of items (8) was large enough to conduct an exploratory factor analysis, it was considered inappropriate to do so, as the resulting factors cannot be used in a subsequent inferential analysis, given the very small size of this subsample.

The respondents who indicated they did use the concessions were asked in Questions 5.6 and Question 97 which of the small business tax concessions the business had used during the financial year ending between 1 April 2018 and 31 March 2019. Because more than one concession is available to SMMEs (for example, they may qualify for both the SBC tax concession and ETI), respondents were asked to indicate all the concessions they had used. Only 120 respondents indicated that they used any of these tax concessions. The responses to these questions are set out in Figure 5.18.

Figure 5.18: Tax concessions used by SMMEs



Source: Own computation from data collected

The most used tax concession was undoubtedly the SBC concession, as this concession was selected by 83 of the respondents to this question. The next most used concession (used by 52 of the respondents) was the ETI, followed by the turnover tax (31 respondents), and, lastly, the CGT concession on the sale of a business and the accumulated depreciation relief in UDZs (5 respondents each). The low level of uptake of the CGT concession and

accumulated depreciation relief in UDZs is understandable. The CGT concession is a once-in-a-lifetime concession (see Section 2.2.3). The UDZ concession is a concession that can only be used by SMMEs that invest in one of the specific UDZs, and complicated administrative processes are involved in claiming this incentive (Sibutu 2010: 53).

Next, the respondents' general attitude towards and the perceived effectiveness and complexity of these concessions was considered.

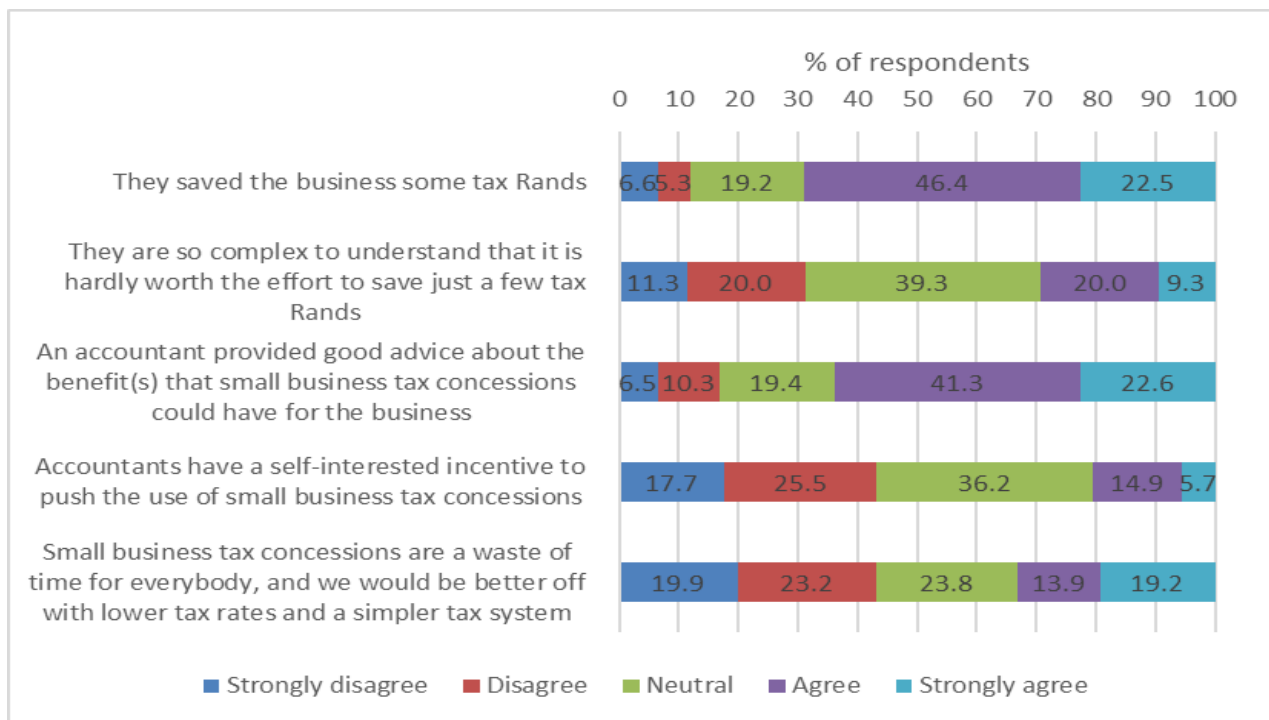
5.3.2. *General attitude towards small business tax concessions*

All the respondents who indicated that they were eligible for and used one or more of the small business tax concessions were asked in Question 5.7 about their level of agreement regarding five statements dealing with their general attitude towards small business tax concessions. Therefore, the respondents were requested to indicate their level of agreement or disagreement with each of the following statements by using a five-point Likert scale:

- They saved the business some tax Rands.
- They are so complex to understand that it is hardly worth the effort to save just a few tax Rands.
- An accountant provided good advice about the benefit(s) that small business tax concessions could have for the business.
- Accountants have a self-interested incentive to push the use of small business tax concessions.
- Small business tax concessions are a waste of time for everybody, and we would be better off with lower tax rates and a simpler tax system.

This question was adopted from Smulders et al.'s (2012) study to investigate whether there had been any changes to the general attitudes of taxpayers concerning small business tax concessions since 2012. The responses from the respondents are displayed in Figure 5.19.

Figure 5.19: General attitude toward small business tax concessions



Source: Own computation from data collected

Figure 5.19 shows that more than 60% of respondents agreed or strongly agreed that the use of small business tax concessions saved the business some tax Rands and that accountants provided good advice about the benefits of small business tax concessions. However, almost 40% of the respondents indicated that they were “neutral” about the complexity of the concessions, and 29.3% indicated that they agreed or strongly agreed with the statement that the concessions “are so complex to understand that it is hardly worth the effort to save just a few tax Rands”. 20.6% of respondents agreed or strongly agreed that accountants have a self-interest incentive to push the use of small business tax concessions, and a third (33.1%) of the respondents agreed or strongly agreed with the statement that “[s]mall business tax concessions are a waste of time for everybody, and that they would be better off with lower tax rates and a simpler tax system”.

Exploratory factor analysis was not considered, for the same reasons discussed for Question 5.5 above (N=130 respondents).

For comparative purposes, the disagree/strongly disagree, and agree/strongly agree results

were combined. These results are compared to those of Smulders et al. (2012) in Table 5.2.

Table 5.2: General attitude toward small business tax concessions – comparison to Smulders et al.’s (2012) results

Statement	Disagree or strongly disagree		Agree or strongly agree	
	Current Study	Smulders et al. (2012)	Current Study	Smulders et al. (2012)
They saved the business some tax Rands	11.92%	13.40%	68.87%	14.80%
They are so complex to understand that it is hardly worth the effort to save just a few tax Rands	31.33%	12.10%	29.33%	29.00%
An accountant provided good advice about the benefit(s) that small business tax concessions could have for the business	16.77%	14.70%	63.87%	24.90%
Accountants have a self-interested incentive to push the use of small business tax concessions	43.26%	22.00%	20.57%	7.90%
Small business tax concessions are a waste of time for everybody, and we would be better off with lower tax rates and a simpler tax system	43.05%	10.40%	33.11%	40.80%

Source: Own computation from data collected and Smulders et al. (2012: 214)

The following needs to be kept in mind when comparing the current study’s results with those of Smulders et al.’s (2012). First, Smulders et al.’s (2012) study allowed all the respondents in the study, irrespective of their eligibility for, or use of, small business tax concessions, to complete the question, whereas in the current study, only respondents who were eligible for and actually used the small business tax concessions were allowed to answer the question. This difference in approach was chosen to ensure that no one answered the question who did not actually use the small business tax concessions. Secondly, the current study added a “neutral” stance option between disagreeing and agreeing. By contrast, Smulders et al.’s (2012) study provided only an “unsure”, a “not applicable”, and a “not relevant” option. Smulders et al.’s (2012) study reported a high number of respondents who indicated that they were unsure or that the question was not applicable or not relevant, probably because most of the respondents who answered this question did not use small business tax concessions. These differences make it difficult to compare the two studies, but some valuable observations can nevertheless be made.

The comparison shown in Table 5.2 indicates that 68.87% of the current study's respondents agreed or strongly agreed that small businesses tax concessions saved the business some tax Rands. By comparison, only 14.8% of respondents in Smulders et al.'s (2012) study agreed or strongly agreed with this statement. However, 71.8% of respondents in Smulders et al.'s (2012) study indicated that they were unsure, or that the questions were not applicable or relevant (Smulders et al. 2012: 214). This result reveals that if only respondents who actually used the small business tax concessions answered this question, a clearer picture of SMMEs' general attitude towards small business tax concessions has emerged. The percentage of respondents in both studies were very similar (29.33% and 29%) in respect of who agreed or strongly agreed with the statement that "[s]mall business tax concessions are so complex to understand that it is hardly worth the effort to save just a few tax Rands", but the number of respondents who disagreed or strongly disagreed in the current study was 31.33%, contrary to the 12.1% reported in Smulders et al.'s (2012) study, which seems to indicate that there may be some improvement regarding the perception of the complexity of the small business tax concessions. Notwithstanding this finding, the government should consider engaging more actively with SMMEs to understand the exact areas causing the perceived complexity.

The fact that 63.87% of respondents agreed or strongly agreed with the statement that an accountant had provided good advice about the benefit(s) that small business tax concessions could have for the business may indicate that SMMEs do benefit from the services offered by their accountants, and that the uptake of small business tax concessions is encouraged by accountants. This positive result is confirmed by the results for the statement that "accountants have a self-interested incentive to push the use of small business tax concessions", where only 20.57% of the respondents agreed or strongly agreed with the statement, whereas 43.26% of respondents disagreed or strongly disagreed with the statement. The underlying assumption here is that if an SMME uses some small business tax concessions (for example, the turnover tax system), this will reduce the amount of work the accountant can offer the client and consequently charge for. Thus the accountant may have an interest in getting an SMME not to use these concessions. Therefore, the responses to the above two questions show that accountants play an important role in assisting SMMEs with small business tax concessions, which was unclear in Smulders et al.'s (2012) study.

The last statement, that “[s]mall business tax concessions are a waste of time for everybody, and we would be better off with lower tax rates and a simpler tax system”, was given to respondents to determine whether the respondents’ overall attitude towards small business tax concessions was positive or negative, or neither. In Smulders et al.’s (2012) study, an overall negative attitude was reported, whereas the current study indicates a more positive attitude towards small business tax concessions, with 43.05% of respondents disagreeing or strongly disagreeing with the statement. However, 33.11% of respondents did agree or strongly agree with the statement, indicating that there are still some negative perceptions towards small business tax concessions.

Taken as a whole, it seems that the general attitude of respondents towards small business tax concessions had improved since Smulders et al.’s (2012) study. This result is positive for the government, SARS and the SMME sector. However, it is recommended that each concession be thoroughly reviewed and evaluated, because for example, it was reported in Section 5.3.1 respondents perceived the registration procedure for the turnover tax as too complex. In addition, a revamp of the marketing and education campaign by SARS for these concessions should also be considered, so that the awareness of the benefits of these small business tax concessions by SMMEs can be improved.

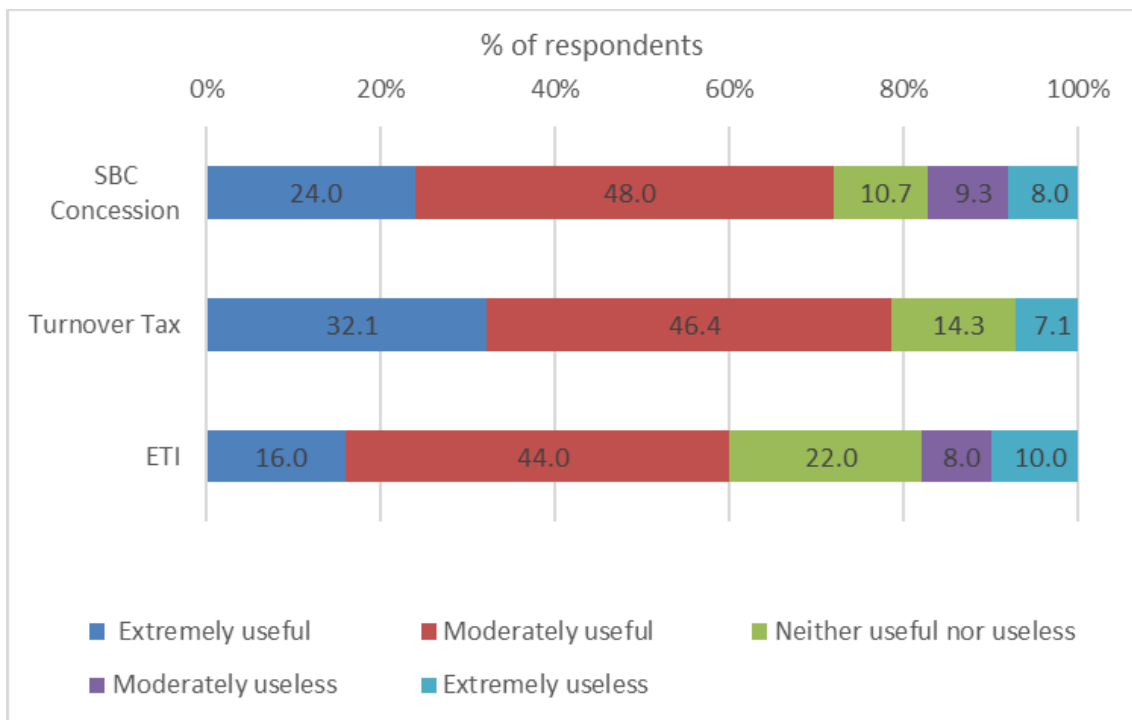
5.3.3. *Usefulness and complexity of small business tax concessions*

The general attitudes regarding small business tax concessions have already been set out in Section 5.3.2, but it was also considered important to find out what the respondents’ attitudes were towards each specific small business tax concession, concerning its usefulness and complexity. For example, if a small business tax concession is not regarded as useful, it is feasible that its impact on tax compliance costs could be negative (that is, it could increase tax compliance costs), contrary to the concession’s objective to reduce the tax compliance burden. Similarly, if small business tax concessions are too complex, one would expect that tax compliance costs would increase due to the complexity of the concession.

The perceptions of the usefulness (Question 5.8) and complexity (Question 5.9) of each small business tax concession were tested using a five-point Likert scale, ranging from

“extremely useful” to “extremely useless” to determine the respondents' perception about the usefulness of the small business tax concession, and from “extremely easy” to “extremely difficult” to determine the respondents' perception of the complexity of the small business tax concession. Using the display logic function of Qualtrics, respondents were only allowed to complete the statements for the small business tax concessions they indicated they had used in Questions 5.6 and 97. This method was used to ensure that only respondents who actually used a particular small business tax concession provided their views of the usefulness and complexity of the small business tax concessions. Due to the low number of respondents who actually used the CGT and UDZ tax concessions (five each), their views on these concessions are not reported. The respondents' view on the usefulness of the SBC concession, turnover tax, and ETI are depicted in Figure 5.20.

Figure 5.20: Perceptions of the usefulness of the SBC concession, turnover tax and ETI⁶⁴



Source: Own computation from data collected

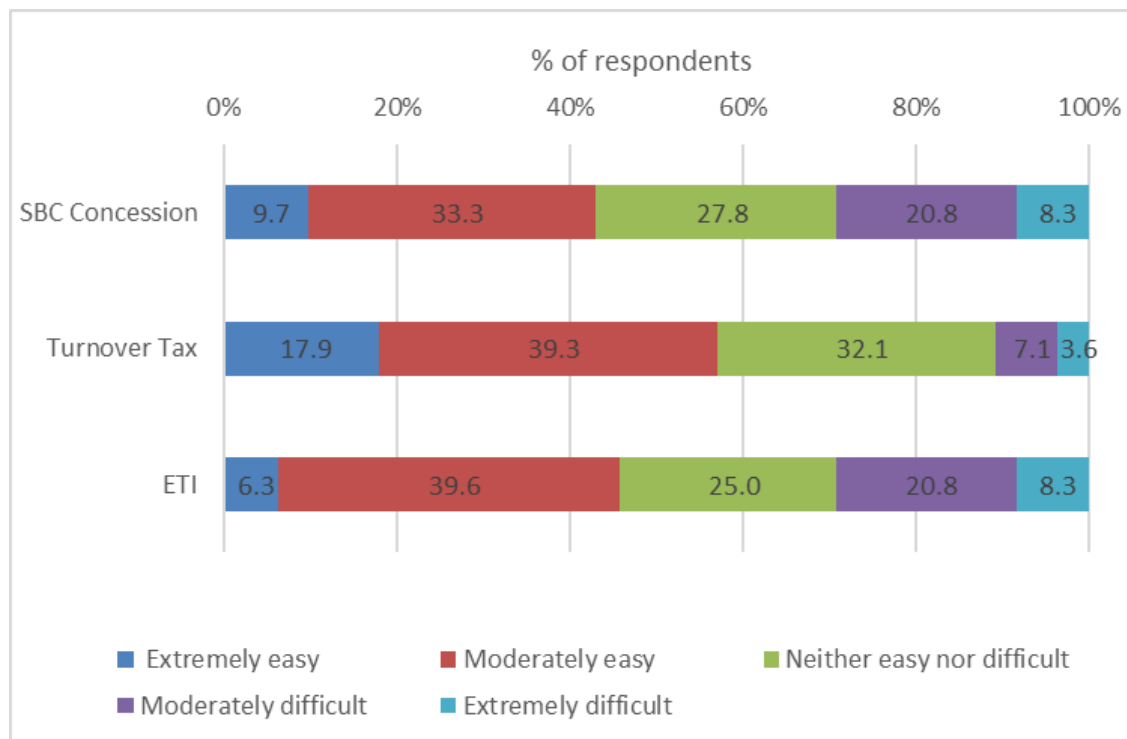
Judging from the data represented in Figure 5.20, it appears that the SBC concession was regarded as moderately to extremely useful by 72% of the respondents, with only 17.3% of

⁶⁴ Due to rounding, the turnover tax total added up to 99.9% instead of 100%.

respondents indicating that they are moderately to extremely useless. The same positive trend was observed with the other two concessions/incentives, with 78.5% and 60% of respondents respectively indicating that they regarded the turnover tax and ETI as moderately to extremely useful, and only 7.1% and 18% of respondents respectively indicating they were moderately to extremely useless. This result indicates that SMMEs that used these small business tax concessions did find them useful. It is again a positive result for the government, SARS and the SMME sector. It must be reiterated that a revamp of the marketing and education campaign by SARS for these concessions should be considered, so that the awareness of the benefits of these small business tax concessions can be increased, especially after this finding.

The respondents' view on the complexity of the SBC concession, turnover tax, and ETI are depicted in Figure 5.21.

Figure 5.21: Perceptions about the complexity of the SBC concession, turnover tax, and ETI⁶⁵



Source: Own computation from data collected

⁶⁵ Due to rounding, the SBC concession total added up to 99.9% instead of 100%.

Based on Figure 5.21, it can be reported that fewer than 50% of the respondents (43% for the SBC concession, and 45.9% for the ETI) perceived it to be moderately to extremely easy to comply with the requirements for these concessions. Of the respondents, 57.2% perceived it to be moderately to extremely easy to comply for the turnover tax. Lower percentages perceived the SBC concession and ETI to be moderately to extremely difficult to comply with (29.1% of respondents), and only 10.7% of respondents perceived the turnover tax to be moderately to extremely difficult to comply with.

Subsequently, a Pearson’s correlation was run to determine the direction and strength of the relationship between the respondents’ perceptions of the usefulness and the complexity associated with the usage of the small business tax concessions. The strength of this correlation is measured by the closeness to +1 or -1; the closer the value to either of these values, the stronger the association, with the + sign indicating that the two variables are positively correlated, and the - sign indicating a negative correlation (Field 2018: 340). Table 5.3 contains the Pearson correlation coefficients between the respondents’ perceptions of the usefulness and complexity of the small business tax concessions that they used.

Table 5.3: Pearson correlation coefficients between respondents’ perceptions of the usefulness and complexity of small business tax concessions

Small business tax concession	Pearson Correlation	Sig. (2-tailed)	N
SBC Concession	.329**	0.005	71
Turnover Tax	.508**	0.006	28
ETI	.507**	0.000	48
** Correlation is significant at the 0.01 level (2-tailed).			

Source: Own computation from data collected

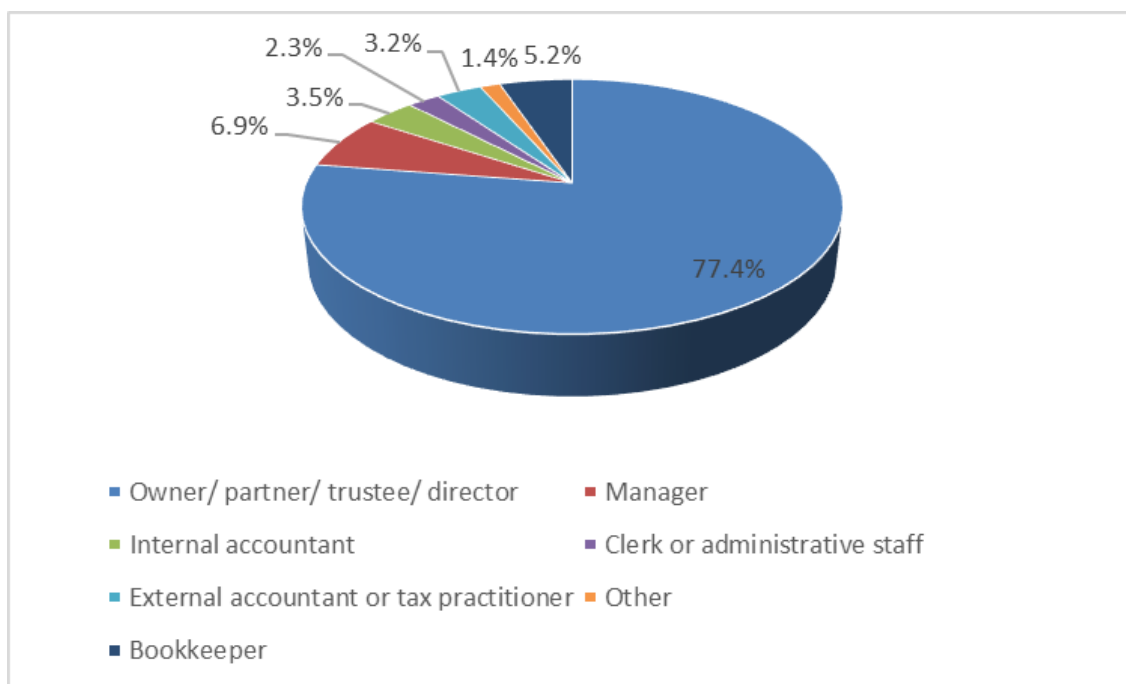
There appears to be a moderate positive and statistically significant correlation (above +0.3) between the perceptions of the usefulness and complexity of the small business tax concessions for the respondents who used the SBC concession. By contrast, the respondents who used the turnover tax and ETI concessions reported a strong positive and statistically significant correlation (above +0.5). This result appears to be a positive result for the government and SARS, because it indicates that if an SMME is eligible and uses a small

business tax concession, the SMME finds it useful and easy to comply with.

5.4. Profile of respondents

In the final section of the survey, respondents were asked what their position in the business was, the highest level of education they had achieved, and the respondents' accounting knowledge. Insight into the respondents' position in the business provided insight into the profiles of the respondents, and more specifically, how involved the SMME owners are in running their businesses. The profile of the respondents who answered the questions in the questionnaire is shown in Figure 5.22.

Figure 5.22: Respondents' position in the business⁶⁶



Source: Own computation from data collected

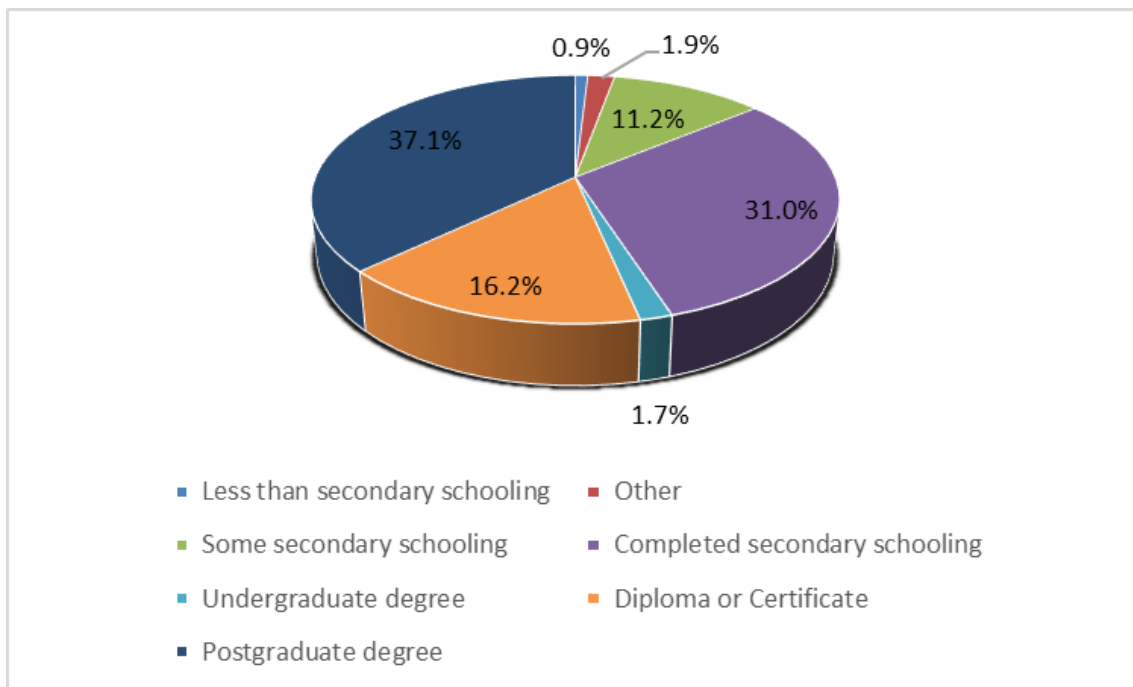
Of the respondents who answered the question regarding their position in the business, the majority (77.43%) were the owners, partners, trustees, or directors of the SMME. This result is indicative of one of the general characteristics of an SMME, where the owner is actively involved in all areas of the business, including the financial and tax affairs (Bhorat, Asmal,

⁶⁶ Due to rounding, the respondents' total added up to 99.9% instead of 100%.

Lilenstein & Van der Zee 2018: 11). As these persons are generally knowledgeable about the operations of their businesses, the probability that the responses to this survey can be relied upon is high.

To understand the SMME sector and its people better, Question 9.2 asked respondents about their highest level of education. The findings are depicted in Figure 5.23.

Figure 5.23: Respondents' level of education



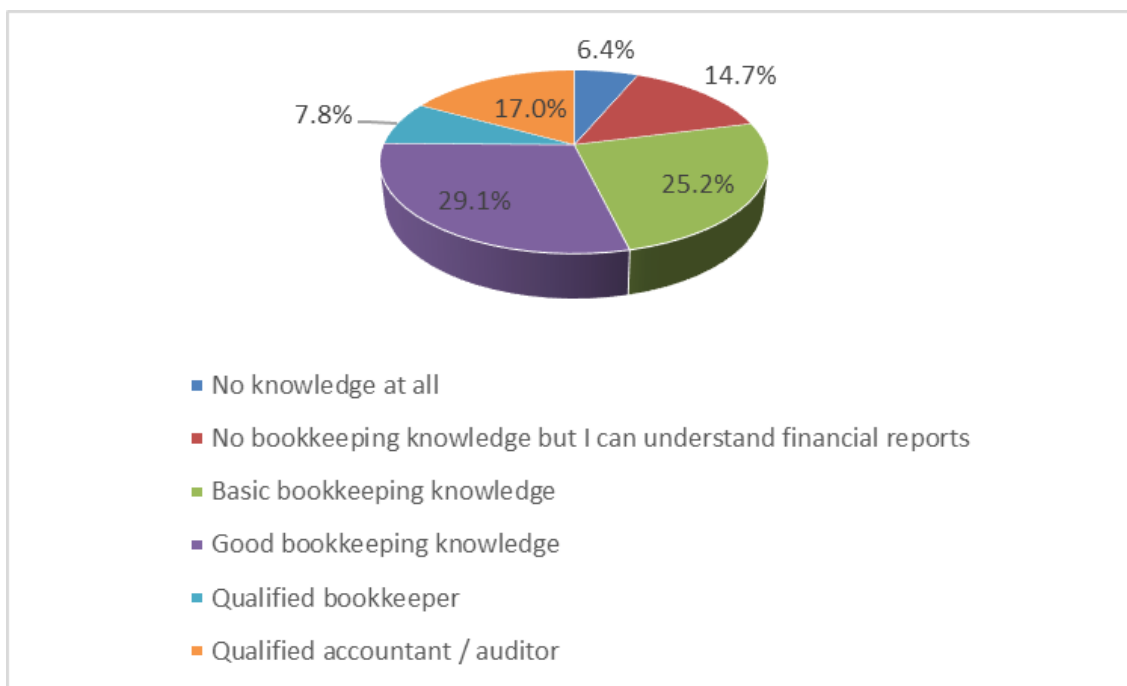
Source: Own computation from data collected

Of the respondents, 31% had completed secondary school, and 55% had obtained higher qualifications after school (this is the total for respondents who obtained an undergraduate or postgraduate degree or diploma or certificate) – indeed 37.1% obtained a postgraduate degree, indicating a high level of education among the respondents. This result bodes well for the quality of responses received from the respondents. A comparison of this result was made to the Small Enterprise Development Agency's “Quarterly Update – 1st Quarter 2019” report (Small Enterprise Development Agency 2019: 21). This report shows that 27.5% of SMME owners completed secondary school (31% in this study), and 19.8% (55% in this study) obtained a tertiary qualification. The difference in the tertiary qualification results could be explained by the fact that in the current study, 77.4% of respondents who answered

the question in this study regarding their position in the business were owners, partners, trustees, or directors of the SMME (see Figure 7.22) whereas the quarterly report only reported on the owners' education attainment. Overall it appears that the educational qualifications of the respondents to the current study are, to a large extent, in line with those of the small businesses operating in South Africa.

As previously discussed in Section 3.4, it is essential to disentangle pure accounting costs from tax compliance costs. The respondents' level of accounting knowledge would assist with this. Hence, the respondents were asked in Question 9.5 to describe their accounting knowledge. The responses to this question are shown in Figure 5.24.

Figure 5.24: Respondents' accounting knowledge⁶⁷



Source: Own computation from data collected

Only 6.4% of the respondents had no accounting knowledge. Of the total, 14.7% indicated that they had no bookkeeping knowledge, but could understand financial reports. The rest of the respondents, which add up to 78.9% of the total number of respondents, indicated that they had at least basic bookkeeping knowledge or more. Again, this result suggests that

⁶⁷ Due to rounding, the respondents' total added up to 100.2% instead of 100%.

the questionnaire would have been answered with a reasonable understanding of the matters at hand.

5.5. Conclusion

This chapter commenced with an analysis of the business characteristics of SMMEs to obtain a better understanding of the responses provided by the respondents to specific questions in the survey and possibly assist with the interpretation of some of the results. However, because the business characteristics information of the total SMME population in the SARS database (used for this study) was not available to the researcher, it was not possible to weight the results to ensure their representativity of the total population. This situation forced the researcher to compare the results obtained from the survey, where possible, with the latest published statistics and information available on all businesses in South Africa. It was found that the respondents' businesses were largely in line with those reported for the total population of SMMEs in South Africa.

All three business sizes were represented in the results. The highest proportion of responding businesses fell in the micro business turnover category, followed by the small business turnover category, and finally, the medium business turnover category. The survey findings revealed that all the main activities in the SIC codes were represented in the responses. Most of the respondents operated in the real estate and business sector. In terms of the geographical spread, responses from SMMEs came from all the provinces, but most came from Gauteng, the Western Cape and Kwazulu-Natal, and some of the SMMEs operated internationally as well.

Most of the respondents' businesses conducted their operations through private companies and CCs. Most of these businesses were established businesses, trading for more than five years. The results indicated that a higher percentage of SMMEs made a loss in the 2019 tax year, rather than a profit. More than two thirds of the respondents employed five or fewer full-time employees, and cross-tabulation revealed a strong association between the number of employees and turnover size. This suggests that the results would have been similar if number of employees had been used as the main indicator of size instead of turnover. The

types of taxes the respondents had to report on were also identified. If respondents were subject to any queries, inspections or audits, that was also identified per tax type. Finally, the analysis explored the number of respondents who objected and/or appealed against a tax assessment per tax type, and identified whether a respondent was involved in litigation with SARS and/or used the ATR system.

Almost half of the respondents indicated that they were not eligible for small business tax concessions. Of those eligible, almost two thirds used the small business tax concessions, indicating good take-up of the concessions once businesses are eligible to use them. The small business tax concessions used most were the SBC concession, followed by the turnover tax. However, SARS should note that complexity around the registration process for the turnover tax seems to be the main reason why respondents that were eligible for this small business tax concession did not use it. On the whole, it seems that the general attitude of respondents towards small business tax concessions is positive. It was also found that if SMMEs were eligible and did use a small business tax concession, they found it useful and also easy to comply with the tax concession. However, it is recommended that each concession be thoroughly reviewed and evaluated to ensure that it is achieving its objectives on an ongoing basis.

The final section of the chapter focused on the demographics of the respondents, referring specifically to their position in the business, their qualifications and their level of accounting knowledge. The results indicated that more than three quarters of the respondents were owners, partners, trustees or directors of the SMME concerned, indicating that owners are actively involved in all areas of the business, including the financial and tax affairs. Finally, a high level of education and accounting knowledge was observed among the respondents, providing some assurance regarding the quality of the responses received.

The next chapter considers the measurement of tax compliance costs incurred by SMMEs.

**CHAPTER 6:
ANALYSIS OF RESULTS –
MEASUREMENT OF TAX COMPLIANCE COSTS**

6.1. Introduction

Tax compliance costs consist of internal, external and non-labour costs. Internal costs refer to the situation where SMMEs use either internal staff, or central tax departments (if they form part of a group structure), to assist with their tax compliance responsibilities. External costs refer to SMMEs' engagement of the services of external advisers, such as accountants, tax practitioners, financial advisers, attorneys or even SARS itself. Non-labour costs include all those costs that do not relate directly to the remuneration of the people involved in preparing tax submissions and tax payments. One of the objectives of this study is the measurement of tax compliance costs; this chapter therefore identifies, measures and discusses the tax compliance costs incurred by SMMEs. In this chapter, the internal tax compliance costs are identified and measured first, followed by non-labour costs. External costs are then quantified, before calculating the final total tax compliance costs. The hours and costs obtained in this study are compared to the findings of other relevant South African studies where possible.

6.2. Internal tax compliance costs

This section deals with the first form of tax compliance costs, namely internal tax compliance costs. This is done by considering the time spent per tax type, per tax activity and per category of person that performs the activity for an SMME. The persons who perform these activities were grouped as owners (directors of companies, members of CCs, sole proprietors or partners), paid employees, and unpaid helpers or friends of the SMME.⁶⁸ First, the hours spent by the respective persons in (or informally connected to) the business on tax compliance activities were established. Then these hours were converted to a Rand

⁶⁸ Category of persons refers to type of employees in this study, even though unpaid helpers or friends are not technically employees of an SMME.

value, using an applicable hourly rate to estimate the internal tax compliance costs for an SMME. These hourly rates are obtained by validating the rates provided by the respondents against various external rates to ensure that they were realistic.

Before the internal tax compliance hours could be estimated, however, the internal time spent on core accounting activities was first estimated in order to separate time spent on accounting activities from tax-related activities. Time spent by individuals on accounting and other recordkeeping functions needs to be clearly separated to distinguish between core accounting activities (for example, processing customer invoices, following up on debtors etc.) on the one hand, and activities performed solely for tax compliance purposes (see Section 3.4) on the other. This is necessary because a taxpayer might use accounting software to generate customer invoices, issue statements to debtors and other accounting activities, for example, and then use the same information to prepare a VAT submission report for tax compliance purposes.

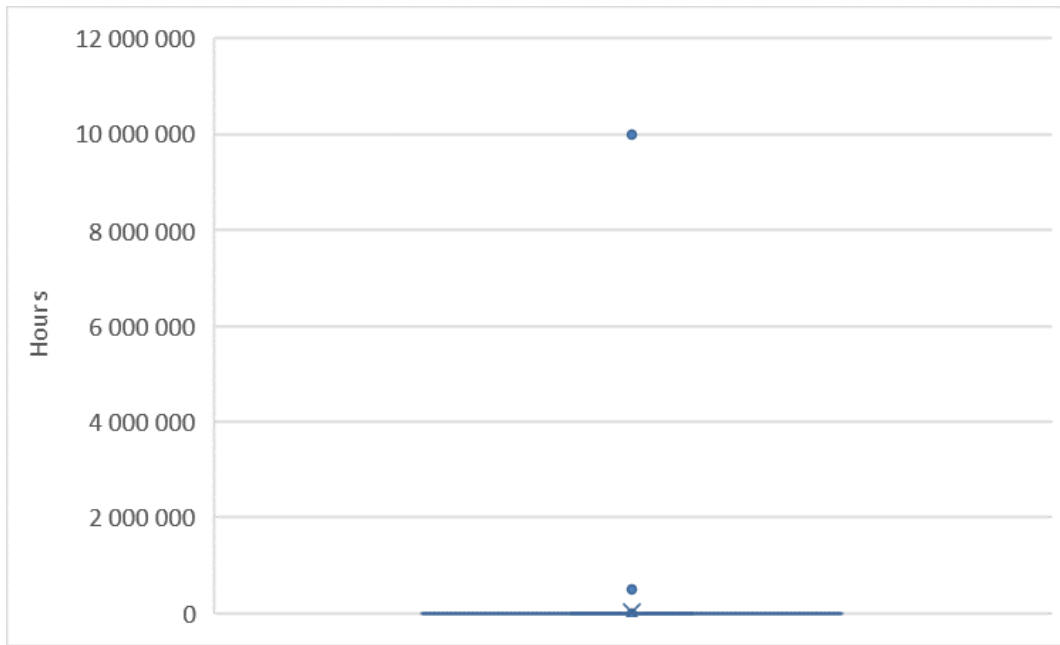
6.2.1. *Internal time spent on accounting activities*

Question 4.30 asked respondents to report how many hours individuals in the business spent on core accounting activities during the financial year. This question was asked to help respondents recognise that some core accounting activities are not undertaken for tax purposes, and should thus not be included in the tax compliance costs calculation. This strategy is in line with the approach in previous studies (Evans et al. 2014: 464; Smulders et al. 2012: 206). The annual hours spent on core accounting activities estimated in this section were not considered for the current study's internal tax compliance cost calculation because it could cause an overestimation of tax compliance costs, as Yesegat et al. (2017: 80) point out.

Before the survey results are discussed in detail, it must be noted that in the initial analysis of the data, one extreme outlier was found in the data: one of the respondents (Case 664) stated that the time spent by the business concerned on accounting activities that were not related to tax compliance was 10 000 000 hours, and that the owners performed 90% of these hours. This response was unlikely, as there are only 8 760 hours in a typical year, and the respondent would need to have approximately 3 050 owners working on accounting

activities for 8 hours per day, seven days a week, to get to this figure. The box plot⁶⁹ that helped identify this outlier is depicted in Figure 6.1.

Figure 6.1: Box plot showing the outlier in the data on accounting activities performed by owners



Source: Own computation from data collected

To shield the remaining responses from this outlier, it was discarded, as it appeared to be completely out of line with the other responses. This deletion is in line with Cooper and Schindler's (2014: 416) view that if outliers appear to be entry mistakes and/or are highly unusual, they should be removed (if they cannot be corrected), as they tend to skew the distribution of the results.

The hours per year spent on all core accounting activities by SMMEs (excluding the outlier) are set out in Table 6.1.

⁶⁹ A box plot reduces the detail of the stem-and-leaf display and provides a different visual image of the distribution of the data, thereby helping to identify outliers (Cooper & Schindler 2014: 415).

Table 6.1: Annual hours spent by individuals on SMMEs' core accounting activities

	Micro	Small	Medium	SMMEs*
Mean	230	1 233	8 344	1 811
5% Trimmed Mean	103	734	3 306	552
n	360	247	109	716
Total Hours	82 639	304 570	909 512	1 296 721

* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

The results indicate that individuals in SMMEs spent an average of 1 811 hours on core accounting activities during the financial year ending between 1 April 2018 and 31 March 2019. The 5% trimmed mean average amounted to 552 hours. The 5% trimmed mean is the amount eventually reported for this section, as it methodically removes the worst distortions that can arise from a small number of extremely high or low values and delivers results that are more helpful in detecting change over time than non-trimmed means (Field 2018: 263). The use of the 5% trimmed mean average is in line with other research conducted on tax compliance costs (KPMG 2018: 24; Tran-Nam & Evans 2014: 27; Smulders et al. 2012: 190; Colmar Brunton Social Research Agency 2005: 26).

The breakdown between micro, small and medium businesses indicates that 103 hours (5% trimmed mean) were spent on core accounting activities by micro businesses, 734 hours by small businesses and 3 306 hours by medium businesses. An increase in time spent on core accounting activities as the business gets bigger was expected, as generally, the bigger a business gets, the more information is produced, and the more time is needed to comply with accounting requirements. Table 6.2 presents the annual internal hours spent on core accounting activities as a percentage of the turnover of the three SMME business size groups.

Table 6.2: Annual internal hours spent on core accounting activities as a percentage of turnover

	Micro	Small	Medium
Total Hours	82 639	304 570	909 512
Turnover Mid Value	R500 000	R10 500 000	R135 000 000
Total hours as % of Turnover	16.53%	2.90%	0.67%
Proportion of sample	50.3%	34.5%	15.2%
Weighted % Turnover *	8.31%	1.00%	0.10%
* To compare the internal hours spent on core accounting activities as a percentage of turnover per turnover group, the total hours were divided by the mid-point of the turnover group. This result was then weighted by the proportional contribution of each turnover group to the total sample.			

Source: Own computation from data collected

The results in Table 6.2 indicate that micro businesses faced a much higher accounting burden than small and medium businesses, relative to the size of the business. This time spent on core accounting activities was therefore regressive if it is taken as a percentage of turnover. These results indicating that the time spent on core accounting activities was regressive align with the results of a previous study by Smulders et al. (2012: 207). The annual internal hours spent on core accounting activities per type of employee who performed the accounting activity were analysed next. These results are set out in Table 6.3.

Table 6.3: Annual hours spent on core accounting activities per type of employee

Size		Unpaid Helpers/Friends	Paid Employees	Owners	Total*
SMMEs	Mean	29	1 009	773	1 809
	5% Trimmed Mean	1	312	168	551
	n	717	716	716	717
	Total Hours	20 946	722 170	553 605	1 296 721
	% of Total time	1.62%	55.69%	42.69%	100.00%
* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set					

Source: Own computation from data collected

The results suggest that most of the core accounting activities were performed by paid employees (55.69%), followed by owners (42.69%) and unpaid helpers or friends (1.62%). Table 6.4 shows the annual hours spent on core accounting activities by type of SMME employee per turnover group (using turnover as the proxy for size).

Table 6.4: Annual hours spent on core accounting activities by type of employee per business size

Size		Unpaid Helpers/Friends	Paid Employees	Owners	Total*
Micro	Mean	47	65	117	230
	5% Trimmed Mean	2	8	63	103
	n	360	360	360	360
	Total Hours	17 001	23 565	42 074	82 639
	% of Total time	20.57%	28.52%	50.91%	100.00%
Small	Mean	10	808	416	1 233
	5% Trimmed Mean	0	405	253	734
	n	247	247	247	247
	Total Hours	2 393	199 523	102 653	304 570
	% of Total time	0.79%	65.51%	33.70%	100.00%
Medium	Mean	14	4 579	3 751	8 268
	5% Trimmed Mean	0	2 683	412	3 148
	n	110	109	109	110
	Total Hours	1 552	499 082	408 877	909 512
	% of Total time	0.17%	54.87%	44.96%	100.00%

* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

Table 6.4 indicates that owners performed most of the core accounting activities in micro businesses, whereas paid employees are the main people responsible for this function in the small and medium businesses.

Some comparisons in terms of internal hours spent on core accounting activities, as discussed above, can be made to a previous study by Smulders et al. (2012: 193). It must be noted that their study only dealt with small businesses with a maximum gross income of R14 million (the previous maximum turnover for a business to qualify for the small business tax concession). However, this threshold was subsequently increased to R20 million for years of assessment ending on or after 1 April 2013 (RSA 2015: Section 140; 2013: Section

7(1)). Therefore, for comparison purposes, in the current study, a micro and small business group (businesses with a turnover of R0 to R20 million) was created to be compared to the small business results from Smulders et al. (2012). Table 6.5 presents the average hours spent by individuals on core accounting activities for the micro and small businesses group.

Table 6.5: Average hours spent by individuals on core accounting activities for micro and small businesses combined

	Micro & Small Combined	Medium	Total
Mean	638	8 344	1811.0
5% Trimmed Mean	342	3 306	552
n	607	109	716
Total Hours	387 209	909 512	1 296 721
* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set			

Source: Own computation from data collected

Table 6.5 indicates an average of 342 hours (5% trimmed mean) spent on core accounting activities by individuals in micro and small businesses. According to Smulders et al.'s (2012) study, the average small business spent, on average, 1 137 hours per year on accounting activities. The hours obtained in the current study (342 hours) are much lower. A possible explanation for this may be that in Smulders et al.'s (2012) study, various accounting activities were listed for which respondents could indicate the hours spent. In the current study, respondents were asked to supply one figure for the time spent on all their accounting activities combined. This difference in the wording of the question may have had the effect that respondents did not include all the accounting activities when they completed the current survey. Another possibility may be that the improvement of accounting software and related technology over the intervening seven years led to a decrease in the number of hours spent on core accounting activities. Unfortunately, no other benchmarks are available against which these results can be tested.

6.2.2. *Internal time spent on different tax types*

To determine the internal time spent on the different tax types, the respondents were asked in Question 4.32 of the questionnaire to estimate the time spent by individuals in the

business on tax-related activities per tax type for the financial year ending between 1 April 2018 and 31 March 2019. As discussed in Section 4.5.1.4, a matrix format was used to collect the information regarding the time spent by the respondents on tax-related activities per tax type. The columns in the matrix contained the names of the different tax types, and the rows provided descriptions of the various tax-related activities.

Respondents were requested in Question 2.7 to indicate which tax types they had to report on during the financial year ending between 1 April 2018 and 31 March 2019. The following five options were provided in the survey: income tax (including provisional tax, CGT, turnover tax and SBC “tax”); VAT; employment-related taxes (PAYE, UIF, SDL and the ETI); withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property); and customs and excise duties. In addition, to ensure that no tax type was overlooked, an “other tax types levied under South African domestic law relevant to your industry” option was provided in which respondents could describe the other tax type.

The selections made by the respondents in Question 2.7 pre-populated the tax type columns in Question 4.32, where respondents were asked to estimate the time spent by individuals in the business on tax-related activities per tax type for the financial year. This pre-population was done to minimise the effect of survey fatigue by removing columns where the respondent would not have had any responses if the tax type did not apply to that taxpayer.

The tax-related activities described in the rows of the matrix in Question 4.32 were based on the processes and procedures that an SMME must follow to be tax-compliant in any one tax year – that is, after registration. These activities included time spent on pre-submission activities for tax returns (for example, recordkeeping), and post-submission activities (such as time spent on the preparation and submission of objections/appeals). To ensure that no tax-related activities were overlooked, an “other activity” category was provided in which the respondents could describe and insert the hours spent on these activities.

Table 6.6 sets out the annual hours spent by SMMEs on tax-related activities per tax type. The mean, median, and 5% trimmed mean are included in Table 6.6 for comparative purposes.

Table 6.6: Annual internal hours spent by SMMEs per tax type

	Income Tax	VAT	Employment related taxes	Withholding taxes	Customs and Excise	Total*
Mean	151.8	217.0	114.3	34.9	100.4	357.0
Median	50.0	70.0	40.0	5.0	18.5	100.0
5% Trimmed mean	84.7	119.9	66.8	23.7	50.3	209.2
n	661	436	401	73	76	703
Total hours	100 338	94 600	45 821	2 547	7 631	250 937
% of total time	39.99%	37.70%	18.26%	1.01%	3.04%	100.00%
* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set						

Source: Own computation from data collected

During the financial year ending between 1 April 2018 and 31 March 2019, it took individuals working for the business on average **209.2 hours** (5% trimmed mean) to deal with tax-related activities. Almost 40% of the time was spent on income tax (84.7 hours), followed by VAT (37.7%, 119.9 hours), employment-related taxes (18.26%, 66.8 hours), withholding taxes (1.01%, 23.7 hours) and customs and excise (3.04%, 50.3 hours).

Table 6.7 presents a breakdown of the internal hours spent on different tax types by business size (micro, small and medium). The results show that the amount of time spent internally on tax-related activities depended on a business's size. As the turnover of businesses increased, so did the internal time spent on tax-related activities.

Table 6.7: Annual internal hours spent on different tax types by business size⁷⁰

Size		Income Tax	VAT	Employment related taxes	Withholding taxes	Customs and excise	Total all taxes*
Micro	Mean	85.1	76.2	51.8	17.9	68.6	118.2
	Median	36.0	40.0	16.5	5.0	14.5	70.0
	5% Trimmed mean	60.5	55.5	34.8	14.3	49.0	82.4
	n	315	112	94	7	10	347
	Total hours	26 800	8 538	4 873	125	686	41 022
	% of total time	65.33%	20.81%	11.88%	0.30%	1.67%	100%
Small	Mean	192.3	206.0	92.0	28.4	63.0	470.4
	Median	52.0	65.0	43.0	2.5	24.0	165.0
	5% Trimmed mean	105.7	124.6	60.8	21.1	47.0	330.6
	n	241	226	214	40	39	247
	Total hours	46 356	46 563	19 683	1 135	2 456	116 193
	% of total time	39.90%	40.07%	16.94%	0.98%	2.11%	100%
Medium	Mean	258.9	403.1	228.7	49.5	166.3	859.8
	Median	90.0	100.0	68.0	9.0	7.0	300.0
	5% Trimmed mean	147.7	276.1	128.5	30.2	79.3	608.3
	n	105	98	93	26	27	109
	Total hours	27 181	39 499	21 265	1 287	4 489	93 722
	% of total time	29.00%	42.15%	22.69%	1.37%	4.79%	100%

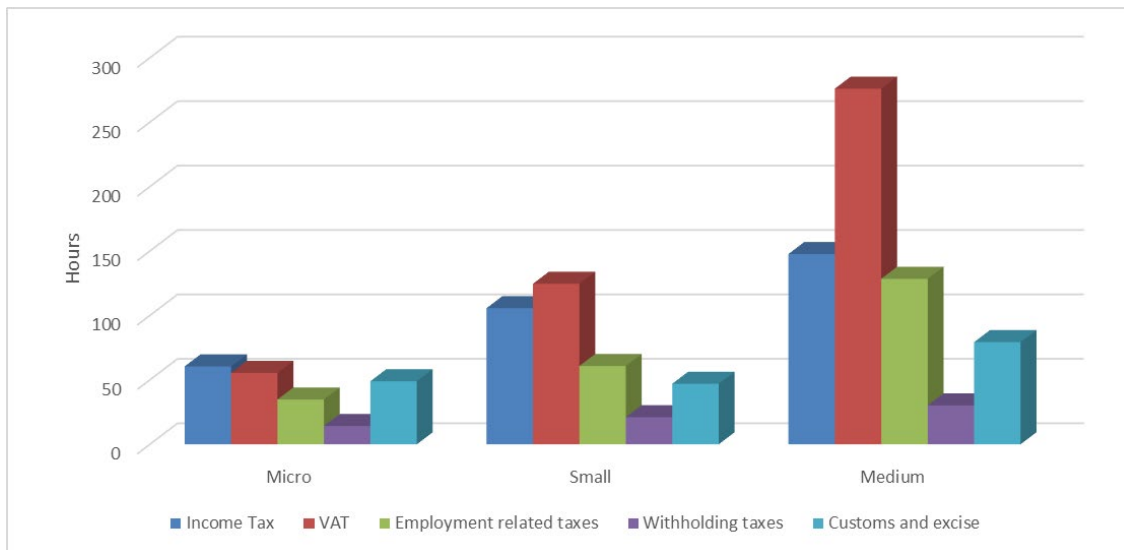
* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

The 5% trimmed mean of the internal hours spent on tax-related activities per different tax types and business size (micro, small and medium) is graphically depicted in Figure 6.2.

⁷⁰ Due to rounding, the micro businesses % of total time added up to 99.9% instead of 100%.

Figure 6.2: Annual average internal hours (5% trimmed mean) spent on tax-related activities, per tax type and business size

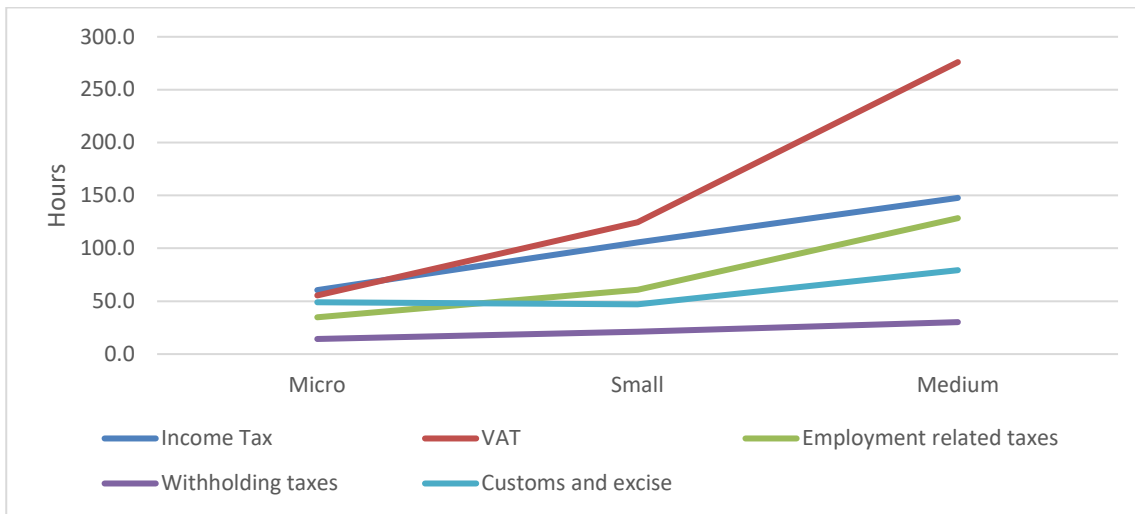


Source: Own computation from data collected

From Figure 6.2, it is clear that VAT, other than for the micro businesses, is the tax type on which SMMEs spent, on average, most of their internal time. For micro businesses, income tax took more time than VAT. This phenomenon may be explained by the fact that most micro businesses did not deal with VAT, as they are not registered for VAT, because businesses with a turnover of R1 million or less are not obliged to register for VAT in terms of section 23 of the *Value-Added Tax Act* (RSA 1991).

It appears that the rate (trend line – see Figure 6.3) at which the hours spent on VAT increased as the size of the business increased was much higher (the trend line is steeper) than the increase in time spent on the other types of taxes. The trend line for withholding taxes is less steep than for the other taxes, indicating that the time taken to comply with this tax was, relatively speaking, unrelated to the size of the business. By contrast, for VAT, it is possible that, as the business increased in size, so did the number (and possibly the types) of transactions, resulting in more hours being spent to comply with VAT. Income tax and employment-related taxes also displayed an increase in the number of hours spent per business size, but not at the same increase level as VAT.

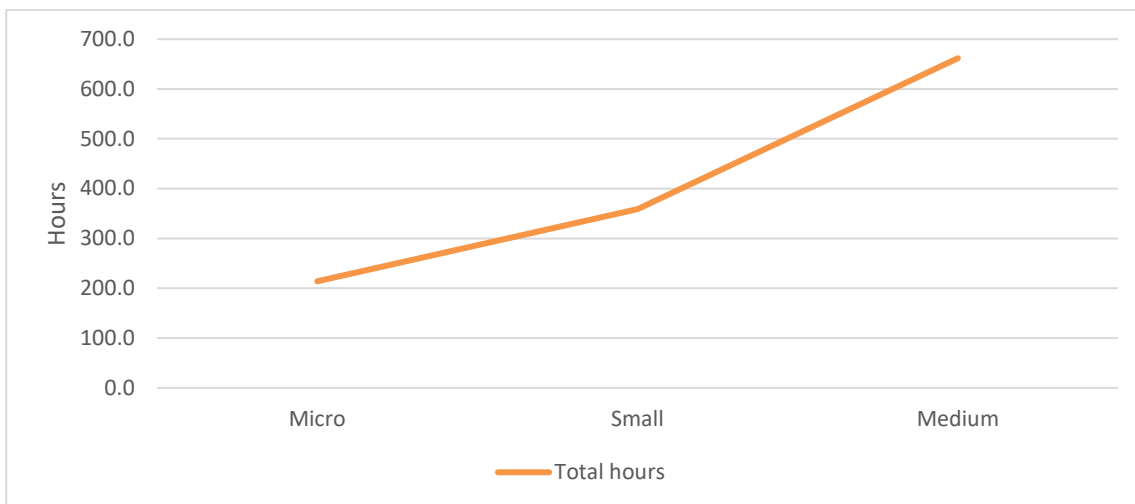
Figure 6.3: Trend lines for annual internal hours spent on tax-related activities per tax type and business size



Source: Own computation from data collected

Generally, as the size of a business increased, an upward trend regarding the number of internal hours spent to comply with tax-related activities was noted (see Figure 6.4).

Figure 6.4: Annual internal hours spent on tax-related activities for all tax types, per business size



Source: Own computation from data collected

An increase in time spent on tax-related activities as a business gets bigger is to be expected. Generally, the bigger a business gets, the more information is produced, and the more time is needed to comply with tax compliance requirements. This time spent, however,

was regressive if it was taken as a percentage of turnover. Table 6.8 presents the annual internal hours spent on tax-related activities as a percentage of the three sizes of SMMEs. These results confirm the findings in previous research that the tax compliance burden weighs heavier on small businesses than larger businesses (Matarirano et al. 2019a: 5; Yesegat et al. 2017: 90; Vaillancourt, Roy-César & Barros 2013: 64; Smulders et al. 2012: 193).

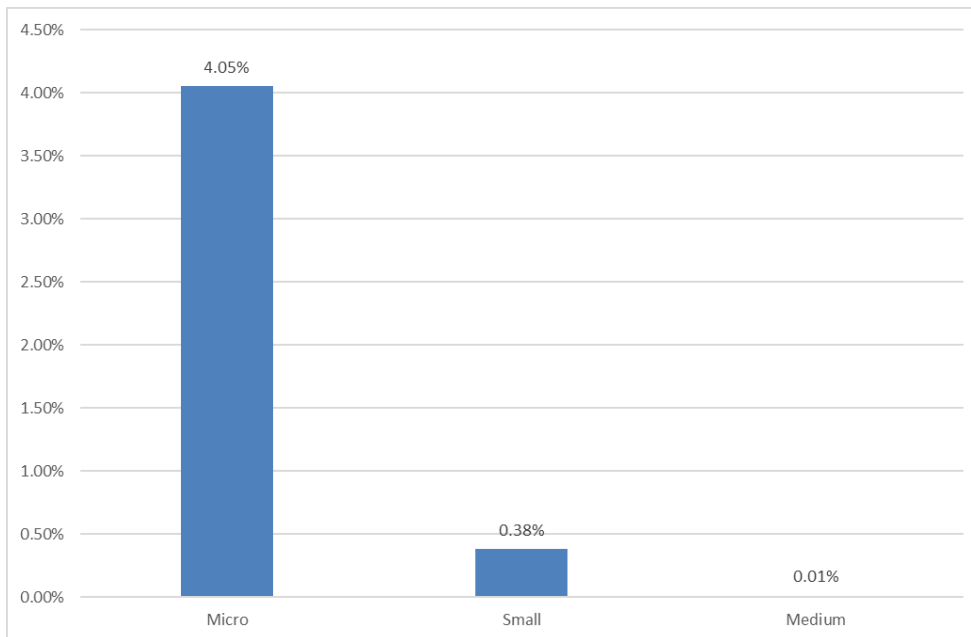
Table 6.8: Annual internal hours spent on tax-related activities as a percentage of turnover bracket

	Micro	Small	Medium
Total Hours	41 022	116 193	93 722
Turnover Mid Value	R500 000	R10 500 000	R135 000 000
Total hours as % of Turnover	8.20%	1.11%	0.07%
Proportion of sample	49.4%	34.5%	16.1%
Weighted % Turnover *	4.05%	0.38%	0.01%
* To compare the internal hours spent as a percentage of turnover per turnover group, the total hours were divided by the mid-point of the turnover group. This result was then weighted by the proportional contribution of each turnover group to the total sample.			

Source: Own computation from data collected

The results indicate that a micro business faces a much higher tax compliance burden than a small or medium-sized business. This finding is graphically illustrated in Figure 6.5.

Figure 6.5: Annual internal hours spent on tax compliance activities as a percentage of turnover bracket



Source: Own computation from data collected

Comparisons in terms of the average hours spent by individuals in the business on tax-related activities can be made to a study by Smulders et al. (2012: 206). Again, for comparative purposes, in the current study, a micro and small businesses group (therefore business with a turnover of R0 to R20 million) was created (see Table 6.9) and compared to the small business results from Smulders et al. (2012) (see Table 6.10).

Table 6.9: Annual average internal hours spent on different tax types for the micro and small business group

Size	Taxes	Income Tax	VAT	Employment related taxes	Withholding taxes	Customs and excise	Total all taxes*
Micro and small combined	Mean	131.6	163.0	79.7	26.8	64.1	264.7
	Median	48.0	53.5	30.0	3.0	20.0	100.0
	5% Trimmed mean	75.7	96.9	51.8	20.0	46.5	159.8
	n	556	338	308	47	49	594

* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

Table 6.10: Average internal hours spent on different taxes for micro and small businesses – comparison to Smulders et al. (2012)

		Income Tax	VAT	Employment related taxes
Current study	5% Trimmed mean	75.7	96.9	51.8
Smulders et al. (2012)	5% Trimmed mean	69.9	98.9	83.2

Source: Own computation from data collected and Smulders et al. (2012: 193)

From Table 6.10, it is evident that the hours reported in the current study and by Smulders et al. (2012) with regard to income tax (75.7 and 69.9 hours respectively) and VAT (96.9 and 98.9 hours) were very similar, indicating that the internal time spent by micro and small businesses on these tax types has not substantially increased or decreased since the 2012 study. However, the comparison did indicate a substantial difference in the hours spent with regard to employment-related taxes. The current study's average internal hours spent complying with employment-related taxes displayed a decrease by 31.4 hours from the hours in the 2012 study. Reasons for this need to be investigated; it may possibly be attributed to improved technology and payroll software, better communication and education from SARS, and the introduction of the electronic easyfile system.⁷¹ Businesses could also have reduced their workforce due to the current economic climate and therefore have fewer employees to report on.⁷² Another reason may be that businesses decided to outsource their payrolls to external tax practitioners. Hours spent on withholding taxes were not reported on in Smulders et al.'s (2012) study, and customs and excise levies were reported on separately by Smulders et al. (2012). It was therefore not possible to compare the results with regard to withholding taxes and customs and excise.

6.2.3. *Internal time spent on different tax compliance activities*

After establishing the number of hours spent on the different tax types, it was necessary to identify on which tax-related activities respondents spent most of their time. Specific tax

⁷¹ Easyfile is software designed by SARS to assist taxpayers who are employers or payroll administrators to manage their employment-related tax affairs (SARS No date(c)).

⁷² This is supported by the finding that 68% of the respondents in this study employed five or fewer employees (see Section 5.2.7).

compliance activities were provided to respondents in Question 4.32, and they were requested to report the time spent on each of these activities per tax type per year. The question was designed to elicit information on the time spent on different tax activities per tax type. The question was based on the taxonomy of tax activities used by Smulders et al. (2012: 194). To ensure that no compliance activities were overlooked, an “other activity” category was provided in which the respondents could describe and insert the hours spent on these activities.

Table 6.11 sets out the above tax compliance activities along with the mean, median, 5% trimmed mean of time spent by the respondents on each of these activities and the number of respondents. Other activities mentioned by the respondents included obtaining tax clearance certificates and standing in a queue at SARS offices. However, the time spent on these activities was not significant, as shown in Table 6.11.

Table 6.11: Time spent by individuals on different tax compliance activities

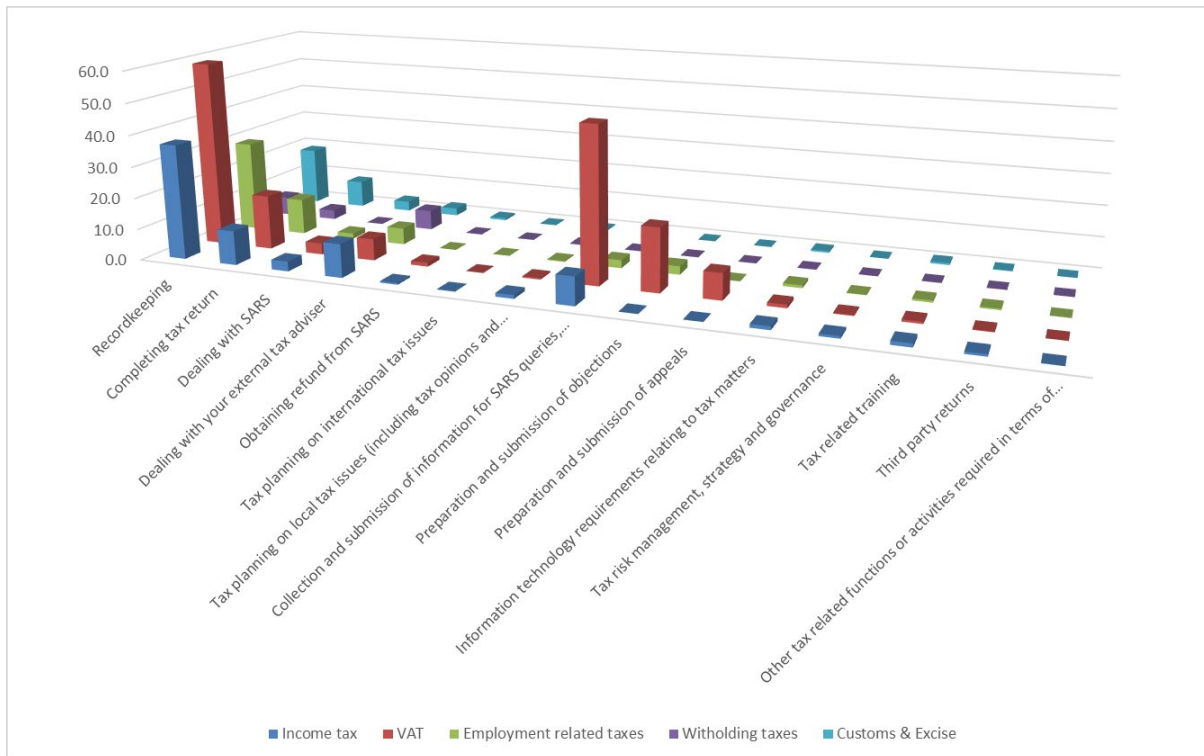
Activity		Income tax	VAT	Employment related taxes	Withholding taxes	Customs & Excise	Total*
Recordkeeping	Mean	95.8	146.9	59.4	11.3	64.1	
	Median	12.0	20.0	12.0	0.0	5.5	
	5% Trimmed mean	36.6	59.0	29.0	6.0	18.8	97.2
	n	659	436	401	73	76	
Calculating tax, completing tax return and paying tax	Mean	18.5	35.6	24.3	5.1	15.1	
	Median	2.0	6.0	3.0	0.0	0.0	
	5% Trimmed mean	10.9	17.3	11.5	3.0	8.8	28.0
	n	661	435	401	73	76	
Dealing with SARS	Mean	6.0	6.7	4.2	0.9	6.0	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	3.1	3.6	1.7	0.1	3.2	7.4
	n	660	436	401	73	76	
Dealing with your external tax adviser	Mean	15.8	11.6	9.5	13.9	4.5	
	Median	2.5	0.0	0.0	0.0	0.0	
	5% Trimmed mean	10.6	6.9	5.3	6.3	2.4	21.8
	n	408	336	318	62	61	
Obtaining refund from SARS	Mean	2.2	5.6	0.7	0.7	2.0	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	0.5	1.2	0.0	0.0	0.6	1.6
	n	659	435	400	73	76	
Tax planning on international tax issues	Mean	1.6	0.3	0.1	0.0	0.6	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	0.1	0.0	0.0	0.0	0.1	0.2
	n	661	436	401	73	76	
Tax planning on local tax issues (including tax opinions and advance tax rulings)	Mean	4.0	1.6	1.2	0.7	1.8	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	1.2	0.5	0.3	0.2	0.2	1.8
	n	660	436	401	73	76	
Collection and submission of information for SARS queries, inspections or audits	Mean	13.0	64.2	2.9	0.0	0.0	
	Median	0.0	11.0	0.0	0.0	0.0	
	5% Trimmed mean	8.9	49.1	2.6	0.0	0.0	66.5
	n	12	12	11	5	3	
Preparation and submission of objections	Mean	0.0	24.0	3.0	0.0	0.0	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	0.0	20.0	2.7	0.0	0.0	22.7
	n	4	5	4	3	2	
Preparation and submission of appeals	Mean	0.0	9.0	0.0	0.0	0.0	
	Median	0.0	5.0	0.0	0.0	0.0	
	5% Trimmed mean	0.0	8.3	0.0	0.0	0.0	6.7
	n	4	5	3	3	2	
Information technology requirements relating to tax matters	Mean	3.4	3.4	2.7	0.8	2.4	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	1.1	1.1	0.9	0.1	0.5	2.5
	n	660	436	401	73	76	
Tax risk management, strategy and governance	Mean	2.6	1.3	1.2	1.1	1.0	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	0.7	0.3	0.2	0.0	0.1	1.1
	n	661	436	401	73	76	
Tax related training	Mean	3.9	1.9	1.9	0.7	2.8	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	1.2	0.7	0.6	0.0	0.6	2.3
	n	660	435	400	73	75	
Third party returns	Mean	2.6	1.8	2.4	0.3	0.7	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	0.7	0.2	0.4	0.0	0.2	1.1
	n	659	435	400	72	76	
Other tax related functions or activities required in terms of South African domestic law not listed above	Mean	1.4	0.9	8.6	1.5	0.4	
	Median	0.0	0.0	0.0	0.0	0.0	
	5% Trimmed mean	0.0	0.0	0.0	0.0	0.0	0.1
	n	660	434	400	73	76	

* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

The results in Table 6.11 based on the 5% trimmed mean figures are graphically depicted in Figure 6.6.

Figure 6.6: Annual hours spent (5% trimmed mean) on different tax compliance activities



Source: Own computation from data collected

From an activity perspective (using the 5% trimmed mean), recordkeeping was the most time-consuming activity (97.2 hours). Other time-consuming tax compliance activities included collecting and submitting information for SARS queries, inspections or audits (66.5 hours), calculating tax, completing a tax return and paying the tax (28.0 hours), preparation and submission of objections (22.7 hours) and dealing with an external tax adviser (21.8 hours). These activities were particularly time-consuming for VAT compliance, with the notable exception of the activity “dealing with your tax adviser”, where income tax compliance reported higher hourly values. This outcome is probably because income tax is an annual tax and not a routine tax, like VAT and employment-related taxes. This outcome was confirmed by the external costs results reported in Section 6.4.2, which indicated that the respondents allocated most external costs to income tax.

Previous studies on tax compliance costs did not address all the tax compliance activities reported in this study; however, some comparisons in terms of annual hours spent by individuals on different tax compliance activities can be made to Smulders et al.'s (2012: 193) study. As in Section 6.2.1 and 6.2.2, a “micro and small businesses” group was created (see Table 6.12) to compare to the small business results from Smulders et al. (2012) (see Table 6.13).

Table 6.12: 5% trimmed mean annual hours spent by individuals in the business on different tax activities for micro and small businesses combined

Activity	Income tax	VAT	Employment related taxes	Withholding taxes	Customs & Excise
Recordkeeping	31.43	45.16	22.74	4.41	15.79
Completing tax return	9.87	15.34	9.56	2.92	7.68
Dealing with SARS	3.01	3.02	1.34	0.25	3.50
Dealing with your external tax adviser	9.74	6.96	5.01	5.53	3.36
Obtaining refund from SARS	0.45	0.57	0.00	0.00	1.26
Tax planning on international tax issues	0.10	0.00	0.00	0.00	0.21
Tax planning on local tax issues (including tax opinions and advance tax rulings)	1.04	0.34	0.20	0.20	0.33
Collection and submission of information for SARS queries, inspections or audits	11.27	19.52	3.78	0.00	0.00
Preparation and submission of objections	0.00	0.00	0.00	0.00	0.00
Preparation and submission of appeals	0.00	0.00	0.00	0.00	0.00
Information technology requirements relating to tax matters	1.03	0.94	0.70	0.05	0.99
Tax risk management, strategy and governance	0.62	0.18	0.07	0.00	0.15
Tax related training	1.08	0.50	0.47	0.09	0.74
Third party returns	0.63	0.27	0.43	0.04	0.56
Other tax related functions or activities required in terms of South African domestic law not listed above	0.05	0.05	0.00	0.00	0.13

Source: Own computation from data collected

Table 6.13: 5% trimmed mean annual hours spent by individuals on different tax activities for micro and small businesses – comparison to Smulders et al. (2012)

Activity	5% Trimmed mean	Income tax	VAT	Employment related taxes
Recordkeeping	Current Study	31.43	45.16	22.74
	Smulders et al. (2012)	31.49	64.78	35.31
Completing tax return	Current Study	9.87	15.34	9.56
	Smulders et al. (2012)	11.32	13.77	18.50
Dealing with SARS	Current Study	3.01	3.02	1.34
	Smulders et al. (2012)	6.22	6.50	10.62
Dealing with your external tax adviser	Current Study	9.74	6.96	5.01
	Smulders et al. (2012)	8.18	5.14	5.48
Other tax related functions or activities required in terms of South African domestic law not listed above	Current Study	0.05	0.05	0.00
	Smulders et al. (2012)	0.00	0.00	0.00

Source: Own computation from data collected and Smulders et al. (2012: 194)

Several specific activities were dealt with in the current study and by Smulders et al. (2012). From Table 6.13, it is evident that recordkeeping for income tax yielded very similar results in both studies, while VAT and employment-related taxes in the current study displayed a decrease in time spent. Although a decrease in total time spent concerning employment-related taxes was reported in the current study, the total time spent on VAT remained basically the same between the two studies. Therefore, it is submitted that even though the time spent with regard to recordkeeping decreased in the current study, additional time was spent on other tax compliance activities. This result may also indicate that even though the hours for recordkeeping did decrease, additional time was spent collecting information for queries from SARS.

Time to complete a tax return in the current study displayed a slight decrease regarding income tax, but a small increase for VAT. There was again a substantial decrease in time spent on employment-related taxes. Possible reasons for this have already been discussed in Section 6.2.2. Dealing with SARS displayed a substantial decrease in time spent across all three tax types. By contrast, time spent dealing with an external tax adviser in the current

study increased for income tax and VAT, but showed a slight decrease in time spent on employment-related taxes. This result indicates that less time was spent with SARS officials, but more time was spent with external tax advisers. Reasons for this may be improved communication from SARS, resulting in less time spent at SARS, and or it may be that SMMEs instead use external tax advisers to deal with SARS on their behalf. Alternatively, or in addition to the latter, a possible lack of communication from SARS could force SMMEs to go to advisers to help them with their tax submissions. This is, however, only speculation and needs to be investigated further.

6.2.4. *Internal time spent per type of employee in the business on tax activities*

Having established the hours spent internally on various tax compliance activities per year, it was necessary to determine how much this time is costing the business. To glean this information, it was essential to determine who in the business performed these tax compliance activities, as the value of the time spent depends on the individual performing these activities. This approach was used because splitting the time spent on various tax compliance activities by different categories of persons improves estimates of tax compliance costs (Sullivan 2005: 3). The three types of employees performing tax compliance activities in the business used in the current study were identified in a previous study (Smulders et al. 2012: 192), namely owners (members of CCs, directors of companies, sole proprietors or partners in partnerships), paid employees, and unpaid helpers or friends.

Respondents were required in Question 4.33 to indicate the percentage of the total time spent on tax compliance activities related to the different tax types, as indicated in Question 4.32, by each type of employee mentioned above (owners, paid employees, unpaid helpers or friends). This rough approximation was asked for rather than the actual number of hours spent by each person, because it was assumed that the respondents would find it easier and faster to give an estimate of how the hours are shared between the different types of employees rather than to calculate an annual number of hours per person per activity. The mean and 5% trimmed mean hours spent by each type of employee on tax compliance activities are reported in Table 6.14 for SMMEs in total. The results are then reported per business size in Table 6.15.

Table 6.14: Annual hours spent per type of employee on tax compliance activities: SMMEs⁷³

	Unpaid Helpers/Friends	Paid Employees	Owners	Total *
Mean	11.9	200.3	144.7	357.0
5% Trimmed Mean	1.3	73.1	89.8	209.2
n	703	703	703	703
Total Hours	8 392	140 803	101 741	250 937
% of Total time	3.34%	56.11%	40.54%	100.00%

* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

If these hours are compared to the hours spent by individuals on core accounting activities (see Section 6.2.1), it appears that far more time is spent on core accounting than on tax compliance activities (the 5% trimmed means for owners, employees, unpaid helpers or friends on core accounting activities were 168 hours, 312 hours and 1 hour respectively). This finding is in line with the results in previous research (Smulders et al. 2012: 206).

Table 6.15: Annual hours spent per type of employee on tax compliance activities by business size

Size		Unpaid Helpers/Friends	Paid Employees	Owners	Total*
Micro	Mean	9.5	19.0	89.7	118.2
	5% Trimmed Mean	2.5	6.5	63.4	82.4
	n	347	347	347	347
	Total Hours	3 289	6 597	31 136	41 022
	% of Total time	8.02%	16.08%	75.90%	100.00%
Small	Mean	14.9	245.2	210.3	470.4
	5% Trimmed Mean	0.4	126.6	133.5	330.6
	n	247	247	247	247
	Total Hours	3 690	60 553	51 951	116 193
	% of Total time	3.18%	52.11%	44.71%	100.00%
Medium	Mean	13.0	675.7	171.1	859.8
	5% Trimmed Mean	0.0	433.9	110.3	608.3
	n	109	109	109	109
	Total Hours	1 414	73 653	18 655	93 722
	% of Total time	1.51%	78.59%	19.90%	100.00%

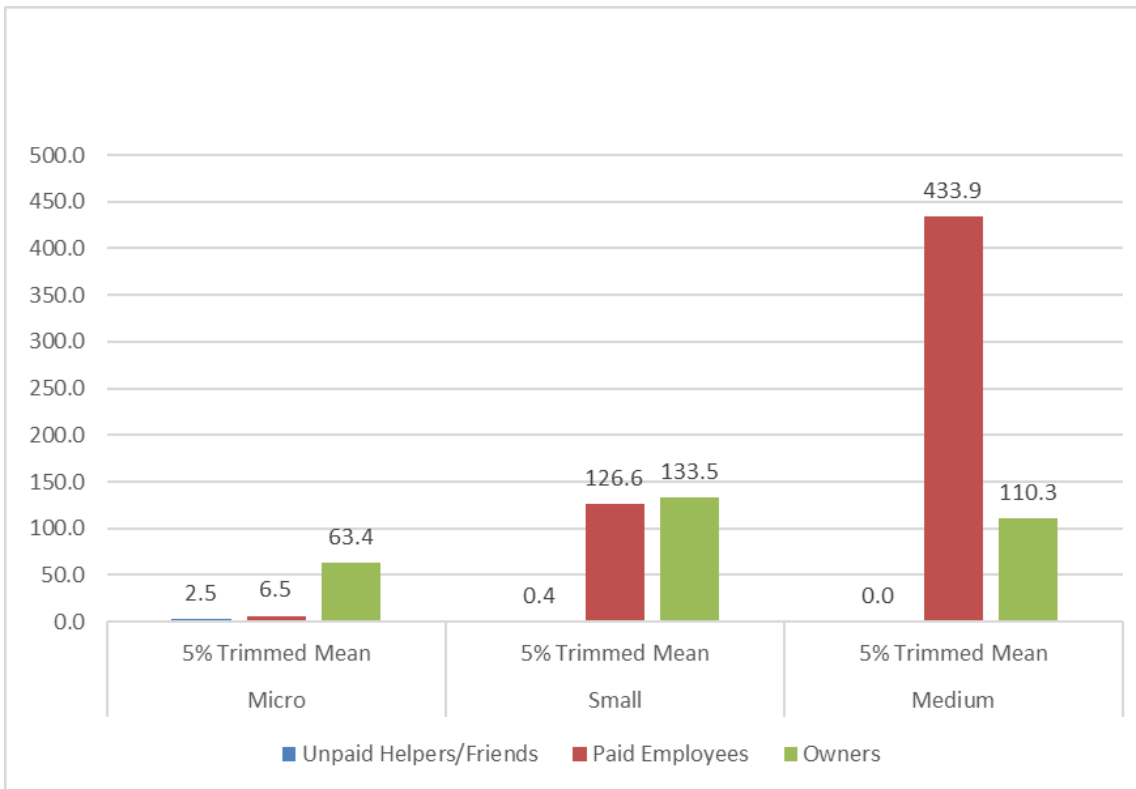
* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

⁷³ Due to rounding, the % of total time added up to 99.9% instead of 100%.

The 5% trimmed mean figures for the annual hours spent per type of employee on tax-related activities by business size are graphically depicted in Figure 6.7.

Figure 6.7: Average hours spent on tax compliance activities per type of employee for SMMEs



Source: Own computation from data collected

The 5% trimmed mean results indicate that for SMMEs in total, most internal time spent on tax compliance activities was spent by the owners, who spent, on average, 89.8 hours on tax compliance activities, while paid employees spent 73.1 hours, and unpaid helpers or friends spent 1.3 hours (see Table 6.14). After breaking down the results for the three different business sizes (Table 6.15), it is clear that in micro businesses, most of the tax compliance activities were performed by the owner(s), in contrast to medium businesses, where paid employees performed most of the activities. With regard to small businesses, the hours spent on tax compliance activities by paid employees and owners were very similar. Unpaid helpers or friends' assistance with tax compliance matters occurred almost exclusively on the micro business level (2.5 hours). An insignificant number of hours were reported for such assistance on the small and medium business level. These findings can

be compared to those of a study done in Australia, which found that while the owners of micro businesses tended to be responsible for most of the internal time spent on tax compliance activities, the responsibility shifted to paid employees as the size of the business increased (Lignier & Evans 2012: 636). This result is confirmed by the current study (see Table 6.15), which found that the internal time spent on tax compliance activities was mainly attributed to owners (75.90%) in the case of micro businesses, and to paid employees in the case of small (52.11%) and medium (78.59%) businesses.

Specific comparisons of the data can be made to the data reported by Smulders et al. (2012: 196). For comparative purposes, a combined micro and small business group was again created (businesses with a turnover of R0 to R20 million) (see Table 6.16).

Table 6.16: Average hours spent on tax compliance activities per type of employee for micro and small businesses combined

Size		Unpaid Helpers/Friends	Paid Employees	Owners	Total*
Micro & Small	Mean	11.7	113.0	139.9	264.7
	5% Trimmed Mean	1.6	35.1	86.1	159.8
	n	594	594	594	594
	Total Hours	6 979	67 150	83 087	157 215
	% of Total time	4.44%	42.71%	52.85%	100.00%

* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

Table 6.16 indicates that 52.85% of internal time spent on tax compliance activities was attributed to owners, followed by 42.71% to paid employees and only 4.44% to unpaid helpers or friends. Table 6.17 compares the current study's results to those of Smulders et al. (2012: 196).

Table 6.17: Percentage of time spent on tax compliance activities by type of employee, micro and small businesses – comparison to Smulders et al. (2012)

		Unpaid Helpers/Friends	Paid Employees	Owners	Total
% of time spent by type of employee	Current study	4%	43%	53%	100%
	Smulders et al. (2012)	3%	34%	63%	100%

Source: Own computation from data collected and Smulders et al. (2012: 196)

Even though the current study's results indicated an increase in time spent by paid employees and a decrease in the time spent by owners, compared to the results of Smulders et al.'s (2012) study, most of the tax compliance activities were still performed by owners.

Knowing who undertakes the various tax compliance activities and the time spent on these activities, it is now possible to assign a Rand value to the time spent to quantify the internal cost of tax compliance.

6.2.5. Valuation of internal time spent

Question 4.34 of the current study asked respondents to provide an hourly value for owners (members, directors, sole proprietors or partners) and paid employees who performed tax compliance activities in the business. The values obtained from the respondents varied considerably, so it was decided to implement the 5% trimmed mean as a basis for the valuation. Using this mean, the hourly rate attributable to owners amounted to R492.03 and to R129.28 for paid employees. The hourly rate for owners was the highest – this is justifiable as an SMME owner's time is more valuable than the time of employees, as the owner could instead be engaged in the operations (for example, sales, marketing, production) of the business rather than in tax compliance activities. The values provided by the respondents for owners and paid employees working in the business are set out in Table 6.18.

Table 6.18: Hourly rate of owners and paid employees' time according to respondents

	Owners	Paid employees
Mean	659.94	724.20
Median	350.00	50.00
5% Trimmed mean	492.03	129.28
n	712	712

Source: Own computation from data collected

To eliminate, where possible, any bias that might be included in these values and to ensure that they were reasonable, an alternative valuation of the type of employee time was undertaken. In line with the methodology adopted by Smulders (2012: 197), the approximate values provided by the respondents for Question 4.34 were compared against average hourly rates obtained from local publicly available salary surveys. The Robert Walters Salary Survey (Robert Walters 2018) and the Michael Page (2019) salary surveys were considered suitable to calculate an hourly value to be used in the internal time cost calculation. Both these surveys related to similar periods as those that were the focus of the current survey. Moreover, both these surveys categorised the survey results into different functions performed by individuals in the accounting and finance field, with specific reference to tax activities. For the category values that would best represent the value of the time spent by individuals in the business on tax compliance activities in the current study, it was thought that the owner could probably be considered the finance manager, while the role of an employee was more or less the same as that of a bookkeeping clerk or accountant.

The Robert Walters Salary Survey provided the permanent salary per annum for various qualifications and years of experience in respect of finance and accounting employees (Robert Walters 2018: 48). Robert Walters is a recruitment company, so the salary survey was based on an analysis of placements made, among other things, across South Africa and on various disciplines during 2017, and included predictions for 2018 (Robert Walters 2018: 9). Two positions were selected from the survey to arrive at an hourly rate for employees and owners, namely a position requiring a BCom, plus four years' experience, and finance manager. These positions seemed to approximate the role that an employee and owner would fulfil in an SMME. Because a range of salaries was given per position, for example, a finance manager's salary was reported to vary between R600 000 and

R850 000, it was thought to be prudent to use the average of these values, because no indication was given of the size of the businesses paying these salaries. This average was then divided by the average working hours of employees in South Africa (see the calculation below) to arrive at an hourly rate.

The Michael Page survey also provided salaries per annum for various functions individuals perform in the Finance and Accounting sector (Michael Page 2019: 3). Again, the positions of the standard financial accountant (which should be at the BCom plus four years' experience level) and finance manager were selected. However, in this case, an average salary for SMMEs was given and therefore used in the calculation for the hourly rate. The average working hours were calculated using 21.67 average working days per month, 8 hours per day, and then multiplied by 12 months (Sage Software Inc 2019).

The rates considered appropriate as a benchmark to value the time (hours) spent by the owner and employees of an SMME were the average rates, calculated using the hourly rates of the two surveys mentioned above, between salaries for finance managers (owners) and accountant positions (employees). The values obtained are set out in Table 6.19.

Table 6.19: Market-related annual rate per hour for owners and paid employees

Position	Salary survey	Rate per hour	Average rate per hour
Owner			
Finance Manager	Robert Walters Survey	R348.50	R372.54
Finance Manager	Michael Page Survey	R396.57	
Employee			
B Com with 4-years experience	Robert Walters Survey	R204.30	R210.30
Financial Accountant (Standard)	Michael Page Survey	R216.31	

Source: Robert Walters (2018) and Michael Page (2019)

The rates (R372.54 for owners and R210.30 for paid employees) were not similar to those provided by the respondents (R492.03 for owners and R129.28 for paid employees). It was

therefore decided to obtain a further benchmark against which the rates provided by the respondents could be compared. The benchmark considered was the labour rate published by Statistics South Africa. The problem with the rates published by Statistics South Africa is that the only published rate available is for the financial intermediation, insurance, real estate, and business services sector in total. No breakdown is available for the finance and accounting sector, and no distinction is made between owners and employees (Statistics South Africa 2020b: 180). Hence, it was not possible to benchmark the current study's results to the Statistics South Africa labour rates.

Given that reasonably accurate estimates of average salaries per specific type of employee exist, one may question whether it is necessary to consider what rate a small part of the population thinks their time is worth (Turner et al. 1998: 70). It has been argued that it is more precise to use a market average wage rate relevant to the tax profession to estimate internal tax compliance costs (Tran-Nam 1999: 168). Thus, the rates calculated in Table 6.19 (the market-related rates) were considered most appropriate for calculating the value of the time for the owners and employees of SMMEs in the current study.

For valuation purposes, the time spent by unpaid helpers or friends on tax compliance activities, the same rates as those obtained for paid employees were used. This valuation is regarded as acceptable since the activities performed by unpaid helpers or friends would have been performed by paid employees if it were not for the unpaid helpers or friends. This decision is also in line with previous research (Smulders et al. 2012: 200). The hourly rates to be used for the valuation of the time spent per hour were therefore R372.54 for owners and R210.30 for paid employees and unpaid helpers or friends. It must be noted that, because the rate used to calculate an employee's time is higher than the value for time spent on tax compliance activities provided by the respondents, there is a possibility of overstatement of internal tax compliance costs.

6.2.6. *Estimation of internal tax compliance costs*

After establishing the hours spent on, and the employee(s) who performed, the internal tax compliance activities for the SMMEs, and the hourly rates to be used, the hours spent on tax compliance activities were converted to a Rand value to estimate the internal tax

compliance costs for an SMME. First, the estimated number of hours spent by each type of employee on tax activities was calculated by multiplying the percentage of time spent on each tax type by the respective type of employee by the total time spent on each tax type. This result was then multiplied by the internal time cost (hourly rate), as already established (see Section 6.2.5).

Some SMMEs do, however, form part of a group structure. If an SMME formed part of a group structure and incurred internal tax compliance costs because of this relationship, these costs were then added to the cost calculated above. To establish these costs and to provide for costs paid to central tax departments,⁷⁴ respondents were asked in Question 4.7 how much they paid for tax-related services performed by a central tax department. The following tax-related services were listed in the survey:

- human resources and management of staff performing tax functions;
- routine tax work (recurrent/business as usual tax matters), for example, recording tax information, computing tax liabilities, filing returns or submission of documents relating to all taxes, levies or duties;
- for controlled foreign companies, activities related to the South African domestic tax law implications of controlled foreign companies;
- international tax matters (advice and input in relation to the South African domestic tax law implications of foreign income of the company, including, but not limited to, the following issues: transfer pricing, thin capitalisation, foreign tax credits, double taxation agreements;
- tax planning and tax advice (including tax opinions and advance tax rulings);
- tax reviews (for example, inspections, verification and audit by SARS);
- objections and appeals relating to tax matters;
- disputes (including alternate dispute resolution) and litigation relating to tax matters;
- information technology requirements relating to tax matters;
- tax risk management, strategy and governance activities (identifying, controlling and reporting operational and compliance risks of not complying with tax laws or compliance obligations to the board of directors and/or audit committee);

⁷⁴ The central tax department was defined in the survey as a designated tax department that exists separately from the accounting, payroll, or similar departments (PwC 2015: 13).

- tax-related training (including learning about tax, costs of employed trainers, cost of time spent attending conferences, seminars, workshops, reading newsletters, SARS websites, bulletins etc.);
- third-party returns (for example IT3 certificates; dividend withholding tax files, foreign account tax compliance act files, common reporting standards, etc.); and
- other tax-related functions or activities required in terms of South African domestic tax law not listed above.

In Questions 4.14, 4.17, 4.22 and 4.27, respondents were asked to estimate the direct costs of staff employed in the internal central tax departments and the shadow tax departments.⁷⁵ Again, the respondents were given the same list of tax-related services as above. The values for the annual internal tax compliance costs per tax type obtained from performing the calculations (hours x hourly rate) discussed in Section 6.2.5 are set out in Table 6.20 and Table 6.21.

Table 6.20: Annual internal costs of tax compliance per tax type for SMMEs

	Income Tax	VAT	Employment related taxes	Withholding taxes	Customs and excise	Total all taxes *
Mean	R45 622	R60 250	R35 525	R19 415	R19 372	R107 901
Median	R16 884	R21 030	R10 725	R510	R0	R35 553
5% Trimmed mean	R27 124	R37 284	R22 082	R6 822	R9 485	R68 643
n	712	481	449	110	110	757
Total Cost	R32 483 045	R28 980 412	R15 950 948	R2 135 646	R2 130 924	R81 680 975
% of Total cost	39.77%	35.48%	19.53%	2.61%	2.61%	100%
* Not calculated as the sum of the row but obtained from the mean and 5% trimmed mean data set.						

Source: Own computation from data collected

From Table 6.20, it is evident SMMEs spent on average **R68 643** on internal tax compliance costs. Of the total internal costs of tax compliance, 39.77% are attributable to income tax, followed by VAT (35.48%) and then employment-related taxes (19.53%). Withholding taxes and customs and excise both account for 2.61% of the total internal tax compliance costs. The analysis of these results according to the different business sizes (micro, small and

⁷⁵ A shadow tax department was defined in the survey as those staff outside the central tax department who also play a role in tax compliance, such as payroll staff (PwC 2015: 13).

medium) are tabulated in Table 6.21.

Table 6.21: Annual internal costs of tax compliance per tax type by business size⁷⁶

Size		Income Tax	VAT	Employment related taxes	Withholding taxes	Customs and excise	Total all taxes
Micro	Mean	R29 145	R26 706	R19 244	R2 312	R11 358	R88 765
	5% Trimmed mean	R20 102	R18 740	R11 225	R499	R3 597	R54 163
	n	335	126	109	20	23	613
	Total Cost	R9 763 563	R3 364 932	R2 097 631	R46 243	R261 238	R15 533 607
	% of Total cost	62.85%	21.66%	13.50%	0.30%	1.68%	100%
Small	Mean	R56 714	R59 456	R29 651	R10 374	R15 446	R171 641
	5% Trimmed mean	R33 385	R38 627	R21 632	R7 147	R11 013	R111 803
	n	260	245	233	53	50	841
	Total Cost	R14 745 569	R14 566 710	R6 908 793	R549 848	R772 284	R37 543 204
	% of Total cost	39.28%	38.80%	18.40%	1.46%	2.06%	100%
Medium	Mean	R68 153	R100 443	R64 902	R41 610	R29 659	R304 768
	5% Trimmed mean	R42 202	R71 854	R38 364	R12 795	R12 624	R177 839
	n	117	110	107	37	37	
	Total Cost	R7 973 913	R11 048 771	R6 944 524	R1 539 555	R1 097 401	R28 604 164
	% of Total cost	27.88%	38.63%	24.28%	5.38%	3.84%	100%

Source: Own computation from data collected

From Table 6.21, it is evident that income tax is the tax type on which the micro business group incurred, on average, most internal tax compliance costs. For small and medium businesses, however, VAT compliance costs were higher than income tax compliance costs. This phenomenon may be explained by the fact that, as businesses increase in size, so does the number of VAT transactions (and possibly their complexity). The annual internal tax compliance costs per tax type were compared to those in Smulders et al.'s (2012: 200) study, again combining the figures for micro and small businesses (see Table 6.22).

⁷⁶ Due to rounding, the micro and medium businesses % of total time added up to 99.9% and 100.01% respectively, instead of 100%.

Table 6.22: 5% Trimmed mean annual internal tax compliance costs per tax type for micro and small businesses – comparison to Smulders et al. (2012)

Size		Income Tax	VAT	Employment related taxes
Micro and Small (Current Study)	5% Trimmed mean	R24 830	R30 812	R18 063
Smulders et al. (2012)	5% Trimmed mean	R16 362	R20 318	R16 533
Smulders et al. (2012) Inflation adjusted	5% Trimmed mean	R25 055	R31 113	R25 317

Source: Own computation from data collected and Smulders et al. (2012: 200)

The total internal tax compliance costs calculated in Smulders et al.'s (2012) study were adjusted for inflation to the end of February 2019. The result of this strategy, in comparison to the results in the current study, was that the costs for complying with income tax and VAT were very similar. However, the costs of complying with employment-related taxes displayed a decrease. Because the internal tax compliance costs are related to the hours spent on tax compliance activities by individuals in the business, the same reasons as discussed in Section 6.2.2 may offer a possible explanation for the decrease in employment-related tax compliance costs.

6.3. Non-labour tax compliance costs

Question 4.35 asked respondents to estimate non-labour costs for tax personnel that dealt with tax compliance for the business during the financial year ending between 1 April 2018 and 31 March 2019. In an effort to disentangle the accounting and tax costs from each other to ensure that only the tax compliance costs were taken into consideration in the tax compliance cost measurement criteria, the questionnaire instructed respondents to include only the portion of non-labour costs that would disappear if all taxes, duties and levies were abolished. The survey prompted information regarding the cost of the following items incurred for tax personnel: office space and/or parking; furniture, fixtures and fittings; tax

software; utilities (telephone, internet, electricity etc); staff travel and tax conferences. The survey also provided an “other” category if respondents incurred other costs not indicated on the survey. It is noted that the survey did not cater for the fact that some of the items mentioned in this question are of a capital nature. This situation may have caused respondents to report the total cost instead of the annual cost of these items, which may have caused an overestimation of these costs. Therefore, in future research, items of a capital nature should be determined in a separate question which will assist in estimating the annual costs of these items. The total annual non-labour costs spent on tax personnel that deal with tax compliance for SMMEs are reported in Table 6.23.

Table 6.23: Non-labour costs related to tax compliance activities

	Micro	Small	Medium	SMMEs*
Mean	R16 036	R52 854	R48 752	R34 000
5% Trimmed Mean	R7 405	R25 707	R27 861	R15 747
n	381	266	124	771
Total Cost	R6 109 544	R14 059 070	R6 045 300	R26 213 914

* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

Table 6.23 indicates that SMMEs spent, on average, **R15 747** (using the 5% trimmed mean) on non-labour costs related to tax compliance activities. When this was divided into the different business sizes, it was clear that these costs increased as the size of the business increased. Therefore, for future comparison purposes, the results for the micro and small businesses for the non-labour costs related to tax compliance activities were combined, as set out in Table 6.24.

Table 6.24: Non-labour costs related to tax compliance activities for micro and small businesses combined

	Micro & Small Combined	Medium	Total*
Mean	R31 173	R48 752	R34 000
5% Trimmed Mean	R13 781	R27 861	R15 747
n	647	124	771
Total Cost	R20 168 614	R6 045 300	R26 213 914

* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set

Source: Own computation from data collected

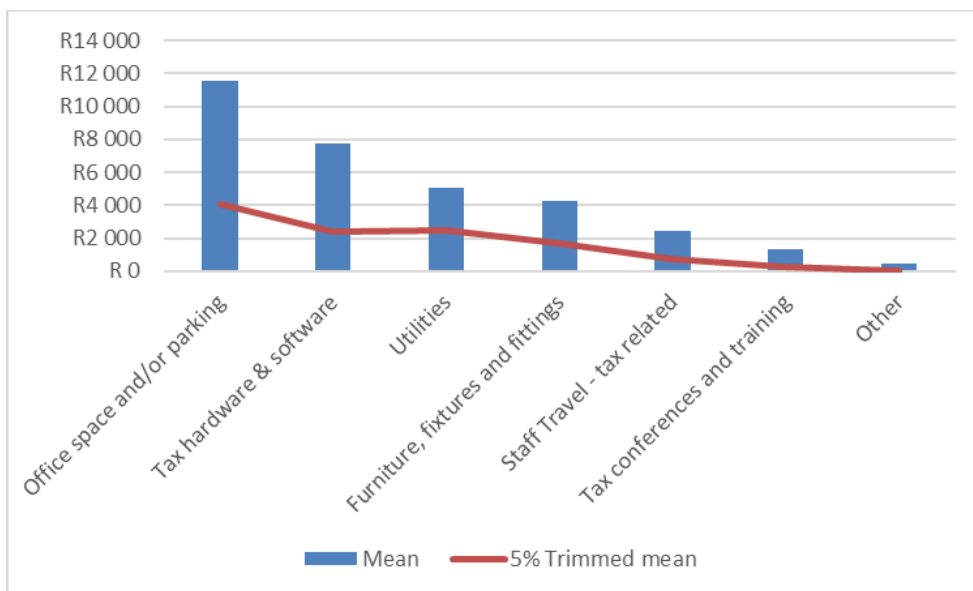
The mean and 5% trimmed mean non-labour costs related to tax compliance activities per type of cost are shown in Table 6.25 and are then graphically presented in Figure 6.8.

Table 6.25: Non-labour costs related to tax compliance activities by type of cost

	Office space and/or parking	Tax hardware & software	Utilities	Furniture, fixtures and fittings	Staff Travel - tax related	Tax conferences and training	Other
Mean	R11 533	R7 743	R5 056	R4 269	R2 423	R1 307	R489
5% Trimmed mean	R4 038	R2 436	R2 460	R1 712	R754	R299	R0

Source: Own computation from data collected

Figure 6.8: Mean and 5% trimmed mean – SMMEs’ non-labour costs for tax personnel



Source: Own computation from data collected

From Figure 6.8, it can be observed that office space and parking were the most expensive non-labour costs related to tax compliance activities for SMMEs, followed by tax hardware and software costs and utilities.

Non-labour tax compliance costs in the current study can be compared to those reported in a study by Matarirano et al. (2019a). However, Matarirano et al.’s (2019a) study was done only on small businesses in the construction industry, and only included businesses with a turnover below R14 million. The average non-labour tax compliance costs for small businesses in the construction industry was calculated to be R19 525 (Matarirano et al.

2019a: 5). The mean for the non-labour costs for the respondents in the construction industry for the current study for the micro and small turnover group combined was calculated as R22 377.09. Thus, in the current study, the non-labour costs for micro and small turnover group businesses in the construction industry appear to be reasonable, compared to those reported by Matarirano et al. (2019a), especially considering that the mean for non-labour costs calculated in their study was based on data collected between November 2015 and June 2016, as opposed to the mean in the current study, calculated from data collected for the 2019 fiscal year.

6.4. External tax compliance costs

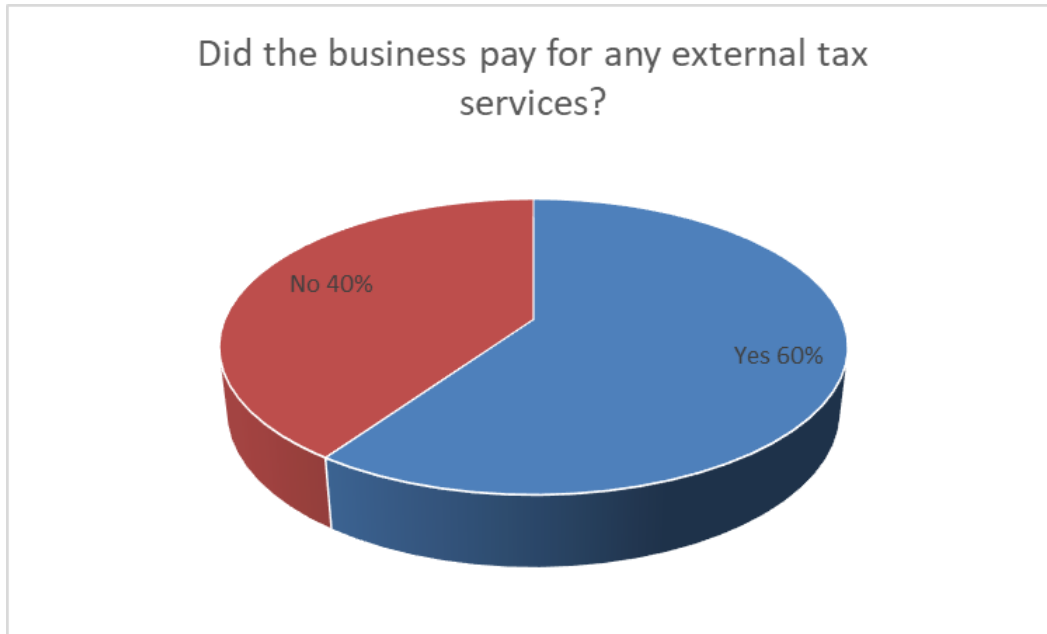
The final component of tax compliance costs entails external tax compliance costs. External tax compliance costs consist of the costs of a professional tax adviser (fees paid to accountants, lawyers or auditors) to assist with tax-related activities and obligations (Evans 2008: 451; Tran-Nam et al. 2000: 236; Turner et al. 1998: 64). Section 6.4.1 first establishes the extent of SMMEs' use of external tax services, and Section 6.4.2 then discusses the cost of these external tax services. As in the case with the measurement of internal tax compliance costs, a factor that needs to be considered in the measurement of external tax compliance costs is that external tax service providers can, in some instances, assist either with core accounting activities or with tax-related activities, or both. Therefore, before measuring the external tax compliance costs of SMMEs, it is necessary to determine the extent of the respondents' use of external tax services.

6.4.1. *Extent of using external tax services*

To determine the extent of the respondents' use of external tax services, Question 3.1 in the questionnaire requested respondents to indicate whether they had paid for any external tax services during the financial year ending between 1 April 2018 and 31 March 2019. After that, respondents had to indicate in Question 3.2 *who* had provided the external tax services. Once it was determined who had provided the external tax services, Question 3.3 sought to establish why SMMEs sought external tax services. To establish why SMMEs sought external tax services, a Likert scale-type question was used to measure respondents'

attitudes towards the statements provided. The responses relating to whether SMMEs paid for external tax services are set out in Figure 6.9.

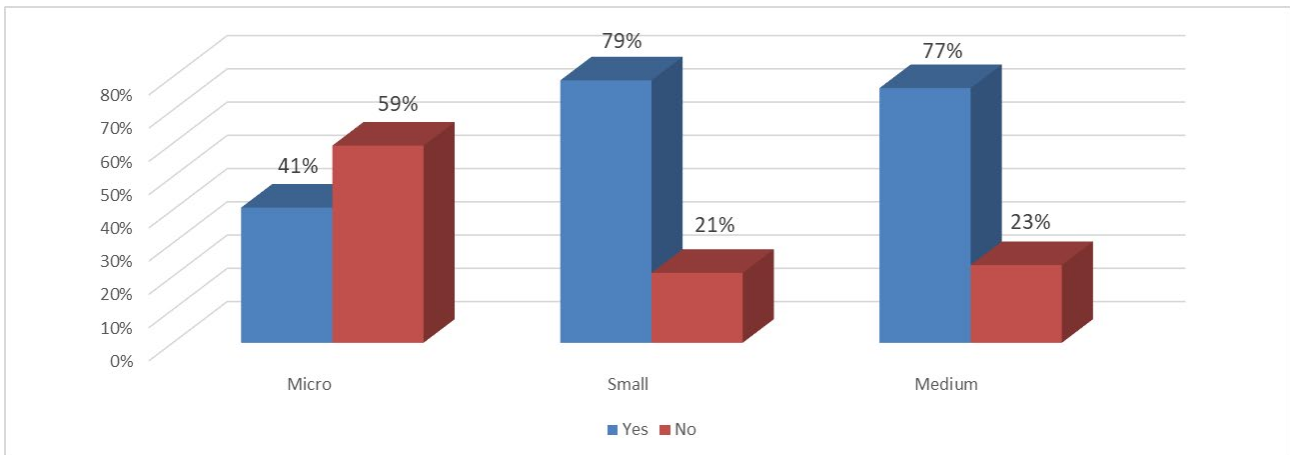
Figure 6.9: Payment for external tax services



Source: Own computation from data collected

It is clear from Figure 6.9 that 60% of the respondents paid for external tax services in the relevant tax year. The current study's finding that 60% of SMMEs paid for external tax services is comparable to the finding in Coolidge et al.'s (2009: 25) study that 57% of SMMEs outsourced at least some of their tax compliance work. To determine whether outsourcing is more prevalent amongst certain types of businesses, the payment for external tax services was analysed further by business size. This analysis revealed that only 41% of micro businesses paid for external tax services, while 79% of small and 77% of medium businesses paid for external tax services. The payment for external tax services by business size is displayed in Figure 6.10.

Figure 6.10: Payment for external tax services per business size



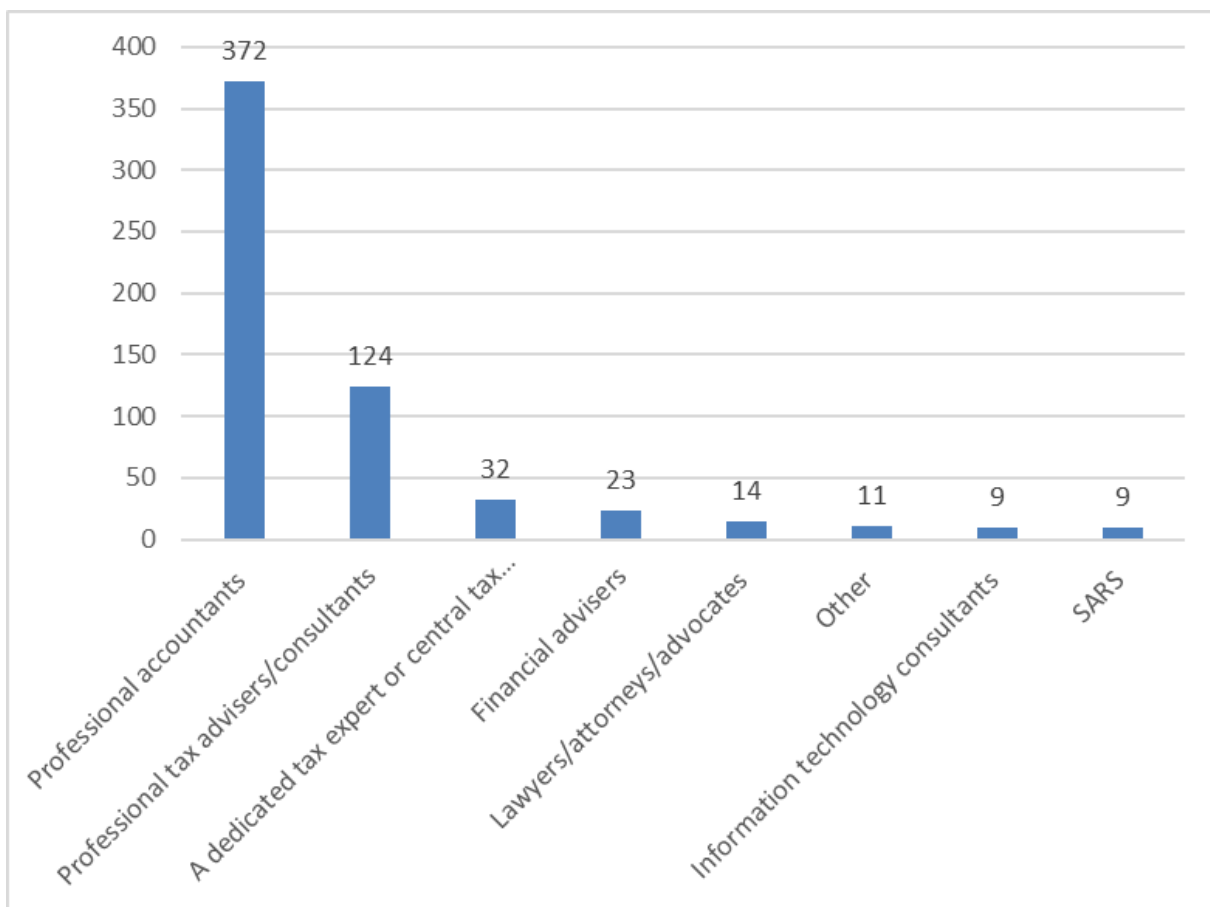
Source: Own computation from data collected

The results indicated in Figure 6.10 create the impression that micro businesses make less use of external tax services than their larger counterparts. The fact that fewer micro businesses tend to use external tax services than small and medium businesses may be attributed simply to the fact that micro businesses cannot afford external tax services (Gargalas & Lehman 2010: 137). While a few respondents in the open-ended questions indicated that accountants were too expensive, this supposition is only speculation and needs to be investigated further. In contrast to the current study, it was found in earlier studies that the use of external tax service providers was more prevalent in small businesses with a lower turnover (Coolidge et al. 2009; Venter & De Clercq 2007). However, consistent with Smulders et al. (2012: 202) and FIAS (2007: 64), the current study found that the tendency to use external tax service providers increased as the turnover of the business increased. The current study does, however, indicate that 77% of medium enterprises paid for external tax services, compared to 79% of small enterprises (see Figure 6.10). A plausible explanation for these findings is that the use of external tax service providers increases as the size of a business increases, but only to a certain level, where a business is able to handle tax compliance matters internally, and therefore can reduce the use of external tax services.

After establishing the extent to which SMMEs paid for external tax services, it was considered necessary to establish who provided these services. Therefore, in Question 3.2, respondents were asked who provided the external tax services. The questionnaire provided

the following options: a dedicated tax expert or central tax department located in another company within a group of companies; professional accountants; professional tax advisers/consultants; lawyers/attorneys/advocates; financial advisers, information technology consultants; SARS or “other” service providers. After analysing the results (see Figure 6.11), it was established that professional accountants and professional tax advisers or consultants were the primary providers of external tax services to SMMEs.

Figure 6.11: External tax service providers used by SMMEs



Source: Own computation from data collected

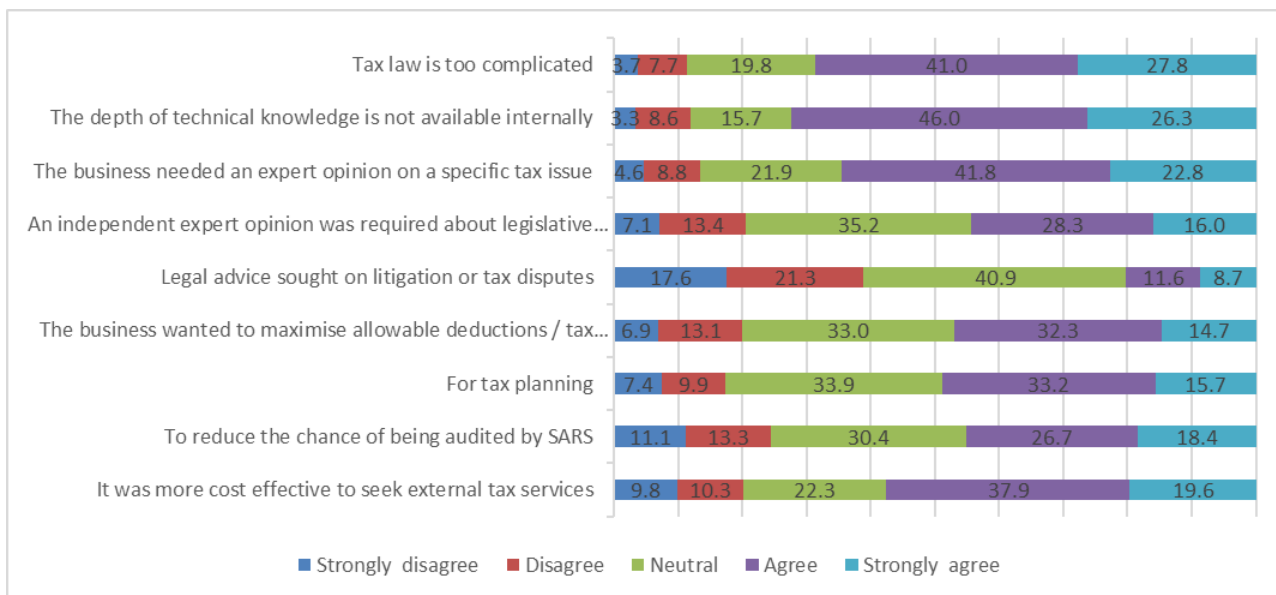
After establishing who provided the external tax services, respondents were asked to indicate the extent to which they agreed with some statements regarding why the business sought external tax services. Respondents were given the following statements, which they had to rate using a five-point Likert scale from “strongly disagree” to “strongly agree”:

- Tax law is too complicated.
- The depth of technical knowledge is not available internally.

- The business needed an expert opinion on a specific tax issue.
- An independent expert opinion was required about legislative changes.
- Legal advice sought on litigation or tax disputes.
- The business wanted to maximise allowable deductions/tax offsets.
- For tax planning.
- To reduce the chance of being audited by SARS.
- It was more cost-effective to seek external tax services.

Figure 6.12 represents the results regarding the extent to which SMMEs agreed with why SMMEs seek external tax services.

Figure 6.12: Extent to which SMMEs agreed with statements on why they seek external tax services



Source: Own computation from data collected

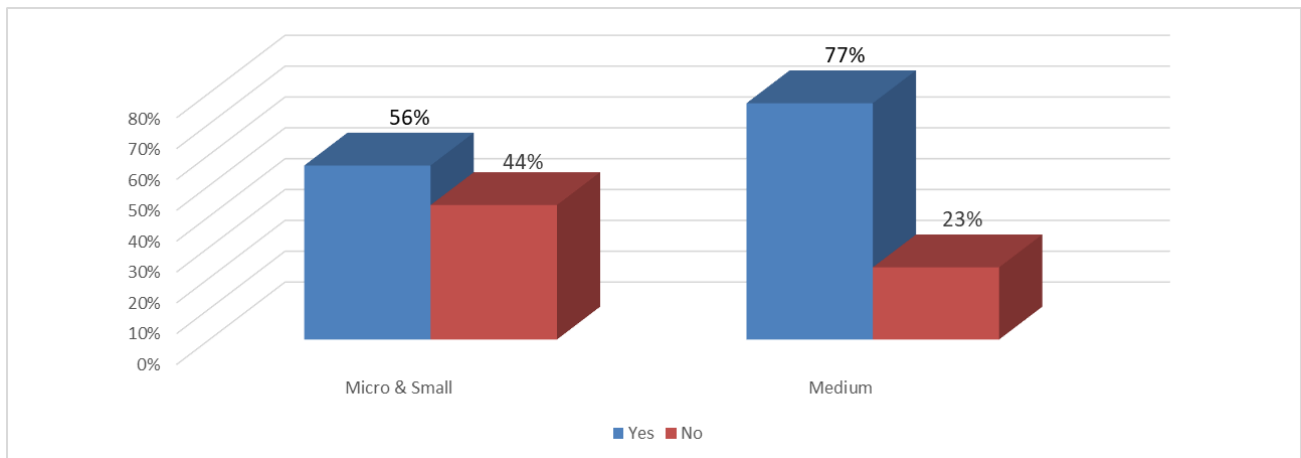
Figure 6.12 illustrates that 72.3% of respondents agreed (46%) or strongly agreed (26.3%) that the depth of technical knowledge was not available internally, and 68.8% of the respondents agreed (41%) or strongly agreed (27.8%) that tax law is too complicated. These are the only two items where more than two thirds of the respondents indicated that they agreed or strongly agreed with the statement. These items deal with tax complexity, indicating that respondents seek external tax services mainly because of tax complexity. If

SMMEs must seek expensive external support on tax matters due to the complexity of a tax system, research needs to be done to identify unnecessary complexity (Budak, James & Sawyer 2015: 3), because complexity imposes undesirable constraints on the already fragile small business sector (Dixon et al. 2019: 236).

Comparisons can be made to previous research about the reasons that SMMEs outsource tax compliance activities. In the current study, it was found that SMMEs outsource tax compliance activities mainly due to tax complexity (see Figure 6.12). Venter and De Clercq's (2007: 84) study in the business services industry cites the lack of adequate tax skills to handle tax functions internally as a reason why businesses outsource their tax functions. This finding was confirmed by Coolidge et al. (2009: 25). They suggest that smaller businesses outsource their tax functions because of a combination of factors: outsourcing is more cost-effective, tax is specialised, and there is insufficient in-house capacity to perform those functions. These findings are consistent with the findings of the current study.

Some comparisons can also be made to other South African studies (Smulders et al. 2012; Coolidge et al. 2009; FIAS 2007) regarding the use of external tax services or the outsourcing of tax compliance activities by businesses. Again, in the current study, a micro and small business group (therefore businesses with a turnover of R0 to R20 million) was formed and compared to the findings of previous studies. Figure 6.13 reveals that 56% of the micro and small businesses group used external tax services, and 77% of medium enterprises did so too.

Figure 6.13: Use of external tax services per business size for micro and small businesses combined, and medium businesses



Source: Own computation from data collected

The FIAS (2007: 64) study found that 82.2% of businesses with a turnover of more than R14 million (medium businesses in this study) used tax practitioners to assist them in tax-related matters. In comparison, an average of 59.7% of small businesses (micro and small businesses in this study) outsourced their tax function, a finding in line with the results of the present study that 77% for medium businesses and 56% for micro and small businesses combined paid for external tax services.

An area where the questionnaire could have been more specific is the reasons why SMMEs use external tax service providers. In addition to using a Likert scale format, respondents should have been able to rank the reasons for outsourcing tax functions from the most important to the least important. A question could also have been included requesting respondents who indicated that they did not use external tax service providers to give reasons why they chose not to do so. These suggestions should be considered in future surveys, because the costs involved in hiring these external tax service providers can be quite significant, as is discussed below.

6.4.2. *Cost of using external tax services*

Following on from the investigation of the extent of the use of external tax service providers, the focus can now shift to the cost of external tax services incurred by SMMEs. One of the

problems with measuring external tax compliance costs is that external tax service providers often assist SMMEs with non-tax services (for example, accounting) as well. These costs are generally closely related to each other, making it difficult to distinguish between them. It is especially problematic if an SMME appoints a single accountant or accounting firm to assist with both services, and the accountant or accounting firm provides only one invoice for all the services involved (Turner et al. 1998: 72).

To separate the costs of tax services from non-tax services costs, two separate questions dealing with payment to external tax service providers were posed. Question 3.4 dealt with the cost for non-tax services rendered by external tax service providers, and Question 3.5 dealt with the cost for tax services rendered by external tax service providers to SMMEs. However, instead of defining what constitutes tax and non-tax services in these specific questions to clarify what the survey (based on the vast body of literature available) regarded as tax and non-tax services, a list of non-tax services was provided in Question 3.4. Respondents were instructed in Question 3.5 to ignore costs associated with general bookkeeping/accounting functions. The non-tax services given included audit, general accounting services, managerial advice, secretarial services, and computerised accounting software assistance. Respondents were then required in Question 3.6 to indicate the percentage allocation of the estimated expenditure for external tax services between the tax types. This should provide valuable information with regard to which tax type is the most expensive in respect of SMMEs' external tax compliance costs.

Lastly, in Question 3.7, respondents were asked to allocate the spending on external tax service providers between different tax activities. The tax-related activities described in the rows of the matrix provided in the question were based on the processes and procedures that an SMME must follow to be tax compliant in any one tax year – that is, after registration. These activities included money paid to external tax service providers for pre-submission activities of tax returns (for example, recordkeeping) and post-submission activities (such as time spent on preparing and submitting objections).

The respondents' amounts spent on the non-tax-related and tax services rendered by external tax service providers during the financial year ending between 1 April 2018 and 31 March 2019 were put into the appropriate categories, as set out in Table 6.26.

Table 6.26: Amount paid for non-tax services and tax services by SMMEs

	Non-tax services	Tax services	Total
Mean	R50 484	R26 863	
Median	R20 000	R11 500	
5% Trimmed mean	R33 206	R18 225	
n	434	412	
Total Cost	R21 909 855.44	R11 067 440	R32 977 295
% of Total cost	66%	34%	100%

Source: Own computation from data collected

The average amount (mean) spent by SMMEs for the year on non-tax services was R50 484 and for tax services it was R26 863. With standard deviations of R96 755 for non-tax services and of R55 609 for tax services, it appears that there is a lot of variability in the data, as described by Field (2018: 31) and this implied that the mean may be a poor fit for the data. Due to this variance, the 5% trimmed mean was calculated for the amounts spent on non-tax and tax services in the current study, and it amounted to R33 206 for non-tax services, and to **R18 225** for tax services. These amounts are also closer to the medians of R20 000 and R11 500 than the means calculated, which provides some assurance that the 5% trimmed mean reflects the actual situation better. Overall, SMMEs spent almost twice as much on external service providers for non-tax services than for tax services, based purely on the total cost of services calculated above. The distribution of the cost of outsourcing (for non-tax-related and tax services) across the different business sizes is set out in Table 6.27.

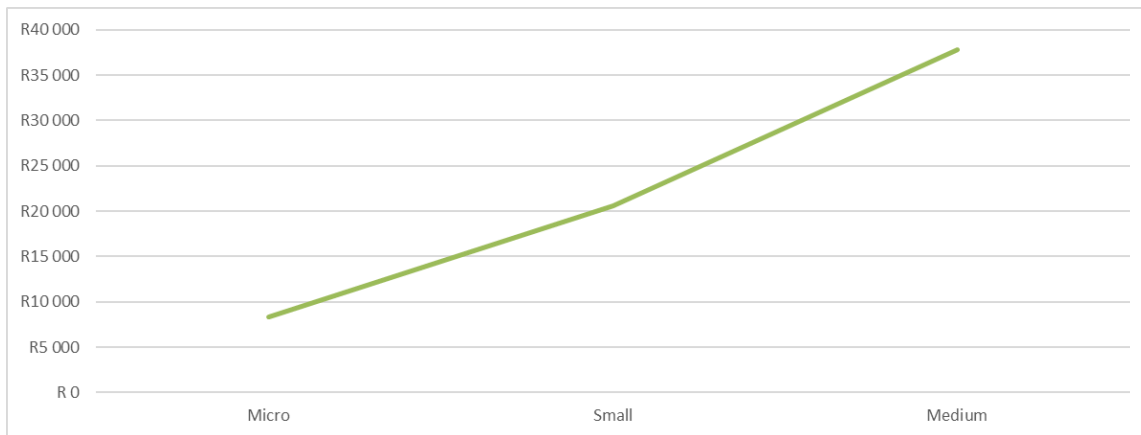
Table 6.27: Amount paid for non-tax-related and tax services by business size

		Non-tax services	Tax services	Total
Miro	Mean	R15 330	R11 641	
	Median	R8 000	R5 000	
	5% Trimmed mean	R12 121	R8 300	
	n	144	134	
	Total Costs	R2 207 519	R1 559 877	R3 767 396
	% of Total Cost	59%	41%	100%
Small	Mean	R44 755	R24 528	
	Median	R24 000	R15 000	
	5% Trimmed mean	R32 845	R20 552	
	n	199	191	
	Total Costs	R8 906 270	R4 684 911	R13 591 181
	% of Total Cost	66%	34%	100%
Medium	Mean	R118 638	R55 433	
	Median	R50 000	R20 000	
	5% Trimmed mean	R97 240	R37 827	
	n	91	87	
	Total Costs	R10 796 066	R4 822 652	R15 618 718
	% of Total Cost	69%	31%	100%

Source: Own computation from data collected

If the two types of services (non-tax and tax) are compared to each other (purely in monetary terms) per business size, SMMEs of all business sizes tended to spend more on non-tax services than on tax services. It is also apparent that the actual costs spent on tax services were positively correlated with the business's turnover, as is illustrated in Figure 6.14.

Figure 6.14: Trend line for the amount paid to external tax service providers for tax services



Source: Own computation from data collected

It is clear that while the amounts paid to external tax service providers for tax services were positively correlated with the turnover (size) of the business, the costs of outsourcing tax services as a percentage of turnover were regressive: businesses with smaller turnovers spent disproportionately more than those with higher turnovers, as is indicated in Table 6.28 and illustrated graphically in Figure 6.15.

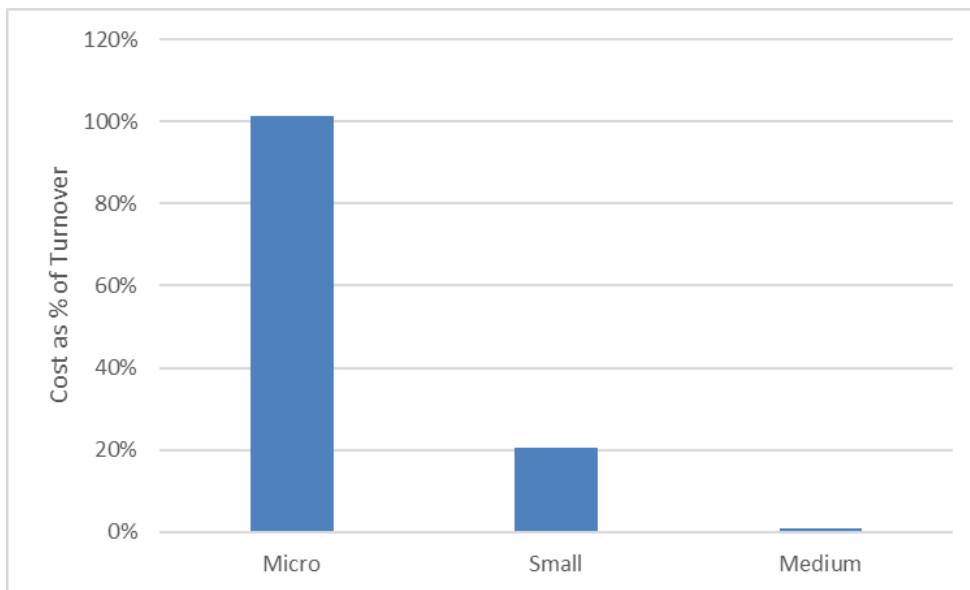
Table 6.28: Costs of outsourcing tax services as a percentage of turnover

Size of business	Micro	Small	Medium
Total Cost (Tax services)	R1 559 877	R4 684 911	R4 822 652
Turnover Mid Value	R500 000	R10 500 000	R135 000 000
Total cost as % of Turnover	312%	45%	4%
Proportion of sample	33%	46%	21%
Weighted % Turnover *	101%	21%	1%

* To compare the cost of tax services as a percentage of turnover per turnover group, the total costs were divided by the mid-point of the turnover group. This result was then weighted by the proportional contribution of each turnover group to the total sample.

Source: Own computation from data collected

Figure 6.15: Costs of outsourcing tax services as a percentage of turnover



Source: Own computation from data collected

The results set out in Figure 6.15 are in line with the findings of earlier South African studies (Smulders et al. 2012: 202; Coolidge et al. 2009: 3; Govender & Citizen Surveys 2008: 62; FIAS 2007: 87) and international research (Adam & Yusof 2018: 37; Yesegat et al. 2017: 98; Evans et al. 2014: 28) that found that external tax services costs are regressive.

Next, the amounts paid for tax services to external tax service providers per tax type were analysed, and the results are set out in Table 6.29.

Table 6.29: Amounts paid for tax services to external tax service providers per tax type and business size⁷⁷

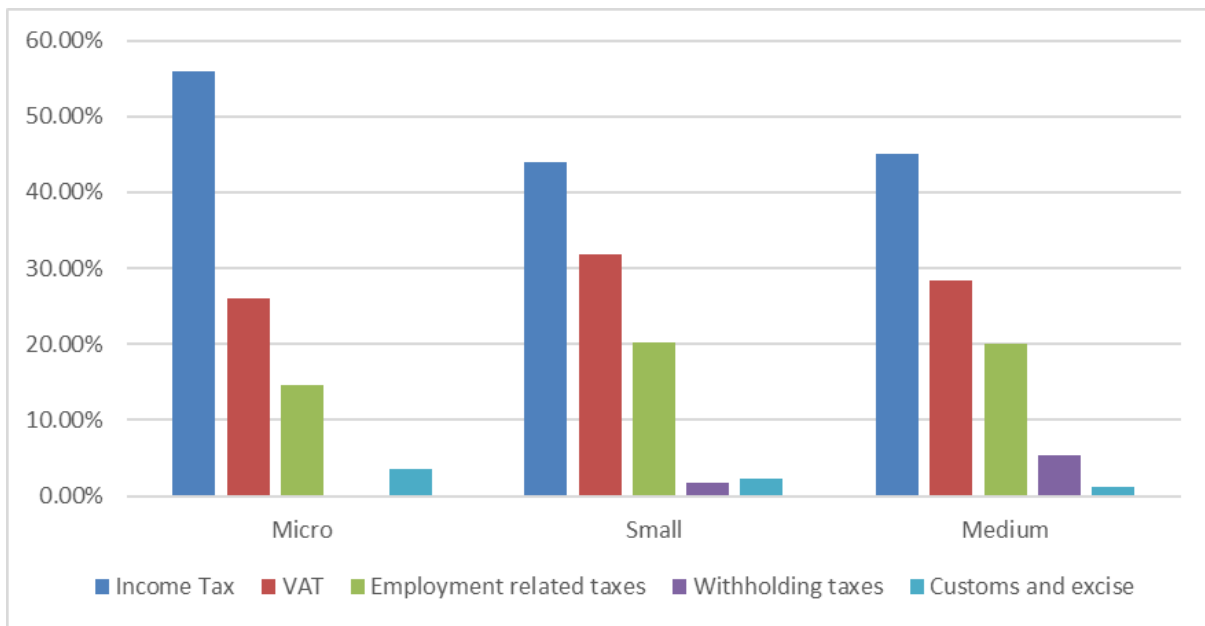
Size		Income Tax	VAT	Employment related taxes	Withholding taxes	Customs and excise
Micro	Mean	R6 470	R5 599	R2 998	R263	R6 169
	Median	R3 000	R2 500	R1 325	R100	R1 400
	5% Trimmed mean	R4 902	R3 882	R2 078	R244	R4 743
	n	121	65	68	4	8
	Total Cost	R782 822	R363 922	R203 884	R1 050	R49 350
	% of total cost	55.87%	25.98%	14.55%	0.07%	3.52%
Small	Mean	R10 918	R7 834	R5 377	R2 355	R3 420
	Median	R5 000	R3 750	R2 500	R1 000	R500
	5% Trimmed mean	R8 452	R5 992	R4 111	R1 670	R2 429
	n	188	190	176	35	31
	Total Cost	R2 052 676	R1 488 475	R946 333	R82 412	R106 015
	% of total cost	43.90%	31.83%	20.24%	1.76%	2.27%
Medium	Mean	R25 358	R16 026	R11 887	R9 502	R2 528
	Median	R10 000	R3 000	R1 000	R630	R338
	5% Trimmed mean	R19 840	R10 560	R4 837	R5 463	R1 885
	n	85	85	81	27	22
	Total Cost	R2 155 434	R1 362 199	R962 845	R256 548	R55 625
	% of total cost	44.97%	28.42%	20.09%	5.35%	1.16%

Source: Own computation from data collected

The average amount (mean), median and the 5% trimmed mean paid by SMMEs to external tax service providers per tax type and turnover group (size) can be seen in Table 6.29. The 5% trimmed mean was again calculated for the estimated external tax services costs incurred by SMMEs for comparison to other studies and future research purposes. A clustered column chart was then used to display the distribution of the external tax services costs by type of tax in SMMEs (per turnover group) graphically (see Figure 6.16).

⁷⁷ Due to rounding, the micro and medium businesses % of total cost added up to 99.9% instead of 100%.

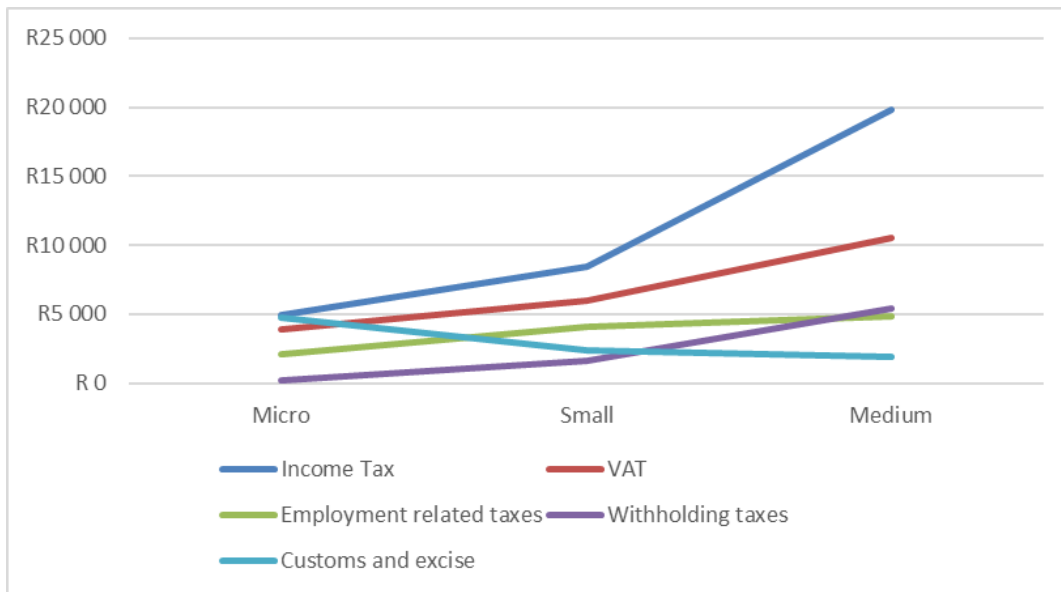
Figure 6.16: Distribution of external tax services costs by tax type and business size



Source: Own computation from data collected

From the results in Figure 6.16, it is apparent that income tax is the type of tax for which micro, small and medium businesses spent most on external tax service providers. The second most expensive tax type in terms of external tax service provider costs was VAT, followed by employment-related taxes. Customs and excise were the fourth most expensive tax type in terms of external tax service provider costs, and withholding taxes were the least expensive (except for medium enterprises, where withholding taxes were more expensive than customs and excise) from an external tax service provider costs perspective. Plausible explanations for these findings include the argument that very few micro businesses need to deal with withholding taxes, whereas medium businesses do need to do so. Medium businesses also usually handle customs and excise themselves, rather than using the services of an external service provider, which is confirmed by the percentage of time spent internally on customs and excise presented in Table 6.7, which shows that almost 5% of total internal time spent by medium businesses on the different type of taxes was spent on customs and excise. Furthermore, from Table 6.29, it is evident that, generally, as the size of a business increased, an upward trend regarding the estimated external tax services cost was noted. This is graphically presented in Figure 6.17.

Figure 6.17: 5% trimmed mean of external tax services costs per tax type per business size – trend lines



Source: Own computation from data collected

It appears that the rate (trend line) at which the external tax services costs spent on *income tax* increased, as the size of the business increased, was much higher (the trend line is steeper) than the increase in the amount spent on other types of taxes. The trend lines for VAT and withholding taxes also displayed an increase in external tax services costs on these tax types, albeit not as steep as that for income taxes. Employment-related taxes displayed a slight increase, but a decrease was observed for customs and excise, indicating that medium businesses have the capacity, or prefer, to handle customs and excise internally, as discussed in the previous paragraph.

For comparison purposes, in the current study, a micro and small businesses group (businesses with a turnover of R0 to R20 million) was formed and compared to data in previous studies. The average tax-related and non-tax-related services costs rendered by external service providers (mean), as well as the 5% trimmed mean for these costs in the current study for this turnover group, are provided because only Smulders et al. (2012) used the mean and 5% trimmed mean, while the FIAS (2007) used the mean only. A comparison of the findings in respect of the cost of external service providers for tax and non-tax-related services in the FIAS (2007) study, Smulders et al.'s (2012) study and the current study are displayed in Table 6.30 (mean comparison) and Table 6.31 (5% trimmed mean).

Table 6.30: Comparison to previous studies on mean external tax and non-tax services costs

Cost of external service providers	Current study	Smulders 2012*	% Increase / decrease compared to current study	FIAS (2007)	% Increase / decrease compared to current study
Non-tax services	R50 484	R28 283	78.49%	R12 185	314.31%
Tax services	R19 215	R33 637	-42.88%	R24 158	-20.46%
Total	R69 698	R61 920	12.56%	R36 343	91.78%

* Payroll costs were reported separately in this study and added to taxation services for comparison purposes⁷⁸

Source: Own computation from data collected

The FIAS (2007) study was based on data from a survey distributed to accountants and bookkeepers registered with professional accounting bodies in South Africa in November 2006 (FIAS 2007: 10). If one first considers the total costs of external tax service providers for non-tax and tax services, using the mean (average) as the comparative indicator, the total costs of R36 343 (FIAS 2007: 35) have increased by 91.78% since the end of 2006. This increase is in line with inflation. If one increases the total costs result of the FIAS (2007) study with the monthly consumer price index issued by Statistics South Africa (2020c: 3), it amounts to ±R73 000, which is very close to the current study's result of R69 698. However, when one compares the non-tax and tax services costs, the non-tax services costs have increased by 314.31%, while the tax services costs decreased by 20.46%. Similarly, non-tax costs increased by 78.49% from the figures reported by Smulders et al. (2012), while tax services costs decreased by 42.88%. The total cost of external service providers of R61 920 (Smulders et al. 2012: 204) increased by only 12.56%, well below the inflation increase of ±49%. Because these figures were based on the mean, a comparison was done using the 5% trimmed mean figures available from Smulders et al. (2012), as shown in Table 6.31.

⁷⁸ Payroll costs were added to tax services even though there are some scholars who argue that payroll costs would have existed even if there were no employment-related taxes (Turner et al. 1998: 66).

Table 6.31: 5% trimmed mean external tax services and non-tax services costs for micro and small businesses – comparison to Smulders et al. (2012)

Cost of external service providers	Current study	Smulders et al. 2012*	% Increase / decrease compared to current study
Non-tax services	R33 206	R16 634	99.63%
Tax services	R15 217	R15 362	-0.94%
Total	R48 423	R31 996	51.34%
* Payroll costs were reported separately in this study and added to taxation services for comparison purposes			

Source: Own computation from data collected

The total costs increase of 51.34% from the figures reported by Smulders et al. (2012) is in line with the inflation increase of $\pm 49\%$. The higher-than-inflation increase with regard to non-tax services cost and decrease in tax services cost is, however, consistent with the findings in the current study (using the mean) above (see Table 6.30). The decrease in the tax services costs is a positive finding for the government, which wants to decrease the tax burden of SMMEs (National Treasury 2019: 31), especially as internal tax compliance costs did not increase by more than inflation, as indicated in Section 6.2.6. The present study's finding suggests that the tax services costs of external tax service providers for the micro and small combined turnover group did, in fact, decrease since the Smulders et al. (2012) study. A plausible explanation for this finding is that services provided by external tax service providers are either performed in-house (however, this is less likely, as the findings of internal tax compliance costs in Section 6.2.6 do not support this), or, if these services are performed in-house, businesses can comply at a lower cost. It may also be that due to the improvement of accounting and tax-related software and other technology advancements, external tax services costs did decrease for businesses. Further investigation into this finding is recommended.

A decrease in costs did not appear to apply for external non-tax costs. The increase of 99.63% (5% trimmed mean) and 78.49% (mean) compared to Smulders et al.'s (2012) findings and the 314.31% increase compared to the FIAS (2007) figures indicate a substantial increase in this area. This increase may be due to the changing role of external accountants in the SMME environment, of not only providing tax-related services and

accounting services but substantial other business advice services (De Bruyckere, Verplancke & Coppens 2017: 50). Over the last decade, the development of technology has had a significant impact on almost all aspects of life. The accounting industry is no exception. With the improvement of accounting software and other technologies, accountants should be able to handle bulk administrative work more efficiently, giving more time for accountants to provide business advice to clients (Moll & Yigitbasioglu 2019: 16). The increase in external non-tax services costs may also be due to a substantial increase in other non-tax compliance matters which external accountants are performing on behalf of SMMEs. These non-tax-related services include B-BBEE advice and assistance, employment-related issues, UIF administration, assistance to comply with the Compensation for Occupational Injuries and Diseases Act, and various services other than regular accounting services. Therefore, further investigation into the reasons for the increase in non-tax-related services costs by external tax service providers is recommended.

A comparison could also be done between research on tax compliance costs in the construction industry and the current study. However, the construction industry study was based only on small businesses in the construction industry, and only if the business turnover was below R14 million – Matarirano et al. (2019a: 5) calculated the average external tax compliance costs for businesses in the construction industry to be R6 036. No trimmed mean average was calculated. The mean for the respondents in the construction industry for the current study for the micro and small turnover group combined was therefore calculated (R14 576.93) and compared to the results from Matarirano et al. (2019a: 5). The internal and non-labour tax compliance costs obtained in this study were in line with the results of the Matarirano et al. (2019a) study, but it is evident that the external costs do not compare favourably with the figures in Matarirano et al.'s (2019a) study. The external tax compliance costs in the current study are more than double the amount reported by Matarirano et al. (2019a). A possible reason for this discrepancy may be the different wording of the survey questions. Matarirano et al. (2019a: 3) asked respondents to provide a lump sum amount paid to external service providers and then to indicate the services and proportion paid for each service. In the current study, respondents were asked to provide the costs for tax-related services and non-tax-related services separately. Different wording of survey questions may affect the cost estimates and limit the comparability of results (Eichfelder & Vaillancourt 2014).

6.5. Total tax compliance costs

After establishing the internal, non-labour and external tax compliance costs, the next step was to calculate the total tax compliance costs for SMMEs. Internal, non-labour and external tax services costs were added together to arrive at the total tax compliance costs for SMMEs. A schematic representation of all questions dealing with obtaining the data to estimate the total tax compliance costs is presented in Table 6.32, which also indicates questions that dealt with SMMEs that formed part of a group structure and that had access to central tax departments, in-house expertise, or tax assistance as part of the group. Due to the low number of respondents who were part of a group structure and had access to central tax departments, these questions were not reported individually, but only where applicable costs incurred for central tax departments were added to internal or external tax compliance costs, as in the calculation below.

Table 6.32: Schematic representation of total tax compliance costs questions for SMMEs

	Tax compliance costs	Total	By tax type	By tax activity	By employee type
In-house central tax department also providing services to other companies	Internal staff costs – central tax department – for the company	Q4.17 (A)	Q4.17 x Q4.18	Q4.17 x Q4.19	Q4.17 x Q4.11
Central tax department	Internal staff costs – central tax department	Q4.22 (B)	Q4.22 x Q4.23	Q4.22 x Q4.24	Q4.22 x Q4.21
Shadow department	Internal staff costs – shadow tax department	Q4.27 (C)	Q4.27 x Q4.28	Q4.27 x Q4.29	Q4.27 x Q4.26
	Internal staff hours – tax-related activities	Total of Q4.32 (D)	Q4.32	Q4.32	Q4.32 x Q4.33
	Non-labour costs – tax services	Q4.35 (E)			
	External costs – tax services	Q3.5 (F)	Q3.5 x Q3.6	Q 3.5 x Q3.7	
Central tax department	External costs – central tax department	Q4.7 (G)	Q4.7 x Q4.8	Q4.7 x Q4.9	

Source: Own computation from data collected

The total tax compliance costs calculation equation using the information in Table 6.32 can

be summarised as follows:

$$\text{Internal costs (A+B+C+ (D x Rate)) + Non-labour costs (E) + External costs (F+G)}$$

The total tax compliance costs for SMMEs and per turnover group were calculated, and the results are presented in Table 6.33.

Table 6.33: Total tax compliance costs for SMMEs

	Micro	Small	Medium	Total*
Mean	R60 900	R211 606	R318 324	R154 296
Median	R32 097	R103 488	R144 665	R53 156
5% Trimmed mean	R43 226	R158 383	R254 589	R105 609
n	381	266	124	771
* Not calculated as the sum of the row, but obtained from the mean and 5% trimmed mean data set				

Source: Own computation from data collected

The average amount (mean) spent by SMMEs on tax compliance costs for the financial year ending between 1 April 2018 and 31 March 2019 was R154 296. The 5% trimmed mean amounted to **R105 609**. The tax compliance costs per turnover group, based on the 5% trimmed mean results, was R43 226 for a micro business, R158 383 for a small business, and R254 589 for a medium business.

A comparison can again be made to research performed regarding tax compliance costs in the construction industry (Matarirano et al. 2019a), as discussed in Section 6.3 for the micro and small business size group. Matarirano et al. (2019a: 5) calculated the total tax compliance costs for businesses in the construction industry to be R66 330. No trimmed mean average was calculated. The mean for the current study considering businesses in the construction industry – following a similar approach to that used in Matarirano et al.'s (2019a) study – is R88 711. Even considering the time difference of three years between 2016 and 2019, it seems that the total tax compliance costs for construction micro and small businesses combined has increased since Matarirano et al.'s (2019a) study. A comparison of total tax compliance costs for the micro and small business turnover group could not be made to Smulders et al.'s (2012) study, because they did not include post-filing costs.

6.6. Conclusion

During the financial year ending between 1 April 2018 and 31 March 2019, it took persons in SMMEs on average **209.2 hours** (5% trimmed mean) to deal with tax matters. Other than for the micro businesses, VAT is the tax on which SMMEs spend most of their internal time. For micro businesses, income tax takes more time than VAT, because micro businesses are generally not required to register for VAT. The results also show that the amount of time spent internally on tax compliance activities depends on a business's size. As the turnover of a business increases, so does the internal time that is spent on tax-related activities. However, this time spent is regressive, if it is taken as a percentage of turnover, meaning that the tax compliance cost burden weighs more heavily on small businesses than on larger businesses. This result is confirmed by comparison to prior research on micro and small businesses, which also indicates that the internal time spent by micro and small businesses on income tax and VAT has not substantially increased or decreased. However, a substantial decrease with regard to employment-related taxes was noted.

From a tax compliance activity perspective, recordkeeping is the most time-consuming activity. Other time-consuming tax compliance activities include collecting and submitting information for SARS queries, inspections or audits, calculating tax, completing tax returns and paying tax, preparing and submitting objections, and dealing with external tax advisers. These activities are particularly time-consuming for VAT compliance, with the notable exception of the activity "dealing with your tax adviser", where SMMEs reported higher hours for income tax compliance.

Most of the internal time spent on tax compliance activities was attributed to SMME owners. After analysing the results according to the three business sizes, it was evident that for micro businesses, most of the tax compliance activities were performed by the owners, in contrast to medium businesses, where paid employees performed most of the activities. To convert the hours into a Rand value, externally verified rates for the time spent by owners and paid employees were used. The results indicate that SMMEs spent, on average, **R68 643** on internal tax compliance costs in the year under review.

The results indicate that SMMEs spent, on average, **R15 747** (using the 5% trimmed mean)

on non-labour costs, which consisted of overhead costs associated with tax personnel responsible for tax compliance activities. When divided into the different business sizes, it was also clear that these costs increased as the size of the business increased.

The final component of tax compliance costs in this study was external tax compliance costs, which consisted of the money paid to external tax service providers to assist an SMME with tax-related activities. The results indicate that SMMEs spent on average **R18 225** (using the 5% trimmed mean) on external tax services. It is noted here that while the external costs were positively correlated with the business's turnover, the proportionate costs of outsourcing as a percentage of turnover were regressive, as businesses with smaller turnover levels spent disproportionately more than those with higher turnover levels.

To arrive at the total tax compliance costs for SMMEs, the internal, non-labour and external tax compliance costs were added together. Using the original data set, the 5% trimmed mean amount spent by SMMEs on tax compliance costs for the financial year ending between 1 April 2018 and 31 March 2019 amounted to **R105 609**. The 5% trimmed mean tax compliance costs per turnover group were also calculated, showing that a micro business spent R43 226 on tax compliance costs, a small business R158 383 and a medium business R254 589.

As discussed in Section 2.3.1, the total tax compliance costs mentioned above do not include psychological costs (because it is recognised that there is no clear recommended approach to estimate psychological costs in the literature). Thus, the estimated total tax compliance costs may be underestimated.

Having measured the total tax compliance cost of SMMEs in South Africa (fulfilling the first research objective of the study) and noting the regressive nature of these costs, it was considered appropriate to investigate the determinants of SMMEs' tax compliance costs and the effect of power of and/or trust in SARS on tax compliance costs.

**CHAPTER 7:
ANALYSIS OF RESULTS –
DETERMINANTS OF TAX COMPLIANCE COSTS AND
THE EFFECT OF SARS’S USE OF POWER AND/OR TRUST IN SARS
ON SMMEs’ TAX COMPLIANCE COSTS**

7.1. Introduction

Chapter 7 follows on from the discussion of the measurement of SMMEs’ tax compliance costs in Chapter 6. In Chapter 7, the determinants of SMMEs’ tax compliance costs and the effect of the use of power by SARS and trust in SARS on SMMEs’ tax compliance costs are analysed. In the first part of the chapter, the determinants of SMMEs’ tax compliance costs are ascertained using a regression analysis. Prior to the regression analysis, respondents’ perceptions of the tax compliance burden, determinants of tax compliance costs identified from the literature, and their interaction with SARS are descriptively analysed to confirm and/or identify determinants of SMMEs’ tax compliance costs. Additionally, an analysis of the open-ended questions is done to identify any other possible determinants of tax compliance costs. In the second part of the chapter, a SEM analysis is performed. This SEM analysis, based on the extended SSF, is done to investigate the effect of the power of SARS and/or trust in SARS, resulting from the interactive relationship between SARS and SMMEs, on SMMEs’ tax compliance costs.

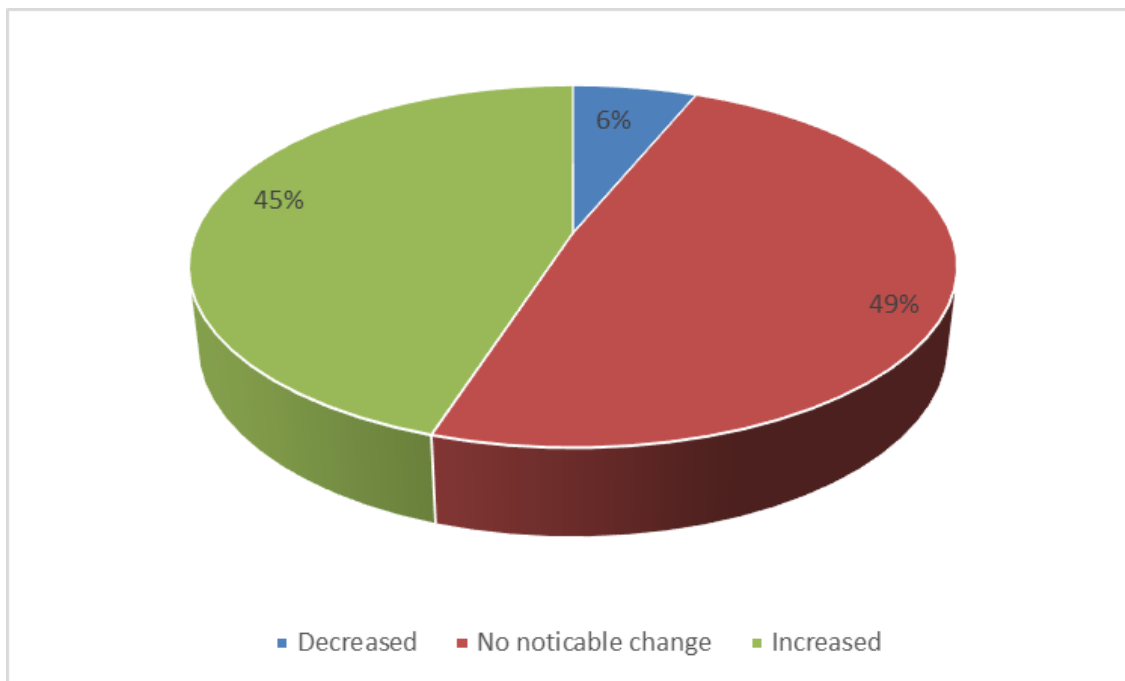
7.2. Determinants of tax compliance costs

The section commences with a descriptive analysis of the respondents’ perceptions regarding their tax compliance burden, determinants of tax compliance costs identified from the literature and tax risk management in the SMME. Thereafter respondents’ perceptions of tax compliance costs determinants identified in the open-ended questions and their perceptions regarding the climate of the interactive nexus between SARS and SMMEs are also descriptively analysed. The section concludes with a regression analysis to ascertain the determinants of tax compliance costs for SMMEs.

7.2.1. Respondents' perceptions of the tax compliance burden

Questions 7.1 to 7.3 in the questionnaire were designed to determine the respondents' perceptions regarding factors that could drive the tax compliance costs for an SMME. As an introduction, respondents were asked in Question 7.1 how their overall tax compliance burden had changed during the preceding five years to focus their attention on their perceived tax compliance burden. Three options were given to respondents: did their tax compliance burden increase? did it decrease? or was there no noticeable change? The responses to this question are depicted in Figure 7.1.

Figure 7.1: SMMEs' perceptions regarding changes in their tax compliance burden over the preceding five years



Source: Own computation from data collected

Only 6% of respondents believed that their tax compliance burden had decreased during the preceding five years. Slightly under half (45%) indicated that their tax compliance burden had increased. No noticeable change was reported by 49% of these taxpayers. Ideally, one would want to have seen the tax compliance burden decrease (see Section 1.2), yet this does not seem to have been realised.

Question 7.2 asked respondents to rank the compliance burden for the different taxes they were registered for, or reported on, from the most burdensome to the least burdensome (1 being the most burdensome and 5 being the least burdensome tax). The question was asked in order to determine whether some tax types affected tax compliance costs more than others, according to the respondents, because a prior study by KPMG (2018: 47) found that some tax types are more burdensome for SMMEs than others. The question was also asked to determine whether the respondents' perceptions agreed with the amount of time they had reported spending on the different tax types. The results are presented in Table 7.1.

Table 7.1: Respondents' perceptions of the burdensomeness of taxes

Type of Tax	n	Mean
Income Tax	706	1.71
VAT	470	1.77
Employment related taxes	437	2.22
Customs and excise	80	2.75
Withholding taxes	83	3.29

Source: Own computation from data collected

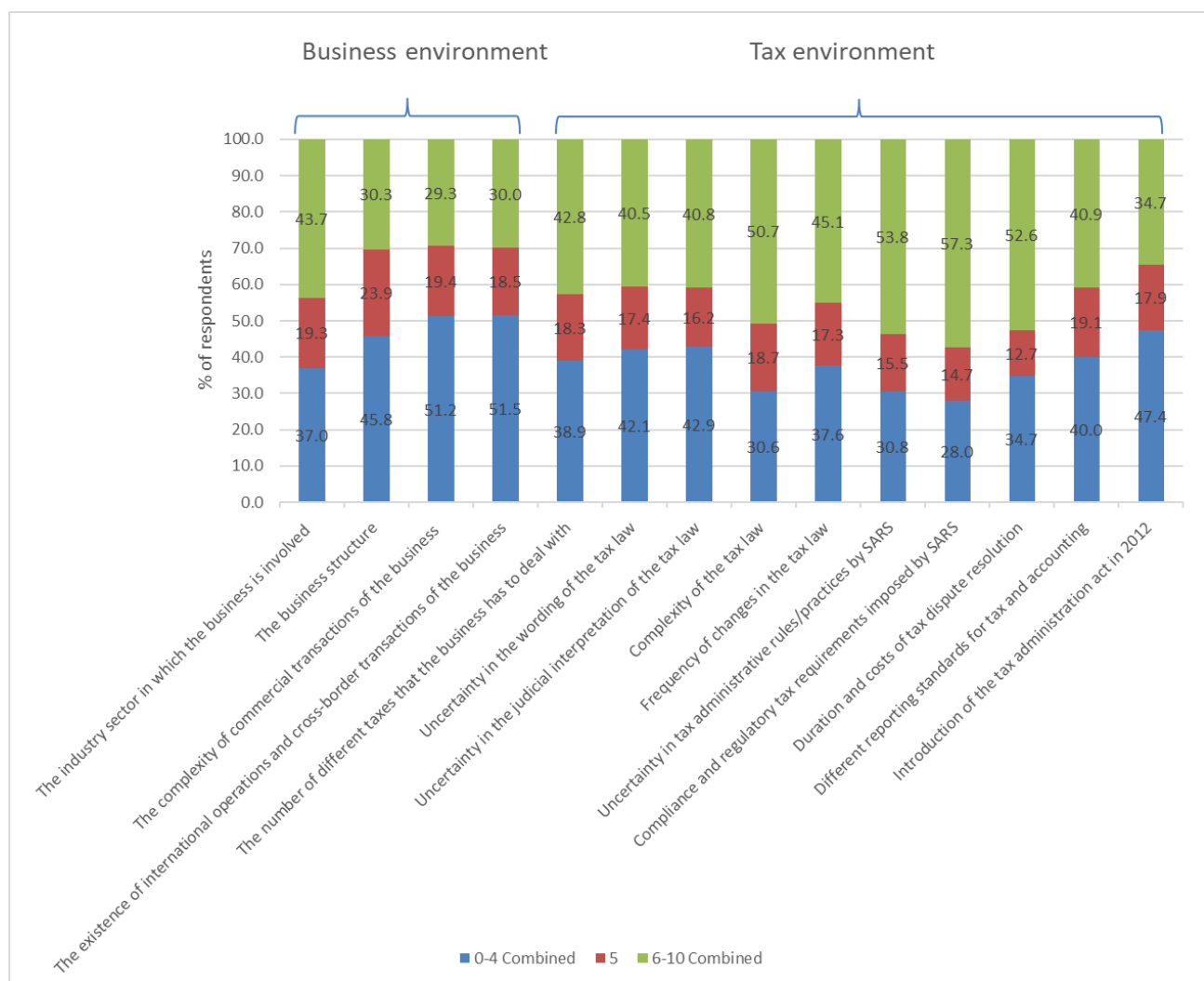
Respondents found income tax the most burdensome to comply with (mean=1.71), followed by VAT, employment-related taxes, customs and excise, and withholding taxes. The results are in line with the percentage of time spent on different tax types (see Section 6.2.2): of the total time spent on tax compliance, income tax took 39.99%, VAT 37.7%, employment-related taxes 18.26%, customs and excise 3.04%, and withholding taxes 1.01%.

7.2.2. *Respondents' perceptions regarding determinants of tax compliance costs as identified from the literature*

Question 7.3 asked respondents to indicate their perceptions of the impact of a list of determinants focusing on the business and tax environment (given to them in the question) of tax compliance costs, ranking them from "no impact" (0) to "enormous impact" (10) using an 11-point Likert-type response scale. All but two of the determinants provided to the respondents in this question were identified from the literature reviewed (Evans et al. 2016: 786; Lignier et al. 2014: 246) and, where applicable, were adjusted for the South African tax

environment. The last two determinants provided to the respondents, namely “Different reporting standards for tax and accounting” and “Introduction of the Tax Administration Act in 2012”, were not identified from the literature reviewed, but were included based on comments received from the stakeholders involved in the development of the questionnaire. This question was asked to measure the respondents’ perceptions about what drives the tax compliance costs of SMMEs. The results are presented in Figure 7.2.

Figure 7.2: Respondents’ perceptions of the impact of 14 determinants on tax compliance costs



Source: Own computation from data collected

Figure 7.2 shows that 57.3% of respondents, responding with a rating between 6 and 10, perceived the determinant with the greatest impact on their tax compliance costs to be

“Compliance and regulatory tax requirements imposed by SARS”. The determinant with the lowest impact (to which 51.5% responded with a rating between 0 and 4) was “The existence of international operations and cross-border transactions of the business”. This result could be linked back to the fact that customs and excise tax was the tax that the lowest number of respondents report on (Section 5.2.8), indicating limited cross-border transactions.

Each determinant was represented as an item in the questionnaire. Given the large number of items, exploratory factor analysis was subsequently performed to determine whether there were any discernible groupings of items which could then be combined (see Section 4.7). The benefit of factor analysis is that it reduces a set of variables into a smaller set of dimensions or factors (Field 2018: 779). The combined factor(s) can then be used to represent the items in the further analysis.

Principal axis factoring as an extraction method with Promax rotation was conducted to determine the dimensionality underlying the 14 items listed in Question 7.3. Factors with eigenvalues above 1 (Kaizer criterion) were accepted in the factor structures of the 14 items. In addition, Cronbach’s alpha coefficient was used to determine the internal consistency (reliability) of each of the identified factors – this value must exceed a threshold value stated in the literature as 0.5 (acceptable), 0.6 (satisfactory for exploratory research), and 0.7 for previously used instruments (Hinton, McMurray & Brownlow 2004). The KMO Measure of Sampling Adequacy was found to be above the generally recommended threshold of 0.6, and Bartlett’s Test of Sphericity was statistically significant ($p < 0.001$) for the set of 14 items (Field 2018), indicating that exploratory factor analysis was appropriate. A summary of the factor analysis is provided in Table 7.2.

Table 7.2: Summary of the exploratory factor analysis of the 14 items

Items	KMO & Barlett's test (sig. value)	% variance explained	Factor loadings		Cronbach's alpha
Q7.3 (N=209)	0.915 p <0.001	58.8%	Factor 1	Factor 2	
The industry sector in which the business is involved				0.727	0.782 (Factor 2)
The business structure				0.691	
The complexity of commercial transactions of the business				0.903	
The existence of international operations and cross-border transactions of the business				0.377	
The number of different taxes that the business has to deal with			0.485		0.940 (Factor 1)
Uncertainty in the wording of the tax law			0.799		
Uncertainty in the judicial interpretation of the tax law			0.850		
Complexity of the tax law			0.913		
Frequency of changes in the tax law			0.779		
Uncertainty in tax administrative rules/practices by SARS (the application of the legislation)			0.894		
Compliance and regulatory tax requirements imposed by SARS			0.708		
Duration and costs of tax dispute resolution			0.695		
Different reporting standards for tax and accounting			0.735		
Introduction of the <i>Tax Administration Act</i> in 2012			0.651		

Source: Own computation from data collected

Thus, for the “perceptions of the determinants of tax compliance costs” items, two factors were identified, based on the eigenvalue criterion (eigenvalue greater than one) (Field 2018). The items that clustered on the same factor suggest that Factor 1 represents the tax environment of the respondents. The items of Factor 2 appeared to represent the business environment that the respondents operated in. As the Cronbach alpha coefficient values are

above the acknowledged exploratory threshold of 0.7, reliability was considered satisfactory. Factor 2, representing the business environment, had a mean and median value of 5.1; Factor 1, representing the tax environment, had a mean value of 4.7 and a median value of 5. These values indicate that the impact of these factors should be considered moderate. The skewness and kurtosis values also indicate that the factor variables can be assumed to be normally distributed, as all values lie between -2 and +2. The correlation between the two factors was 0.597, indicating a strong positive relationship between the business environment and the tax environment impact perceived. The analysis showed the correlations between total tax compliance costs and the perceived business and tax environment to be 0.097 and 0.101 respectively, indicating that there were positive but very weak linear relationships between the business and tax environment factors on the one hand and the total tax compliance costs on the other. Therefore, no linear tendency (which would imply that, as the impact rating of the factors increased, the total tax compliance costs also increased) was observed. Although these factors might be non-linearly related to tax compliance costs, they were not investigated further in the current study, because only 209 respondents completed this question and therefore the data subset was too small for regression analysis.

7.2.3. Respondents' tax risk management

Risk management of a business was identified as a possible determinant of tax compliance costs (see Section 3.4), so Question 100 was added as the last question in the business characteristics and general information section in order to investigate the extent of tax risk management, the strategy and governance processes of the business. It was necessary to include a *separate* question to measure to which extent tax risk management was in place in SMMEs because it is multifaceted. Respondents were asked to select "yes", "no", "not applicable" or "don't know" for the following ten items:

- 1 Tax is recognized as a key strategic function.
- 2 The business has a risk management framework in place.
- 3 The business has a documented tax strategy in place.
- 4 The business has a transfer pricing strategy in place.
- 5 Tax is on the managers/leaders of the business's agenda.
- 6 The business has a tax committee or tax compliance monitoring team that identifies,

manages, controls and reports tax risks.

- 7 The business has an automated tax compliance process.
- 8 The internal or external audit team reviews tax controls on an annual basis.
- 9 Tax compliance information is reported to the audit committee.
- 10 Tax risk management information is reported to the audit committee.

To determine whether the ten items regarding the extent of tax risk management, strategy and governance processes in the organisation could be represented by a single composite score, the results were investigated employing multiple correspondence analysis, using the “yes” and “no” responses, as Costa, Santos, Cunha, Cotter and Sousa (2013: 2) suggest.

Multiple correspondence analysis uses optimal scale values, which converts nominal and ordinal variables into variables that are scaled in intervals (Costa et al. 2013: 7). Optimal scaling is applied to result in an answer in which items located in the same class are mapped close to each other, and items located in different classes are mapped far apart. Each item is mapped as close as possible to the class points of the classes that relate to the object. This “mapping” results in the allocation of items to homogenous subgroups by means of the classes. Variables are regarded as homogenous if they allocate items into the same subgroups when they are located in the same classes. Multiple correspondence analysis is considered to be primary components analysis of data that has undergone optimal scaling at the multiple nominal levels (Bijleveld et al. 1998: 55 & 56). The results are set out in Table 7.3.

Table 7.3: Model summary

Dimension	Cronbach's alpha	Variance accounted for	
		Total (eigenvalue)	Inertia
1	0.865	4.516	0.451
2	0.469	1.732	0.173
Total		6.248	0.624
Mean	0.755 ^a	3.123	0.312
a. Mean Cronbach's Alpha is based on the mean Eigenvalue.			

Source: Own computation from data collected

A core issue in the aim of finding whether the set of variables can be reduced is the variance accounted for by the dimensions.⁷⁹ The eigenvalue represents the relative relevance or contribution of each dimension to total inertia. Relative inertia represents the inertia of each variable in each dimension, normalized between 0 and 1. To decide how many dimensions to retain, consideration is given to dimensions with inertia above 0.2 (Costa et al. 2013: 4) as well as the Cronbach alpha value. In this study, the second dimension had an inertia value smaller than 0.2 and a Cronbach alpha value lower than 0.5, so it was concluded that a single dimension could be used to represent the ten items.

The discrimination measures presented in Table 7.4 can be regarded as a squared component loading and were computed for each dimension. This measure is also the variance of the quantified variable in that dimension; it has a maximum value of 1. Large discrimination measures correspond to a large spread among the categories of variables. Consequently, they indicate a high degree of discrimination between the categories of a variable along that dimension. Although Items 1 and 5 appeared to load strongly on Dimension 2, the criteria discussed above indicated that the second dimension should not be considered.

Table 7.4: Discrimination measures

	Dimension		Mean
	1	2	
q100.1rec	0.251	0.938	0.594
q100.2rec	0.445	0.002	0.224
q100.3rec	0.576	0.000	0.288
q100.4rec	0.381	0.022	0.201
q100.5rec	0.242	0.482	0.362
q100.6rec	0.456	0.028	0.242
q100.7rec	0.411	0.085	0.248
q100.8rec	0.496	0.016	0.256
q100.9rec	0.603	0.096	0.349
q100.10rec	0.655	0.063	0.359
Active total	4.516	1.732	3.123

Source: Own computation from data collected

⁷⁹ A dimension is the underlying structure of the data. In the case of multiple correspondence analysis, the number of dimensions is specified before conducting the analyses and then investigating the results to determine the best number of dimensions solution (Costa et al. 2013: 4).

A composite score (risk score) representing the ten items was subsequently calculated and used in the regression analysis to follow (see Section 7.2.6).

7.2.4. *Respondents' perceptions regarding determinants of tax compliance costs identified in the open-ended questions*

In the last section of the survey, respondents were given three opportunities to answer open-ended questions. The first of these questions, Question 9.4, asked respondents to suggest how tax compliance costs might be mitigated or reduced for the business, or for the SMME sector as a whole. Even though it was not an objective to research how tax compliance costs may be mitigated or reduced for SMMEs, this question was asked to identify ways to reduce tax compliance costs. It was hoped that by analysing the responses, specific topics or categories of responses could be identified. These categories may then indicate other determinants of tax compliance costs (by suggesting ways to reduce tax compliance costs, the respondents by default would have indicated what affects tax compliance costs). The suggestions are therefore discussed according to the main categories which emerged from the analysis. Respondents' answers to the open-ended questions are given in italics and cited verbatim.

Of the 315 respondents who answered this question, 21 did not suggest anything, either responding "*no*" or "*not really*" or similar. Some positive responses were also received, for example, "*No. I think SARS is doing the best they can to bring costs down*". The other suggestions are discussed under the following categories: suggestions outside the control of the revenue authority, SARS services and systems, simplification of tax laws and compliance processes and taxpayer education.

A total of 131 responses related to suggestions outside the control of the revenue authority, for instance functions that are the responsibility of the National Treasury. These suggestions included lowering and/or abolishing certain taxes, using different tax rates for different sizes of businesses (which is already possible for micro businesses and businesses which qualify as a SBC), increasing the VAT registration threshold, granting start-up businesses a specific tax-free period before being liable for tax, and introducing more incentives to assist SMMEs. Many respondents also felt that SARS's penalties for late payments are too harsh and that

SARS needs to be more lenient towards SMMEs regarding imposing penalties and interest. Other suggestions (not tax-related) were assisting SMMEs with funding and addressing corruption in the government.

The next category contained 99 suggestions regarding SARS services and systems, making it the second largest category. While the suggestions ranged from complaints regarding the quality of SARS's customer services to the opening of dedicated SMME desks and fewer requests for supporting documents, most of the suggestions can be summarised by the following suggestion from one of the respondents: *"Make sure that staff of SARS treats people with respect, has good knowledge about tax issues, focuses on getting issues solved, stops referring and postponing questions from customers, and that there is a knowledgeable e-filing helpdesk at each SARS branch."*

Simplification regarding tax laws is not actually within the control of the revenue authority, but, in view of the fact that 45 respondents specifically used the terms *"simplify"*, *"simplification"* or *"reducing complexity"*, it was decided to group these suggestions into one category. Suggestions included simplifying the total tax system, simplifying certain taxes (for example, VAT), and e-filing returns. The following suggestion by a respondent summarises most of the suggestions received from the respondents: *"Simplify Tax Act for small businesses; [r]educe number of returns to be completed for small businesses; [s]implify processes to reduce compliance costs and red tape so that entrepreneurs can do what they are good at: growing their businesses and creating employment."*

The last category contains suggestions regarding taxpayer education or training, about which 18 suggestions were received from respondents. The answers indicated that SMMEs need to be educated on how to be tax compliant. The suggestions included that SARS *"assist in educating small businesses on tax legislation"* and develop *"a template for tax administration for SMME so that they can easily understand and comply with tax regulations, secondly have workshops to empower SMMEs in relation to tax regulations."*

The suggestions received from respondents emphasised the effect of the interrelationship between SMMEs and the revenue authority. Even though it is outside SARS's control to create tax legislation or abolish any taxes, tax legislation gives SARS the power to enforce

tax compliance. Therefore, if respondents indicate that penalties are too harsh, it seems that the use of power by SARS affects tax compliance costs (Eichfelder & Kegels 2014: 212). On the other hand, respondents also need to trust the revenue authority. Any corruption in SARS or in any other branch of government will reduce the SMMEs' trust in SARS, as the collector of the revenue on behalf of the government. In addition, the suggestions categorised under "SARS services and systems" emphasised the importance of a service and confidence climate, which will affect trust in the revenue authority positively.

SMMEs (like all other taxpayers) need certainty regarding their taxes. Certainty is one of the maxims set out by Smith ([1776] 2007). Moreover, it is one of the maxims to be considered if one refers back to the theoretical framework presented in Figure 2.8. Therefore, it comes as no surprise that respondents called for simplification and for taxpayer training or education, because heeding these suggestions would increase taxpayer certainty.

Question 9.5 asked respondents what other issues, problems, or concerns they had encountered in complying with the South African tax system that this survey did not address. Again the question aimed to identify any other determinants of tax compliance costs not previously identified in the study. A total of 470 respondents completed the question, but a majority (229) replied "no", "N/A", or something similar. The rest of the responses were again allocated to different categories. Two respondents said everything was good and congratulated SARS on specific improvements, such as those to the online payments system. Ten respondents stressed the need for taxpayer education, but 11 respondents complained about the tax system's complexity and asked for simplification. Another 41 respondents reported issues beyond the control of SARS, for example, fraud and corruption in the government (again), B-BBEE requirements, and accountants who are too expensive. The rest of the respondents commented on SARS's services and systems. Of these, 17 complained about the SARS e-filing system, 20 complained about VAT or VAT-related issues, such as problems with refunds. Most respondents commented on the services they had received from SARS, including comments on long waiting times in queues at branches or on the phone. Other comments related to the knowledge of SARS personnel who could not assist them with queries, complaints about being reviewed too many times, and other issues, such as struggling to sort out objections and appeals, and complaints that other businesses do not pay their fair share but that SARS does not do anything to address these

businesses' non-compliance.

In Question 9.7, respondents could make any comments they felt may be helpful to the researcher (after that, they were thanked for completing the survey). Of the respondents, 197 submitted a response to this question. Of these, 44 showed their appreciation for the survey by answering “thank you”, “thanks”, “hope it helps”, and other similar responses, but 20 respondents complained that the survey was too long. Another three respondents asked for simplification. Ten respondents asked for training from SARS, or acknowledged that they did not have the necessary skills to be tax-compliant. As in Question 9.5, 34 respondents raised issues that are not in SARS's control, such as complaining about B-BBEE, unnecessary government expenditure, asking assistance with obtaining finance, and asking for job creation opportunities. The rest of the respondents' comments were all classified under the SARS services and system category, where comments were again made regarding the services received from SARS, that SARS will need to regain trust from SMMEs, that proper communication from SARS would be appreciated, and that dedicated, knowledgeable staff must be appointed at SARS to liaise with SMMEs.

Even though no additional determinants were therefore identified in the open-ended questions, it is evident that the gist of most of the comments was similar across all these questions. In general, respondents seem to emphasise the importance of a customer-friendly, service-oriented revenue authority, which must assist them in their tax compliance journey.

7.2.5. *Respondents' perceptions of the climate of interactions between SMMEs and SARS*

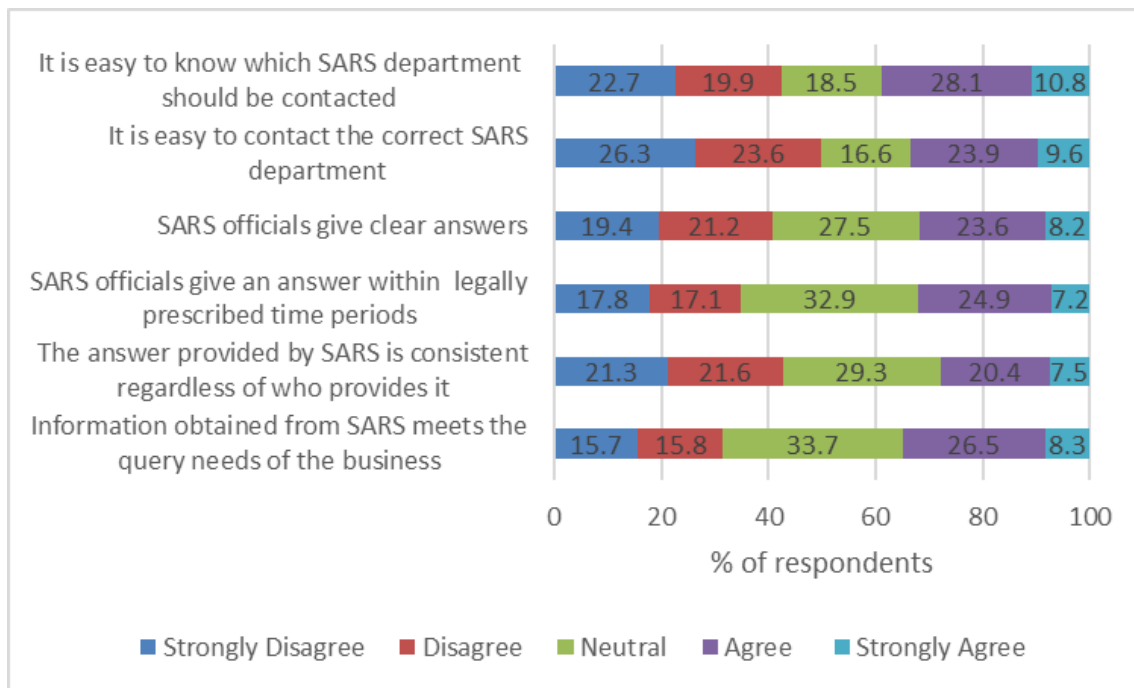
As discussed in Section 3.4, the influence of a revenue authority's behaviour on taxpayers' tax compliance costs had never previously been investigated in South Africa. To establish whether revenue authority behaviour influences taxpayers' tax compliance costs, the respondents' views about various issues affecting the climate of the interactive nexus between SMMEs and SARS concerning all tax matters or tax types were investigated in the “Interaction with SARS” section of the survey. In addition, this section was introduced to establish the respondents' perceptions of the *power* of SARS and of their *trust* in SARS

resulting from the interactions between SARS and SMMEs, as discussed in Section 7.3. Respondents were asked to rate their perceptions of the interaction with SARS from “strongly disagree” to “strongly agree”, using a 5-point Likert-type response scale, where (1) indicated “strongly disagree” and (5) “strongly agree”. The questions provided to the respondents were based on the extended SSF (see Section 2.3.5), and all the questions were identified and extracted from the literature as indicated in the discussion of the questionnaire design in Section 4.5.1.

A brief descriptive analysis of the results is presented first, after which the exploratory factor analysis is discussed. Because the items for each construct were adapted from different sources, exploratory rather than confirmatory factor analysis was considered (Yahaya et al. 2018: 275). Construct validity for each of the SSF constructs was thus established by applying exploratory factor analysis to confirm the dimensionality of each construct. The results of the exploratory factor analysis were used in the regression analysis (see Section 7.2.6) and SEM analysis (see Section 7.3). None of the prior studies focusing on tax compliance costs in South Africa measured the climate of the interactive nexus between SMMEs and SARS, and thus no comparisons could be made. Therefore, the information from the current study sets the benchmark against which future studies can be measured.

This section starts with Question 8.2, where respondents were asked to indicate the extent to which they agreed with some items regarding information services provided by SARS. This question was asked to establish respondents' perceptions regarding the administration quality of SARS. The results for this question are graphically depicted in Figure 7.3.

Figure 7.3: Respondents’ perceptions regarding administration quality of SARS

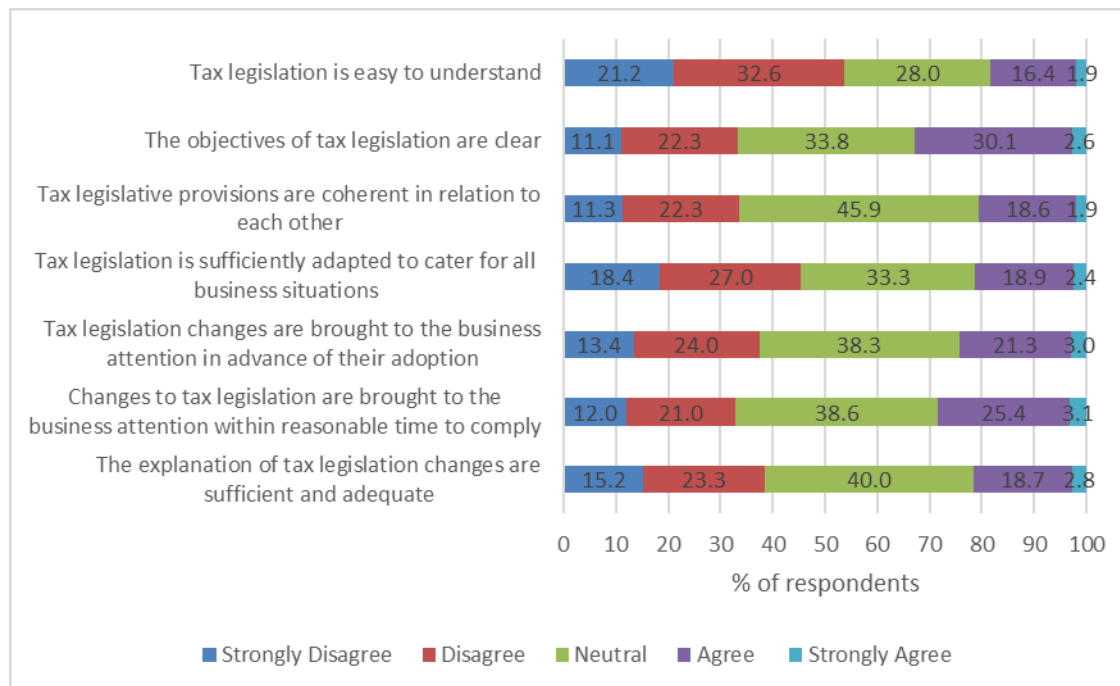


Source: Own computation from data collected

Overall, there were more respondents who strongly disagreed and disagreed with the items provided regarding the administration quality of SARS than respondents who agreed or strongly agreed. The results indicate that more than 40% of respondents disagreed or strongly disagreed with four of the six items. Approximately half of the respondents (49.9%) indicated that they disagreed or strongly disagreed with the statement “It is easy to contact the correct SARS department”, even though the highest percentage (38.9%) of those agreeing or strongly agreeing were reported for the item “It is easy to know which SARS department should be contacted”. This result may be interpreted as respondents’ knowing which department to contact, but having trouble in actually contacting that correct department.

In the next question, Question 8.3, respondents were asked to indicate the extent to which they agreed with seven items regarding tax legislation. The purpose was to establish respondents' perceptions of tax law complexity. The results are shown in Figure 7.4.

Figure 7.4: Respondents’ perceptions regarding tax law complexity



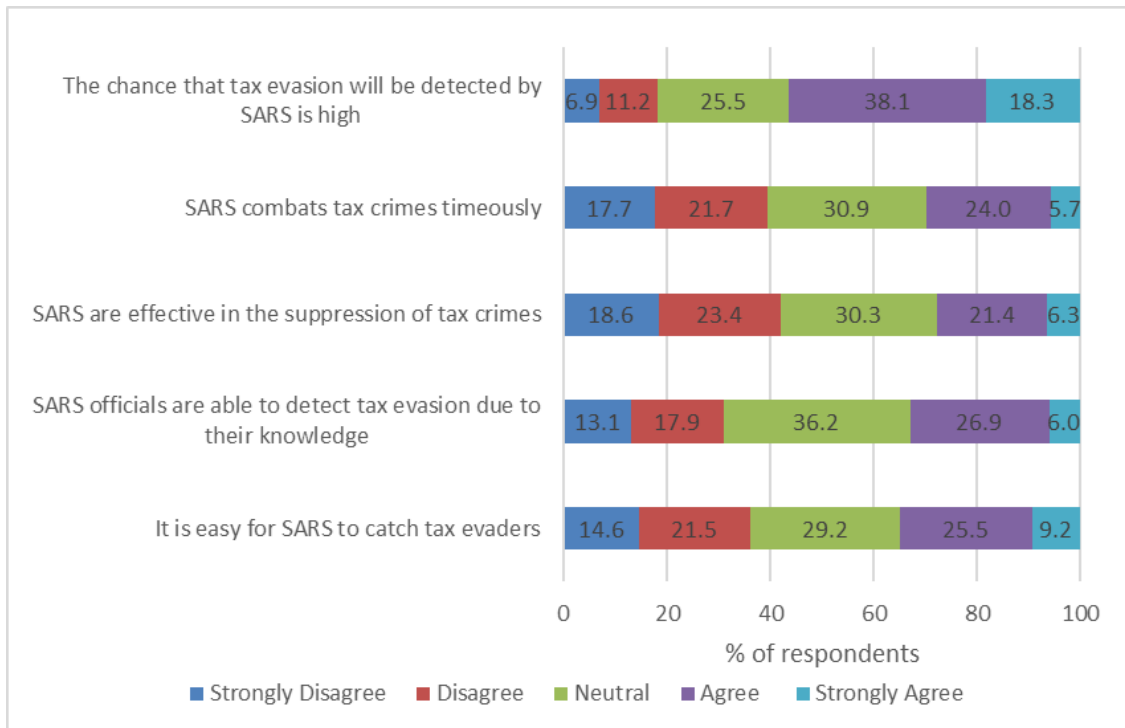
Source: Own computation from data collected

A high percentage of respondents (between 28% and 45.9%) indicated that they were neutral regarding these items. It is very difficult to say why this is the case, but respondents could have responded in this way because they did not want SARS to see negative views (even though the questionnaire was anonymous), or respondents did not have a strong enough view of the items provided to them, or they were worried about confidentiality, or any other multiple reasons. However, there were more respondents who disagreed or strongly disagreed with the items (between 33% and 53.8%) than respondents who agreed or strongly agreed (between 18.3% and 32.7%), indicating that, overall, respondents perceived tax legislation as complex. This result is in line with various international tax compliance costs studies, which found that taxpayers perceive tax legislation to be complex. This complexity influences tax compliance costs negatively (Abdul & Wang’ombe 2018: 12; Nemec et al. 2017: 83; Tran-Nam et al. 2016: 478; Lignier et al. 2014: 247). From a South African perspective, tax law complexity has also been identified as one of the contributors to South Africa’s decline in rankings for the “Paying Taxes” part of the “Doing Business” survey (PwC & World Bank Group 2020; SAICA 2020).

Question 8.4 asked respondents to indicate the extent to which they agreed with five items

relating to SARS's power to manage tax evasion. This question was designed to measure respondents' perceptions of SARS's legitimate power. The results are graphically depicted in Figure 7.5.

Figure 7.5: Respondents' perceptions of SARS's legitimate power

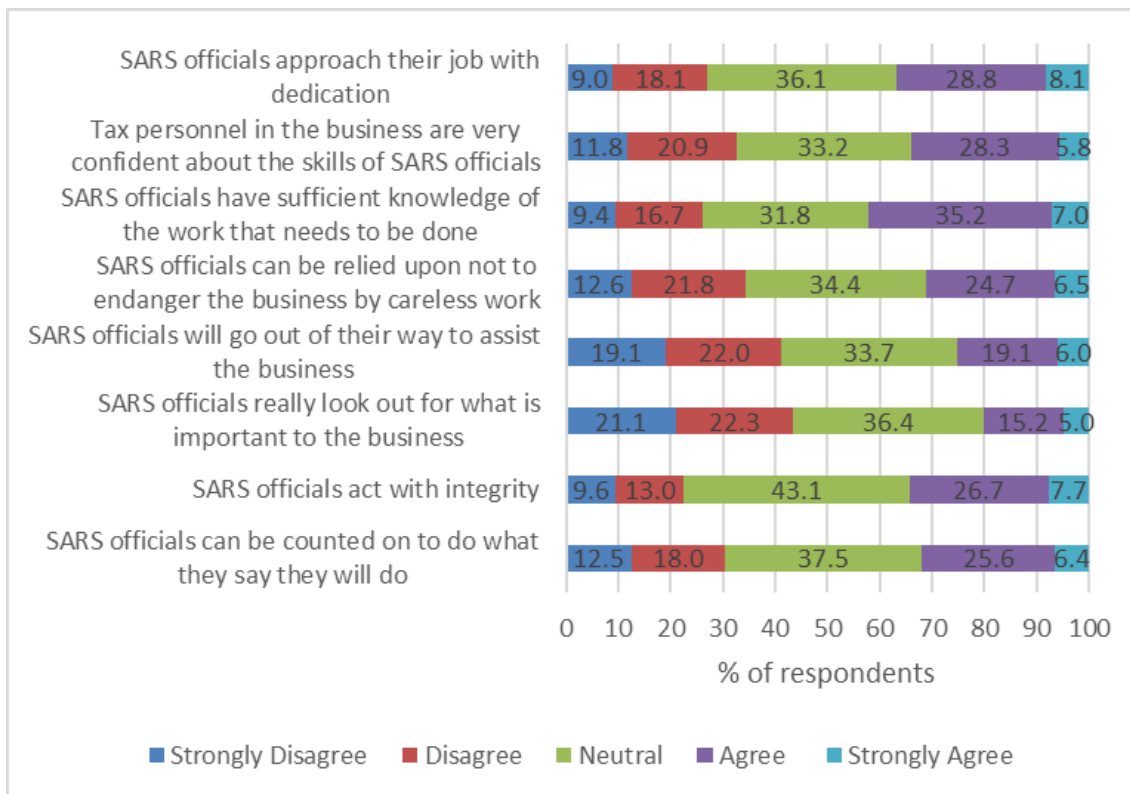


Source: Own computation from data collected

The majority of the respondents (56.4%) agreed or strongly agreed with the first item: “The chance that tax evasion will be detected by SARS is high”. Only 18.1% of respondents strongly disagreed or disagreed with this item. However, it seems that when it comes to SARS's ability to suppress tax crimes effectively, 42% of respondents disagreed or strongly disagreed with the item; only 27.7% agreed or strongly agreed. This result may indicate that even though respondents felt that SARS may detect tax evasion, they did not perceive SARS as able to act on the evasion effectively. Once again, a fairly high percentage of respondents (between 25.5% and 36.2%) indicated that they were neutral regarding these items. As mentioned previously, it is very difficult to comment on how to interpret a neutral view and any reasons for this would only be speculative, so this has not been expanded on further.

Next, the respondents were asked in Question 8.5 to indicate the extent to which they agreed with the eight items on the expertise and abilities of SARS officials who interacted with their businesses. The question was designed to assess respondents' reason-based trust in SARS. The results for this question are graphically depicted in Figure 7.6.

Figure 7.6: Respondents' reason-based trust in SARS



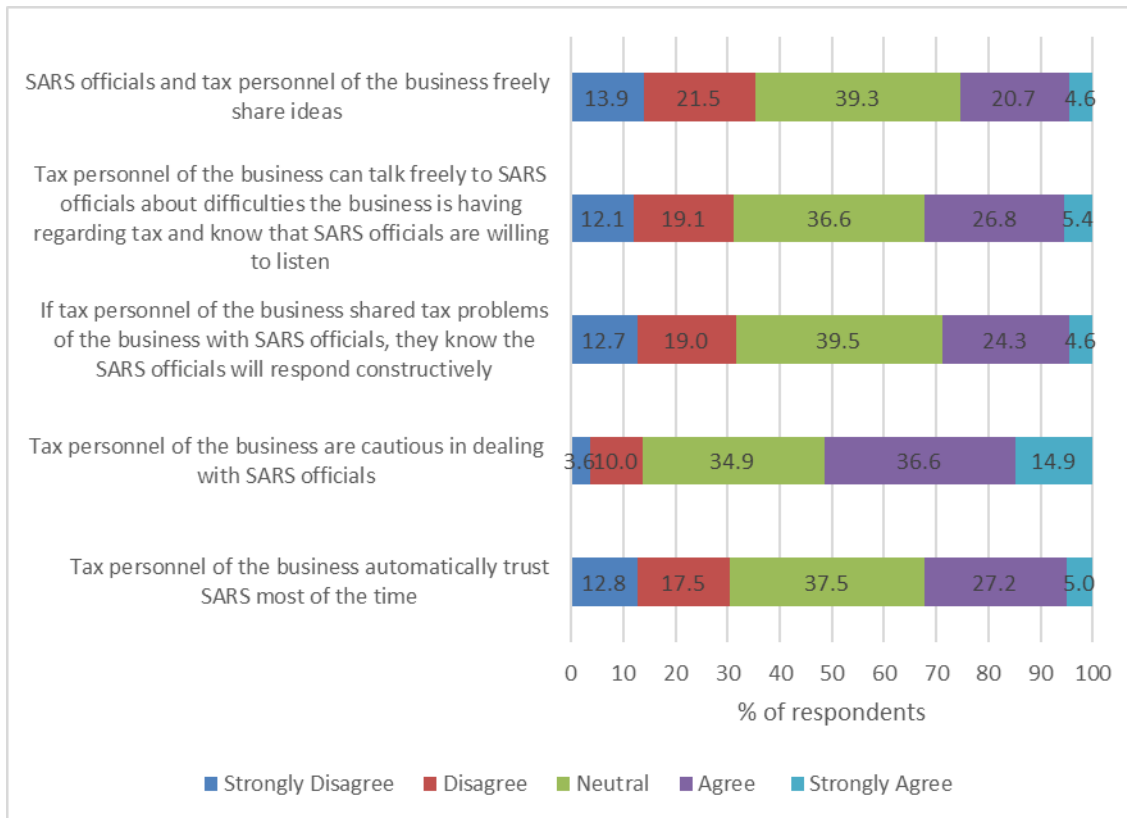
Source: Own computation from data collected

Figure 7.6 shows that 42.2% of respondents indicated that they agreed or strongly agreed with the item “SARS officials have sufficient knowledge of the work that needs to be done”, but 43.4% of respondents reported that they disagreed (or strongly disagreed) with the item “SARS officials really look out for what is important to the business”. Many of the respondents preferred to take a neutral stance (between 31.8% and 43.1%) on these items. Thus, although it seems that there is reason-based trust in SARS from respondents, this trust is not at a high level.

Question 8.6 asked respondents to indicate the extent to which they agreed with five items relating to interactions between the tax personnel of the business and SARS officials. This

question was asked to measure respondents' implicit trust in SARS. The results for this question are graphically depicted in Figure 7.7.

Figure 7.7: Respondents' implicit trust in SARS



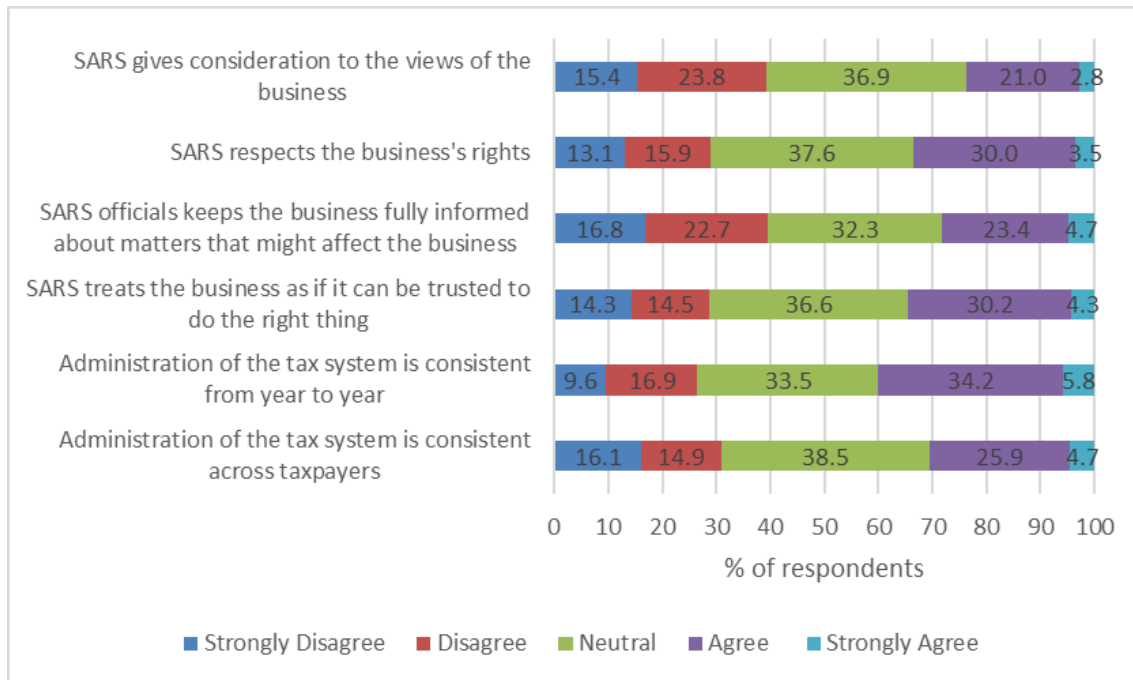
Source: Own computation from data collected

Only for the item “Tax personnel of the business are cautious in dealing with SARS officials” did the majority agree or strongly agree (51.5%). However, there was no clear perception from respondents regarding implicit trust in SARS, given that more than a third of the respondents took a neutral stand on all the items.

Question 8.7 asked respondents to indicate the extent to which they agreed with six items relating to the administrative procedures of SARS. This question was asked to assess whether SARS's actions are fair and whether respondents thought that SARS does not abuse its power, as part of measuring procedural justice, which was addressed by three questions, Question 8.7, Question 8.8 and Question 8.11. The results for Question 8.7, which deals with the perceptions of the administrative procedures of SARS, are discussed

below.

Figure 7.8: Respondents’ perceptions of the administrative procedures of SARS (procedural justice)

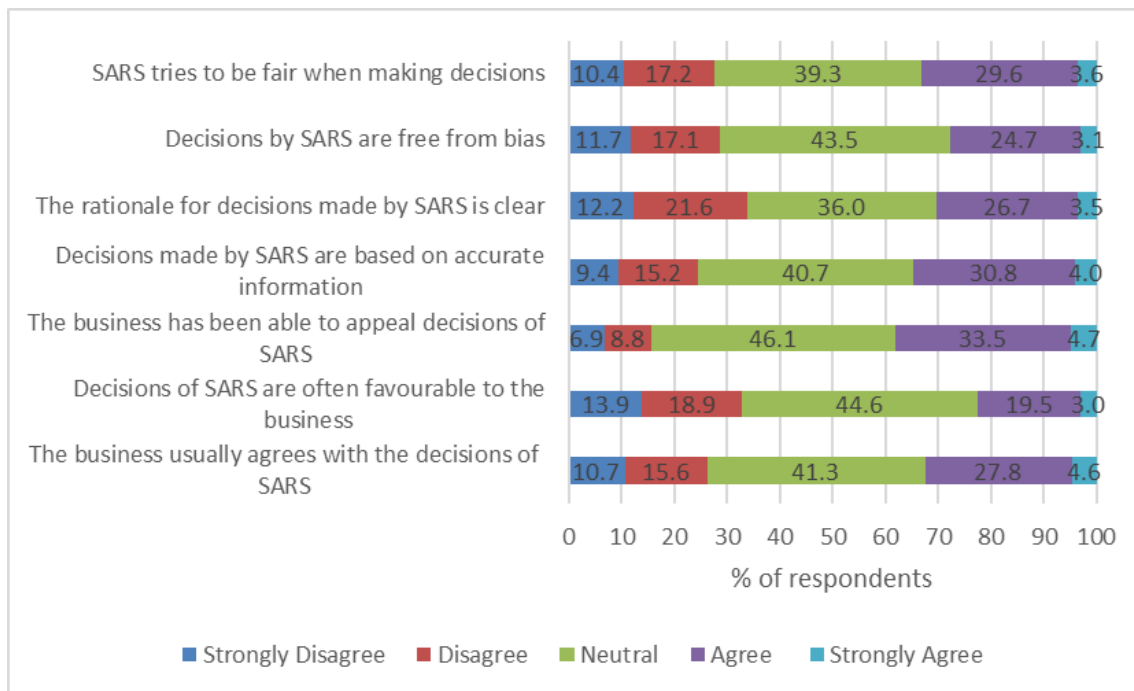


Source: Own computation from data collected

The items “SARS officials keep the business fully informed about matters that might affect the business” and “SARS gives consideration to the views of the business” were the only two items with which more than a third of the respondents disagreed or strongly disagreed. Of the respondents, 40.0% agreed or strongly agreed with the item “Administration of the tax system is consistent from year to year”. From this result, it seems that respondents perceive SARS to be consistent regarding the administration of the tax system. Still, there is room for improvement regarding certain issues, for example, keeping businesses informed and considering the businesses' views when dealing with them.

The next question (Question 8.8), which also measures procedural justice, asked respondents to indicate the extent to which they agreed with seven items relating to decisions by SARS. This question was asked to measure respondents’ perceptions of the decisions made by SARS. The results for this question are discussed next.

Figure 7.9: Respondents’ perceptions of SARS’s decisions (procedural justice)

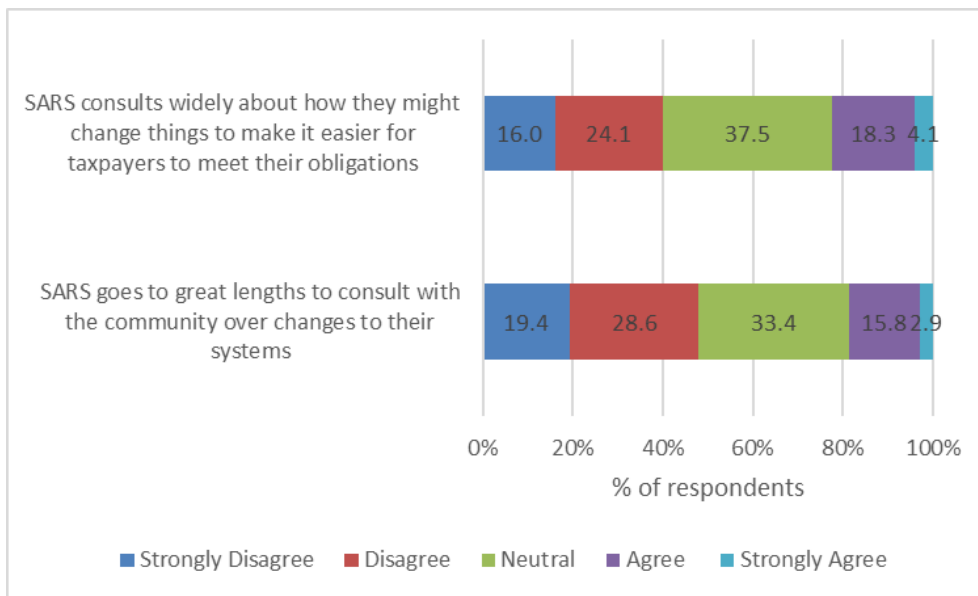


Source: Own computation from data collected

Although a large percentage (between 36% and 46.1%) of respondents were neutral in their perceptions regarding the fairness of SARS’s decisions, it seems from Figure 7.9 that more respondents agreed or strongly agreed than respondents who disagreed or strongly disagreed with the items “SARS tries to be fair when making decisions”, “Decisions made by SARS are based on accurate information”, “The business has been able to appeal decisions of SARS” and “The business usually agrees with the decisions of SARS”, indicating that respondents held a positive perception regarding these items. Conversely, for items “Decisions by SARS are free from bias”, “The rationale for decisions made by SARS is clear”, and “Decisions of SARS are often favourable to the business”, there were more respondents who disagreed or strongly disagreed than respondents who agreed or strongly agreed.

The third question measuring procedural justice asked respondents to indicate to what extent they agreed with two items relating to consultation with SARS. The results for Question 8.11, which deals with the perception of the consultation process of SARS, are discussed below.

Figure 7.10: Respondents' perceptions of consultation with SARS (procedural justice)

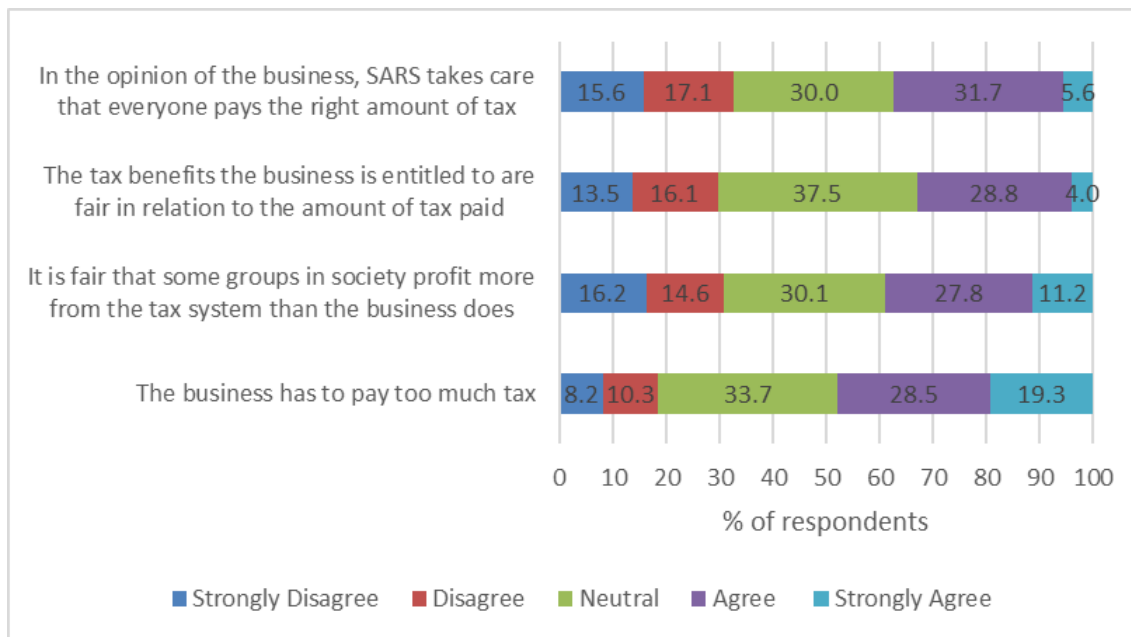


Source: Own computation from data collected

From the above, it seems that the perceptions of respondents on this topic were negative overall, in that 40.1% of respondents were in disagreement (or total disagreement) with the first item “SARS consults widely about how they might change things to make it easier for taxpayers to meet their obligations” and 48% expressed a similar opinion for the second item “SARS goes to great lengths to consult with the community over changes to their systems”, with only 22.4% and 18.7% of respondents in agreement (or total agreement) with these items.

Question 8.9 required respondents to indicate the extent to which they agreed with four items relating to the fairness of SARS. The question was asked to measure the respondents' perceptions of distributive justice. The respondents' perceptions are given in Figure 7.11.

Figure 7.11: Respondents' perceptions of the fairness of SARS (distributive justice)

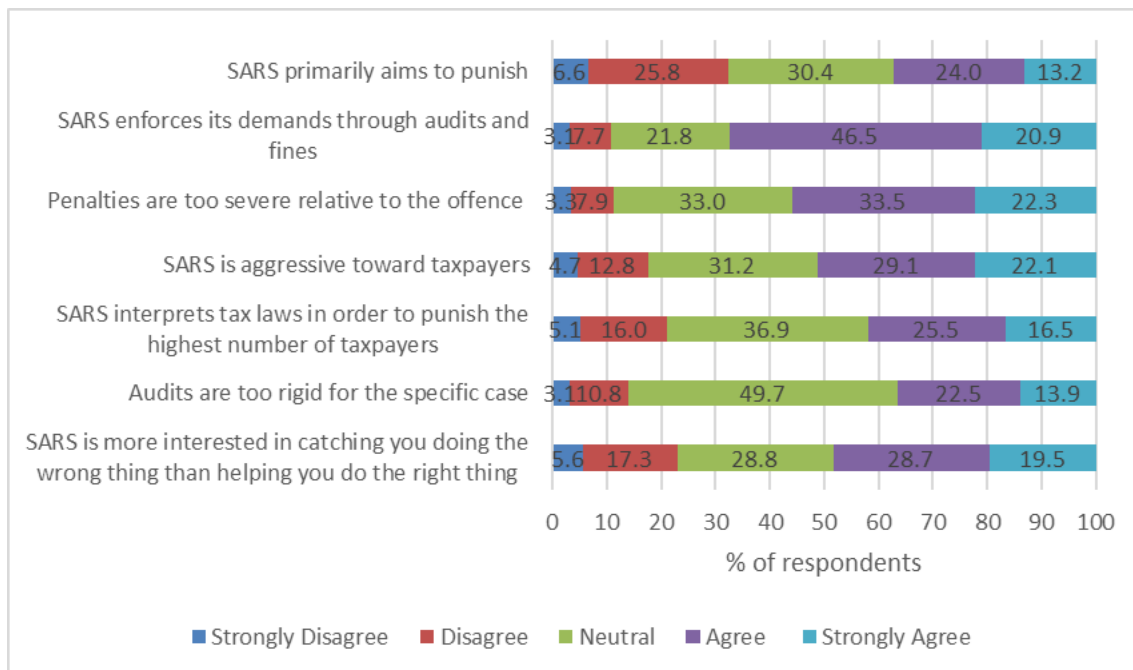


Source: Own computation from data collected

From Figure 7.11, a positive perception of the fairness of SARS emerges, based on the first three items (“In the opinion of the business, SARS takes care that everyone pays the right amount of tax”, “The tax benefits the business is entitled to are fair in relation to the amount of tax paid” and “It is fair that some groups in society profit more from the tax system than the business does”). There were slightly more respondents who agreed or strongly agreed with these items than respondents who disagreed or strongly disagreed. On the last item, 47.8% of the respondents held a perception that the business had to pay too much tax, and only 18.5% of respondents disagreed or strongly disagreed with this item.

Question 8.10 presented seven items to respondents relating to assessments, audits and penalties, and again they had to indicate the extent to which they agreed. These items focused on the use of “harsh” power by SARS; the purpose was to measure the respondents’ perceptions regarding SARS’s coercive power.

Figure 7.12: Respondents' perceptions of SARS's coercive power

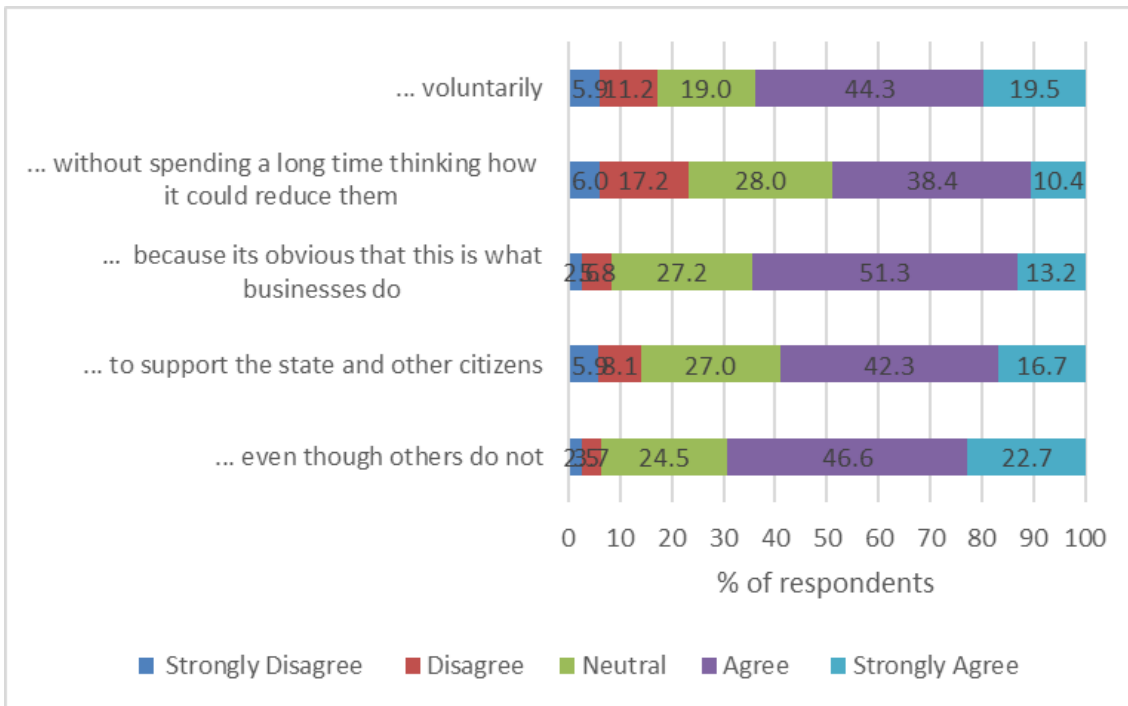


Source: Own computation from data collected

More than two thirds (67.4%) of respondents agreed or strongly agreed with the item “SARS enforces its demands through audits and fines”. A higher percentage of the respondents agreed or strongly agreed with the items provided to them, compared to respondents who were neutral or disagreed (or strongly disagreed). The exception was the item “Audits are too rigid for the specific case”. Thus, overall, it seems that respondents perceived SARS to have the power to enforce or coerce compliance.

The respondents' perceptions of the three levels of taxpayer cooperation, identified in the extended SSF, were measured in three questions: Question 8.12, Question 8.13 and Question 123. All these questions asked the respondents to indicate the extent to which they agreed with the items that complete this sentence: “When the business pays its taxes as required by the South African tax laws and regulations, it does so...”. Question 8.12 provided five items to measure voluntary cooperation, Question 8.13 measured committed cooperation with four items, and finally Question 123 measured enforced compliance with five items. The results for voluntary cooperation are depicted graphically in Figure 7.13.

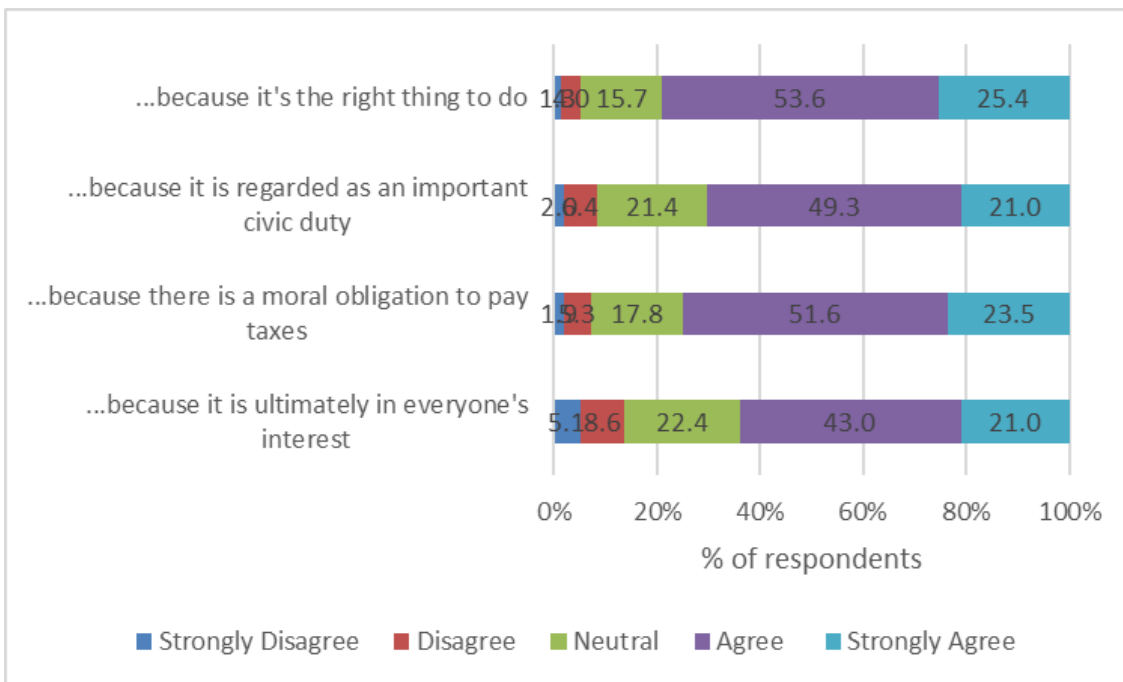
Figure 7.13: Respondents' perceptions regarding voluntary cooperation



Source: Own computation from data collected

As Figure 7.13 shows, the respondents reported a high level of voluntary cooperation. Of the respondents, 63.8% agreed or strongly agreed that they voluntarily paid the taxes required by the South African tax laws and regulations. In addition, 69.3% of respondents agreed or strongly agreed that they paid their taxes as required, even though some other businesses, in their opinion, did not. Figure 7.14 shows the results for committed cooperation.

Figure 7.14: Respondents' perceptions regarding committed cooperation

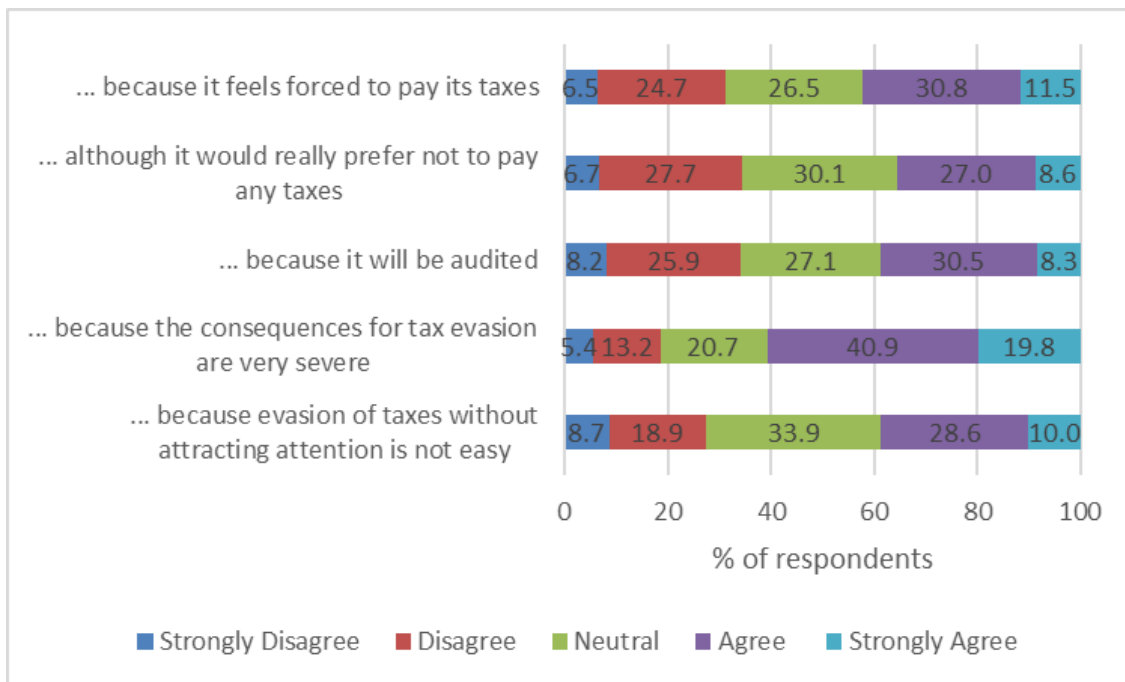


Source: Own computation from data collected

An even higher level of committed cooperation from respondents can be seen from the results for Question 8.13. Of the respondents, 79% indicated that when their business pays its taxes, as required by the South African tax laws and regulations, it does so because it is the right thing to do.

Finally, the last level of compliance, namely enforced compliance, was measured with Question 123. The results for this question are graphically depicted in Figure 7.15.

Figure 7.15: Respondents' perceptions regarding enforced compliance

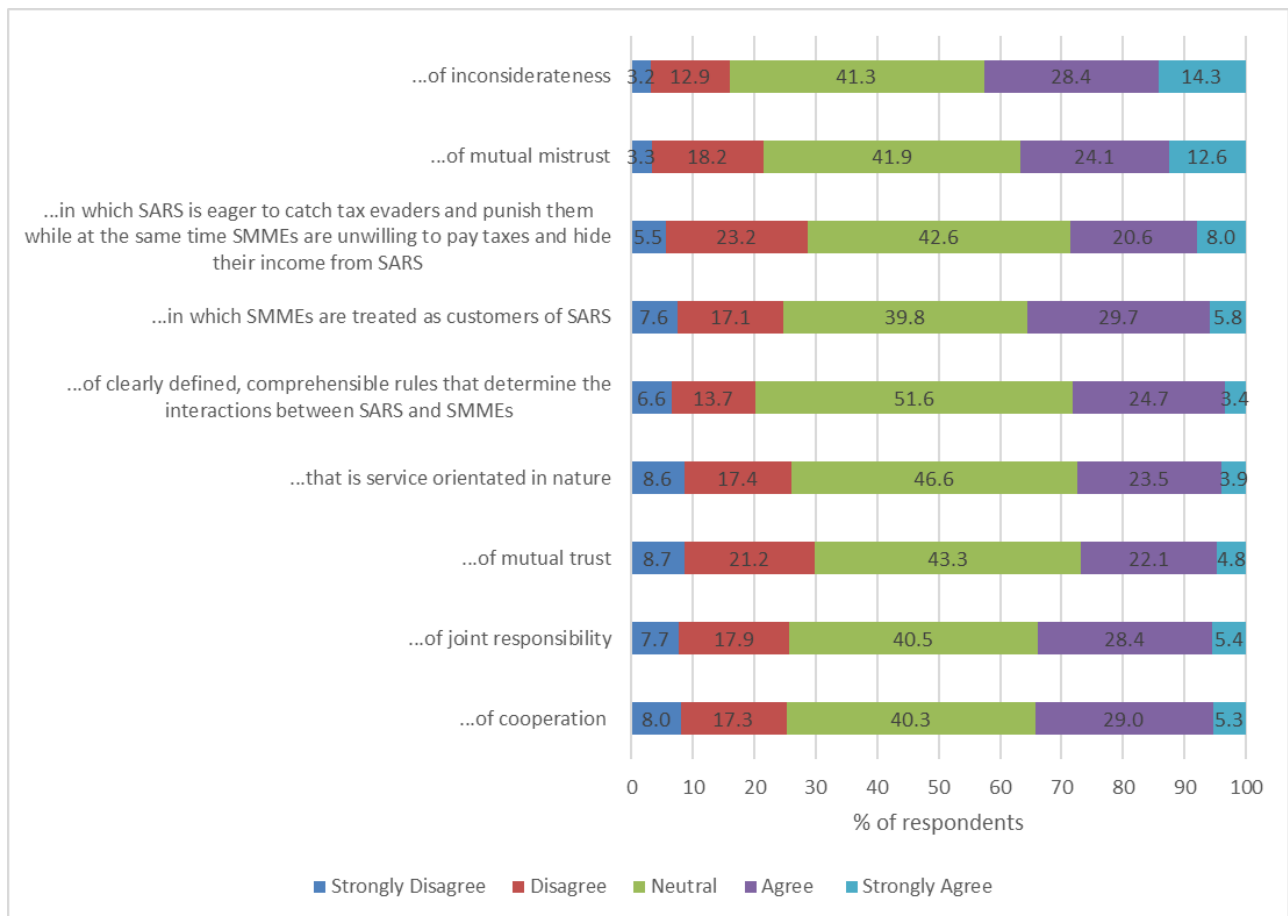


Source: Own computation from data collected

Of the respondents, 60.7% indicated that they agreed or strongly agreed that the business paid its taxes as required by the South African tax laws and regulations because the consequences for tax evasion are very severe. Overall, it seems that there was a perception among respondents that they are forced to comply; there were more respondents who agreed or strongly agreed (between 35.6% and 60.7%) with the items than there were respondents who disagreed or strongly disagreed (between 18.6% and 34.4%).

The last question dealing with the extended SSF, Question 124, measured the respondents' perception of the climate of their interactions with SARS. The respondents were asked to indicate the extent to which they agreed or disagreed with the items that complete this sentence: "Between SARS and SMMEs there exists a climate...". Three items each for the three different climates (antagonistic, service or confidence) were provided to the respondents. The results for this question are shown next.

Figure 7.16: Respondents' perceptions regarding interactions with SARS



Source: Own computation from data collected

A high percentage of neutral respondents was noted in the results (between 39.8% and 51.6%), making it difficult to make any deductions. However, a fairly high percentage of respondents (42.7%) indicated that they agreed or strongly agreed that a climate of inconsiderateness exists between SARS and SMMEs.

After considering the respondents' responses on each of the items separately, it was decided to investigate whether these items could be regarded as a single construct. To do this, exploratory factor analysis was used. Because the items for each construct were adapted from different sources, exploratory rather than confirmatory factor analysis was considered (Yahaya et al. 2018: 275). Construct validity for each of the SSF constructs was established by applying exploratory factor analysis to confirm the dimensionality of each construct. Internal consistency (reliability) was calculated using Cronbach's alpha. Composite reliability, which is recommended by Malhotra (2020: 702), was also provided,

due to some criticism of Cronbach's alpha (Sijtsma 2009). A summary of the factor analysis is provided in Table 7.5. Principal axis factoring was used as the extraction method and promax as the rotation method.

Table 7.5: Summary of the exploratory factor analysis of the 15 constructs

Constructs and items	KMO & Barlett's test (sig. value)	% variance explained	Factor loadings	Cronbach's alpha
Q8.2 Administration quality of SARS	0.873 p <0.001	63.9%	Factor 1	
8.2.1 It is easy to know which SARS department should be contacted			0.743	0.912
8.2.2 It is easy to contact the correct SARS department			0.805	
8.2.3 SARS officials give clear answers			0.842	
8.2.4 SARS officials give an answer within legally prescribed time periods			0.771	
8.2.5 The answer provided by SARS is consistent regardless of who provides it (for example, staff at different branches and staff at Head Office)			0.790	
8.2.6 Information obtained from SARS meets the query needs of the business			0.840	
Q8.3 Tax law complexity	0.887 p <0.001	58.6%	Factor 1	
8.3.1 Tax legislation is easy to understand			0.733	0.906
8.3.2 The objectives of tax legislation are clear			0.684	
8.3.3 Tax legislative provisions are coherent in relation to each other			0.816	
8.3.4 Tax legislation is sufficiently adapted to cater for all business situations			0.734	
8.3.5 Tax legislation changes are brought to the business attention			0.772	

Constructs and items	KMO & Barlett's test (sig. value)	% variance explained	Factor loadings	Cronbach's alpha
in advance of their adoption				
8.3.6 Changes to tax legislation are brought to the business attention within reasonable time to comply			0.763	
8.3.7 The explanation of tax legislation changes is sufficient and adequate			0.845	
Q8.4 SARS's power to manage tax evasion (legitimate power)	0.835 p <0.001	62.6%	Factor 1	
8.4.1 The chance that tax evasion will be detected by SARS is high			0.594	0.888
8.4.2 SARS combats tax crimes timeously			0.845	
8.4.3 SARS is effective in the suppression of tax crimes			0.852	
8.4.4 SARS officials are able to detect tax evasion due to their knowledge			0.831	
8.4.5 It is easy for SARS to catch tax evaders			0.805	
Q8.5 Expertise and abilities of SARS officials (reason-based trust)	0.939 p <0.001	68.3%	Factor 1	
8.5.1 SARS officials approach their job with dedication			0.818	0.945
8.5.2 Tax personnel in the business are very confident about the skills of SARS officials			0.860	
8.5.3 SARS officials have sufficient knowledge of the work that needs to be done			0.798	
8.5.4 SARS officials can be relied upon not to endanger the business by careless work			0.827	

Constructs and items	KMO & Barlett's test (sig. value)	% variance explained	Factor loadings	Cronbach's alpha
8.5.5 SARS officials will go out of their way to assist the business			0.830	
8.5.6 SARS officials really look out for what is important to the business			0.822	
8.5.7 SARS officials act with integrity			0.792	
8.5.8 SARS officials can be counted on to do what they say they will do			0.862	
Q8.6 Interactions between tax personnel of the business and SARS officials (implicit trust)	0.828	61.9%	Factor 1	
8.6.1 SARS officials and tax personnel of the business freely share ideas			0.818	0.912
8.6.2 Tax personnel of the business can talk freely to SARS officials about difficulties the business is having regarding tax and know that SARS officials are willing to listen			0.902	
8.6.3 If tax personnel of the business shared tax problems of the business with SARS officials, they know the SARS officials will respond constructively			0.910	
8.6.4 Tax personnel of the business are cautious in dealing with SARS officials				
8.6.5 Tax personnel of the business automatically trust SARS most of the time			0.795	
Q8.7 Administrative procedures of SARS (procedural justice)	0.893 p <0.001	66.8%	Factor 1	
8.7.1 SARS gives consideration to the views of the business			0.844	0.923
8.7.2 SARS respects the business's rights			0.878	

Constructs and items	KMO & Barlett's test (sig. value)	% variance explained	Factor loadings		Cronbach's alpha
8.7.3 SARS officials keep the business fully informed about matters that might affect the business			0.827		
8.7.4 SARS treats the business as if it can be trusted to do the right thing			0.830		
8.7.5 Administration of the tax system is consistent from year to year			0.742		
8.7.6 Administration of the tax system is consistent across taxpayers			0.776		
Q8.8 Decisions of SARS (procedural justice)	0.905 p <0.001	60.7%	Factor 1		
8.8.1 SARS tries to be fair when making decisions			0.893		0.912
8.8.2 Decisions by SARS are free from bias			0.837		
8.8.3 The rationale for decisions made by SARS is clear			0.854		
8.8.4 Decisions made by SARS are based on accurate information			0.814		
8.8.5 The business has been able to appeal decisions of SARS			0.512		
8.8.6 Decisions of SARS are often favourable to the business			0.742		
8.8.7 The business usually agrees with the decisions of SARS			0.741		
Q8.9 Fairness (distributive justice)	0.550 p <0.001	50.5%	Factor 1	Factor 2	
8.9.1 In the opinion of the business, SARS takes care that everyone pays the right amount of tax			0.713		0.670 (Final factor)
8.9.2 The tax benefits the business is entitled to are fair in relation to the amount of tax paid			0.929		

Constructs and items	KMO & Barlett's test (sig. value)	% variance explained	Factor loadings			Cronbach's alpha
8.9.3 It is fair that some groups in society profit more from the tax system than the business does			0.407	0.380		
8.9.4 The business has to pay too much tax				0.562		
Q8.10 Assessments, audits and penalties (retributive justice – proxy for coercive power)	0.913 p <0.001	60.4%	Factor 1			
8.10.1 SARS primarily aims to punish			0.750			
8.10.2 SARS enforces its demands through audits and fines			0.754			
8.10.3 Penalties are too severe relative to the offence			0.741			
8.10.4 SARS is aggressive toward taxpayers			0.872			
8.10.5 SARS interprets tax laws in order to punish the highest number of taxpayers			0.802			
8.10.6 Audits are too rigid for the specific case			0.704			
8.10.7 SARS is more interested in catching you doing the wrong thing than helping you do the right thing			0.802			
Q8.11 Consultation from SARS (procedural justice)	0.500 p <0.001	83.2%	Factor 1			0.909
8.11.1 SARS consults widely about how they might change things to make it easier for taxpayers to meet their obligations			0.912			
8.11.2 SARS goes to great lengths to consult with the community over changes to their systems			0.912			
Q8.12 When the business pays its taxes as required by the South African tax	0.871 p <0.001	51.9%	Factor 1	Factor 2	Factor 3	

Constructs and items	KMO & Barlett's test (sig. value)	% variance explained	Factor loadings			Cronbach's alpha
laws and regulations, it does so ... (voluntary corporation)						
8.12.1 ... voluntarily					0.463	0.764 (Factor 3)
8.12.2 ... without spending a long time thinking how it could reduce them					0.605	
8.12.3 ... because it's obvious that this is what businesses do					0.761	
8.12.4 ... to support the state and other citizens					0.451	
8.12.5 ... even though others do not					0.611	
Q8.13 When the business pays its taxes as required by the South African tax laws and regulations, it does so ... (committed cooperation)			Factor 1	Factor 2	Factor 3	
8.13.1 ... because it's the right thing to do			0.821			0.889 (Factor 1)
8.13.2 ... because it is regarded as an important civic duty			0.842			
8.13.3 ... because there is a moral obligation to pay taxes			0.876			
8.13.4 ... because it is ultimately in everyone's interest			0.729			
Q123 When the business pays its taxes as required by the South African tax laws and regulations, it does so ... (enforced compliance)			Factor 1	Factor 2	Factor 3	
123.1 ... because it feels forced to pay its taxes				0.519		0.797 (Factor 2)
123.2 ... although it would really prefer not to pay any taxes				0.467		
123.3 ... because it will be audited				0.799		

Constructs and items	KMO & Barlett's test (sig. value)	% variance explained	Factor loadings		Cronbach's alpha
123.4 ... because the consequences for tax evasion are very severe				0.808	
123.5 ... because evasion of taxes without attracting attention is not easy				0.672	
Q124 Between SARS and SMMEs there exists a climate ... (antagonistic climate)	0.849 p <0.001	61.7%	Factor 1	Factor 2	
124.1 ... of inconsiderateness				0.775	0.750 (Factor 2)
124.2 ... of mutual mistrust				0.851	
124.3 ... in which SARS is eager to catch tax evaders and punish them while at the same time SMMEs are unwilling to pay taxes and hide their income from SARS				0.553	
Between SARS and SMMEs exists a climate ... (Service and confidence climate)					
124.4 ... in which SMMEs are treated as customers of SARS			0.699		0.941 (Factor 1)
124.5 ... of clearly defined, comprehensible rules that determine the interactions between SARS and SMMEs			0.685		
124.6 ... that is service orientated in nature			0.856		
124.7 ... of mutual trust			0.856		
124.8 ... of joint responsibility			0.848		
124.9 ... of cooperation			0.883		

Source: Own computation from data collected

The KMO was above the recommended threshold of 0.5 (Field 2018: 798, 808), except for the two-item factor analysis for Construct 8.11, which would always result in a value of exactly 0.5 and is still acceptable in this case. The Bartlett's Test of Sphericity was

statistically significant ($p < 0.001$) (Field 2018: 810) for the items in each of the 15 constructs, indicating that exploratory factor analysis was appropriate.

The analysis confirmed unidimensionality for Construct 8.2, Construct 8.3, Construct 8.4, Construct 8.5, Construct 8.7, Construct 8.8, Construct 8.10 and Construct 8.11, because the analysis identified only one factor based on the eigenvalue criterion, an eigenvalue greater than 1 (Field 2018: 810). These constructs were subsequently labelled “Administration quality of SARS” (8.2), “Tax law complexity” (8.3), “SARS’s power to manage tax evasion (legitimate power)” (8.4), “Expertise and abilities of SARS officials (reason-based trust)” (8.5), “Administrative procedures of SARS (procedural justice)” (8.7), “Decisions of SARS (procedural justice)” (8.8), “Assessments, audits and penalties (retributive justice)” (8.10) and “Consultation from SARS (procedural justice)” (8.11).

The exceptions were Construct 8.6, Construct 8.9, Construct 8.12, Construct 8.13, Construct 123 and Construct 124. For Construct 8.6, the analysis identified two factors. Only one item, namely Item 8.6.1, double-loaded on Factor 1 and Factor 2. However, after rotation, Item 8.6.1, which was double-loaded, did not load high enough (above 0.3) on the second factor. The solution is thus unidimensional, as Item 8.6.4 also did not load above 0.3 and was therefore deleted from further analysis. Construct 8.6 was subsequently labelled “Interactions between tax personnel of the business and SARS officials (implicit trust)”. For Construct 8.9, Items 8.9.3 and 8.9.4 loaded onto a second factor with Item 8.9.3 double-loaded after rotation. After consideration, Item 8.9.3 was retained with Factor 1. Thus Item 8.9.4 was the only item under Factor 2. As a single item cannot constitute a factor, it was deleted. Then one factor remained, consisting of Items 8.9.1 to 8.9.3. Construct 8.9 was subsequently labelled “Fairness (distributive justice)”. Construct 8.12, Construct 8.13 and Construct 123 were based on the same opening statement. The analysis for these areas identified three factors. Items 8.12.1 to 8.12.5 loaded onto Factor 3 and were subsequently labelled “When the business pays its taxes as required by the South African tax laws and regulations, it does so... (voluntary cooperation)”, Items 8.13.1 to 8.13.4 loaded onto Factor 1 and were subsequently labelled “When the business pays its taxes as required by the South African tax laws and regulations, it does so... (committed cooperation)”. Items 123.1 to 123.5 loaded onto Factor 2 and were subsequently labelled “When the business pays its taxes as required by the South African tax laws and regulations, it does so... (enforced

compliance)". For Construct 124, the analysis identified two factors. Items 124.1 to 124.3 loaded onto Factor 2 and were subsequently labelled "Between SARS and SMMEs there exists a climate... (antagonistic climate)". Items 124.4 to 124.9 loaded onto Factor 1 and were subsequently labelled "Between SARS and SMMEs exists a climate... (service and confidence climate)".

The Cronbach alpha values were above the accepted threshold of 0.7 for all the factors (Field 2018: 823) and were thus considered satisfactory, except for Construct 8.9. However, 0.6 is considered the threshold for exploratory factor analysis (Hair et al. 2010: 92 & 125) and the reliability was therefore also considered acceptable. Composite factor-based scores were subsequently calculated for each area and used in the regression analysis.

7.2.6. *Regression analysis to ascertain determinants of tax compliance costs for SMMEs*

Field (2018: 374) describes a regression analysis as a statistical tool used to examine the relationship between the values of an outcome variable (dependent variable) and one or more predictor variables (independent variables). A literature review (see Section 3.4) was performed to identify the possible determinants (independent variables) that affect tax compliance costs (the dependent variable). From this literature review, it is argued that the following variables influence tax compliance costs:

- business size (turnover) of the SMME;
- the main activity of the SMME (industry);
- the number of employees employed by the SMME;
- the age of the SMME;
- the use of an external tax advisor;
- penalties and interest⁸⁰ incurred by SMMEs;
- the use of small business tax concessions;
- tax risk management of the SMME; and
- revenue authority behaviour towards SMMEs.

⁸⁰ Penalties and interest incurred by SMMEs were not identified in the literature review, but penalties and interest may indicate tax complexity, which may also increase tax compliance costs for taxpayers (Torgler 2007: 56).

The regression analysis in the current study included both business characteristics and SSF constructs (as composite scores). Composites for the tax risk management of the SMME (see Section 7.2.2) and each of the SSF constructs were used, based on the results of the exploratory factor analysis (see Table 7.5). The sample size of 771 cases was adequate for the regression analysis, because the general threshold of ten observations per independent variable was exceeded (Field 2018: 389). The regression equation includes 37 independent variables that include the dummy variables associated with the categorical variables. Therefore, it is not advisable to conduct the regression separately for small and medium companies as the number of medium companies is only 124 which results in a ratio of only 3.35 observation per independent variable in the model. The results from the regression analysis are presented in Table 7.6.

Table 7.6: Regression analysis

Model	Independent variables	Standardized coefficients (beta)	Collinearity statistics (tolerance)
1	(Constant)		
	Business size (turnover)	0.053	0.527
	dumind1	-0.078*	0.696
	dumind2	-0.043	0.898
	dumind3	-0.078*	0.569
	dumind4	-0.020	0.800
	dumind5	-0.003	0.460
	dumind6	-0.045	0.712
	dumind7	0.027	0.707
	dumind8	-0.016	0.742
	dumind10	0.008	0.420
	dumind12	0.014	0.611
	dumemp2	0.117***	0.781
	dumemp3	0.095**	0.638
	dumemp4	0.197***	0.696
	dumemp5	0.081**	0.754
	dumage2	-0.002	0.796
	dumage3	-0.043	0.662
	dumage4	-0.015	0.741
	Use of external tax adviser	0.046	0.807
	Penalties and interest	0.084**	0.911
Small business tax concessions	0.019	0.915	
Risk score	0.106***	0.894	
Administration quality	0.032	0.421	

Model	Independent variables	Standardized coefficients (beta)	Collinearity statistics (tolerance)
	Tax law complexity	0.002	0.512
	Legitimate power	0.128***	0.586
	Reason-based trust	0.000	0.258
	Implicit trust	-0.128*	0.249
	Procedural justice (admin)	-0.130*	0.183
	Procedural justice (decisions)	0.033	0.257
	Distributive justice	0.024	0.453
	Retributive justice	0.076*	0.572
	Procedural justice (consultation)	-0.053	0.460
	Voluntary cooperation	-0.021	0.605
	Committed cooperation	0.004	0.572
	Enforced compliance	0.096***	0.822
	Antagonistic climate	-0.146***	0.662
	Service and confidence climate	-0.067	0.467
Adjusted R ² 0.184 F (p value) 5.47(.000) * denotes p <0.1 ** denotes p <0.05 ***denotes p <0.01			

Source: Own computation from data collected

Firstly, there was no evidence of multicollinearity (all tolerance values were larger than 0.1). The regression analysis results set out in Table 7.6 provides insight into the quantitative effect of the independent variables (for instance, size, sector, number of employees, etc.) on the dependent variable (tax compliance costs). The results of the regression model indicate that the R² value was relatively small. It showed that only 18.4% of the variation in the dependent variable, total compliance costs, can be explained by the respective set of variables in the regression model. Although the coefficient of determination is low, it was nevertheless considered valuable to report the regression model's findings, because the aim of the regression modelling was not a prediction, but rather to investigate the relationship of each of the determinants with total compliance cost, taking into account the rest of the determinants included in the modelling. The analysis indicated the following:

- The F test for regression is statistically significant (the beta coefficient differs significantly from zero – the p values are all smaller than 0.05).
- The standardised beta values and associated significance show that the following variables were statistically significant at the 1%, 5% or 10% level of significance, as indicated in Table 7.6:

- a) The main activity of the business: dumind1 and dumind3 represent Agriculture, Forestry and Fishing (ind1) and Manufacturing (ind3), relative to the reference category Construction.
- b) Number of employees: dumemp 2, dumemp 3, dumemp 4 and dumemp 5, which represent the categories 6-20 employees, 21-50 employees, 51-100 employees, and 100 or more employees, relative to category 1 to 5 employees.
- c) Penalties and interest, representing “Did the business incur any tax-related penalties or interest during the financial year ending between 1 April 2018 and 31 March 2019?”. This question was a binary variable with a “yes” or “no” answer.
- d) Risk score, representing the tax risk management of the SMME.
- e) The following SSF constructs: legitimate power, implicit trust, procedural justice (admin), retributive justice, enforced compliance, and antagonistic climate.

When the variables that emerged as statistically significant determinants of tax compliance costs (points a) to e) above) were considered in more detail, it was found that the 51-100 employees category was the most significant determinant (standardized beta +0.197). In fact, all the number of employees categories were statistically significant (with a beta ranging between +0.0081 and 0.197). The fact that the beta was positive implies that SMMEs in those categories had a tendency to pay more than the reference category (1-5 employees) for tax compliance costs.

The analysis further revealed that the SSF construct “antagonistic climate” also displayed a statistically significant impact on tax compliance costs, with a beta of -0.146. The negative beta implies that a positive perception of an antagonistic climate with SARS decreased tax compliance costs. This result may indicate that taxpayers do less to be tax compliant in an antagonistic climate; hence the decrease in tax compliance costs. This speculation requires more in-depth research. The same applies to the SSF construct of procedural justice (more specifically the perceptions of the administrative procedures of SARS), with a beta value of -0.130, which was the independent variable with the highest beta value after the “Service and confidence climate”, and the SSF factor of “Implicit trust” (beta -0.128). By contrast, the SSF construct “Legitimate power” (beta +0.128) suggests that there is a tendency for tax compliance costs to increase where there is an increased perception of the legitimate power of SARS.

The next independent variable identified by the analysis to have a statistically significant impact on tax compliance costs was the risk score representing the tax risk management of an SMME. With a beta of +0.106, the results indicate a tendency that the higher the risk score of an SMME, the higher its tax compliance costs. In addition, a higher perception of enforced compliance from SARS (beta +0.096) also indicates a tendency towards increased tax compliance costs.

It appears that SMMEs that incurred tax-related penalties and interest during the financial year paid more for tax compliance costs than those that did not incur any tax-related penalties and interest (beta +0.084). In addition, the analysis reveals that SMMEs operating in the Agriculture, Forestry and Fishing (ind1) and Manufacturing (ind3) sectors incurred lower tax compliance costs than SMMEs operating in the Construction sector (beta -0.078 for both independent variables). Finally, an higher perception of the SSF factor "Retributive justice" (a proxy for coercive power) indicated increased tax compliance costs (beta +0.076).

A statistically significant impact on tax compliance costs was not reported for any of the other independent variables used in the analysis. These variables (business characteristics) are the following: the size of the business, the sector that the business operates in (except the Agricultural, Forestry and Fishing and Manufacturing sectors), the age of the business, the use of an external tax advisor, and the use of small business tax concessions. There was also no statistically significant impact from the following SSF constructs: the perception of SMMEs relating to the administration quality of SARS, tax law complexity, reason-based trust in SARS, procedural justice (decisions made by SARS), distributive justice, procedural justice (consultation process from SARS with SMMEs), voluntary cooperation, committed cooperation or an antagonistic climate between SARS and SMMEs. The regression model shows that the tax compliance costs increased as the size of the business increased (positive beta +0.053), but the size of the business was not statistically significant. This result implies that the size of the business (measured using turnover) had little effect on the tax compliance costs of an SMME, in relation to all the other variables in the regression analysis.

Overall, the results show that a tendency of increased tax compliance costs was observed in relation to the following independent variables: the number of employees employed by an SMME, the perception of the legitimate power of SARS, the risk score of the SMME, the

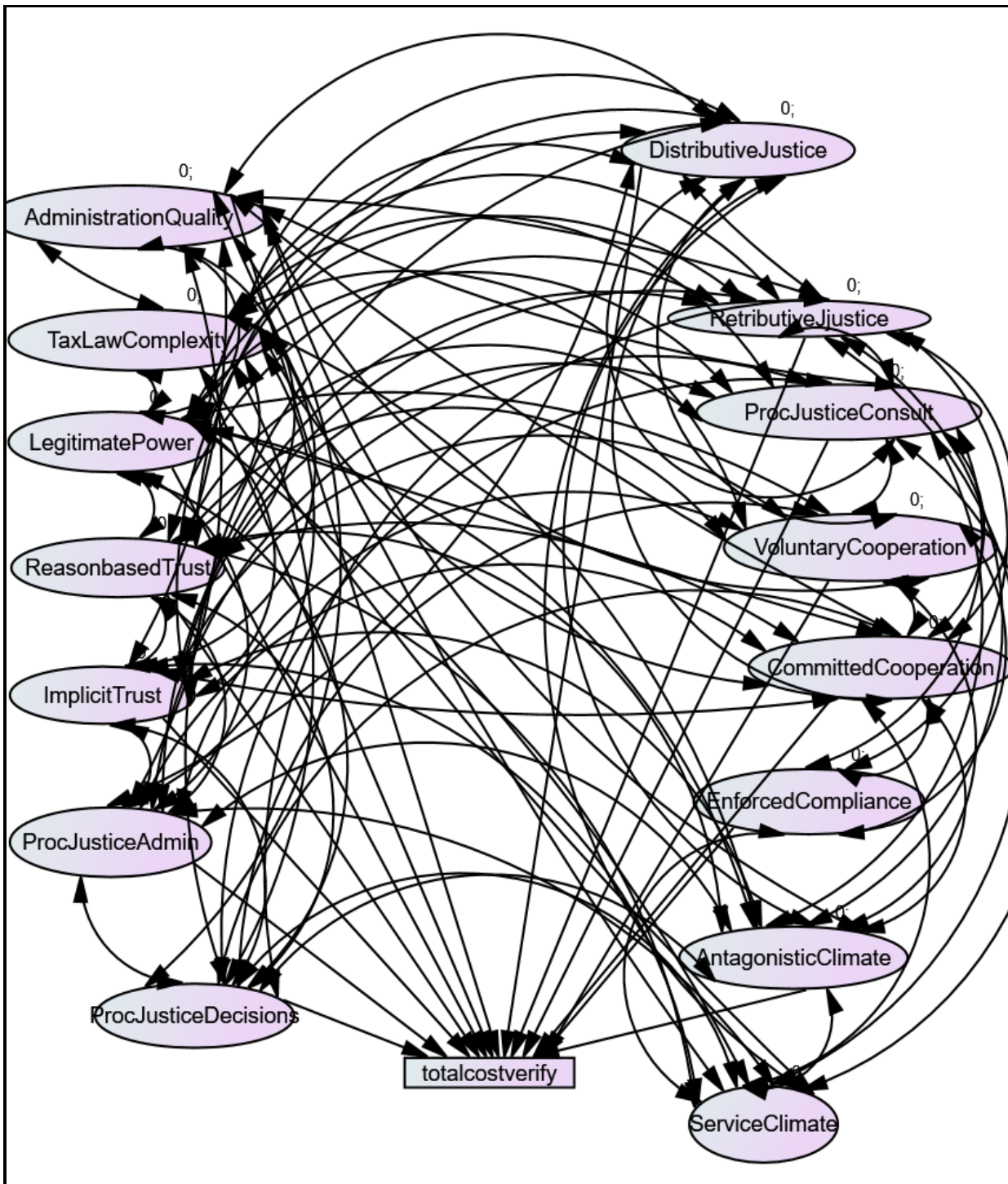
perception of enforced compliance from SARS, the incurrence of tax-related penalties and interest, and the perception of retributive justice (a proxy for coercive power) from SARS. Conversely, a tendency towards decreased tax compliance costs was linked to the following independent variables: the perception of an antagonistic climate between SMMEs and SARS, the perception of procedural justice (administrative procedures of SARS), the implicit trust SMMEs have in SARS, and whether the SMME operated in the Agriculture, Forestry and Fishing and Manufacturing sectors. Focusing on the SSF constructs only, it seems that the power constructs identified in the analysis increased tax compliance costs, while the trust constructs identified decreased tax compliance costs.

7.3. The effect of the use of power by SARS and trust in SARS on SMMEs' tax compliance costs

The determinants of tax compliance costs were identified through regression analysis. This analysis included both business characteristics and SSF constructs (as composite scores). Composites for each of the SSF constructs were used based on the results of the exploratory factor analysis (see Table 7.5). Considering that the included SSF constructs each consisted of a set of items, the researcher took the investigation further by using a SEM analysis to understand the relationships between the SSF constructs and their relationship to tax compliance costs. Because measurement error is considered at item level, this technique provides an advantage over regression analysis (Schumacker & Lomax 2010: 7).

Following on from the regression analysis, the SEM analysis was conducted to determine the structural paths (size and direction of relationship) from each SSF construct to total tax compliance costs, taking into account and providing the direction and strength of the covariance relationships between the SSF constructs. The research model (Model 1), as depicted in Figure 7.17, was tested using SEM. Model 1 included all the SSF constructs as exogenous variables, and total tax compliance costs as the endogenous variable. The results are graphically presented in Figure 7.17. Model 1 contains only statistically significant covariance relationships between the exogenous constructs as indicated by two-sided arrows in Figure 7.17. The paths from each construct to the dependant variable (total tax compliance costs) are indicated by a single sided arrow.

Figure 7.17: Testing the relationship between the SSF factors and total tax compliance costs (Model 1)



Source: Own computation from data collected

The goodness-of-fit indices and the associated threshold values presented in each column

in Table 7.7 were applied to establish the goodness-of-fit of Model 1.

Table 7.7: Goodness-of-fit indices of Model 1

Model	CMIN (X ²)	df	P	CMIN/df	RMSEA	CFI	TLI	IFI
Model 1	7948.0	2745	0.000	2.895	0.05	0.884	0.876	0.884
Indicate acceptable fit	-	-	-	<3 or <5	≤0.08	≥0.90	≥0.90	≥0.90

Source: Own computation from data collected

When Model 1 was fitted to the data, the RMSEA was good, at 0.05, but the CFI (0.884), TLI (0.876) and IFI (0.884) were slightly below 0.90, and CMIN/df (2.895) fitted the data under the threshold of <3. However, various authors have indicated that a value above 0.8 for CFI, TLI and IFI is permissible for structural equation models (Wisting, Wonderlich, Skrivarhaug, Dahl-Jørgensen & Rø 2019: 3; Hu & Bentler 2009: 4). In addition, inconsistent fit indices have been found to be common in applications of SEM, and are not diagnostic of problems in model specification or data (Lai & Green 2016: 233). Lastly, according to Kenny (2014), if the RMSEA for the null model is less than 0.158, an incremental measure of fit may not be very informative, because mathematically, a value of 0.9 for the TLI cannot be reached. The current RMSEA value of 0.141 for the null model is smaller than 0.158, which indicate that the TLI cannot reach 0.9 in this model. No further improvement was considered, as all items with loadings less than 0.5 had been deleted from the analysis.

Therefore, the relationships indicated in Model 1 (Figure 7.17) were interpreted and represented in the research hypothesis set for Model 1. Table 7.8 presents the structural parameter estimates, namely the standardized regression weights, between the SSF constructs and the total tax compliance costs.

Table 7.8: Structural path coefficients of Model 1

Relationships			Standardised regression weights and statistical significance
Total tax compliance costs	<---	Procedural justice (decisions)	0.157
Total tax compliance costs	<---	Procedural justice (admin)	-0.082
Total tax compliance costs	<---	Implicit trust	-0.221*
Total tax compliance costs	<---	Service & confidence climate	-0.052
Total tax compliance costs	<---	Reason-based trust	0.001
Total tax compliance costs	<---	Legitimate power	0.145**
Total tax compliance costs	<---	Tax law complexity	0.077
Total tax compliance costs	<---	Administration quality	-0.013
Total tax compliance costs	<---	Distributive justice	-0.167
Total tax compliance costs	<---	Retributive justice	0.116*
Total tax compliance costs	<---	Procedural justice (consultation)	-0.114 ^A
Total tax compliance costs	<---	Committed cooperation	0.035
Total tax compliance costs	<---	Enforced compliance	0.089*
Total tax compliance costs	<---	Voluntary cooperation	0.020
Total tax compliance costs	<---	Antagonistic climate	-0.188***
*** Significant at a 0.1% level of significance (p-value <0.001)			
** Significant at a 1% level of significance (p-value <0.01)			
* Significant at a 5% level of significance (p-value <0.05)			
A Significant at a 10% level of significance (p-value <0.1)			

Source: Own computation from data collected

The results reported in Table 7.8 indicate weak relationships between total tax compliance costs and the following:

- Antagonistic climate – negatively weak ($\beta = -0.188$; $p < 0.001$);
- Enforced compliance – positively weak ($\beta = 0.089$; $p < 0.05$);
- Retributive justice – positively weak ($\beta = 0.116$; $p < 0.05$);
- Legitimate power – positively weak ($\beta = 0.145$; $p < 0.01$);
- Implicit trust – negatively weak ($\beta = -0,221$; $p < 0.05$); and
- Procedural justice (consultation) – negatively weak ($\beta = -0.114$; $p < 0.1$).

From the above, it is clear that a higher score in the Antagonistic climate, Implicit trust and Procedural justice (consultation) constructs was associated with a lower total tax compliance costs value. By contrast, the Enforced compliance, Retributive justice, and Legitimate power constructs indicated a positive weak relationship with total tax compliance costs. A higher

score for these constructs was associated with a higher value in tax compliance costs.

Table 7.9 shows the correlations between the exogenous constructs, all statistically significant at a 0.1% level of significance, except between Committed cooperation and Antagonistic climate (5%) and Voluntary cooperation and Administration quality (1%).

Table 7.9: Structural parameters estimated: Correlations of Model 1

			Estimate
Administration quality	<-->	Tax law complexity	0.577
Legitimate power	<-->	Administration quality	0.504
Administration quality	<-->	Reason-based trust	0.75
Implicit trust	<-->	Administration quality	0.718
Administration quality	<-->	Procedural justice (admin)	0.697
Administration quality	<-->	Procedural justice (decisions)	0.652
Procedural justice (decisions)	<-->	Procedural justice (admin)	0.889
Implicit trust	<-->	Procedural justice (admin)	0.879
Implicit trust	<-->	Reason-based trust	0.848
Legitimate power	<-->	Reason-based trust	0.621
Tax law complexity	<-->	Reason-based trust	0.565
Implicit trust	<-->	Tax law complexity	0.574
Tax law complexity	<-->	Procedural justice (admin)	0.667
Procedural justice (decisions)	<-->	Tax law complexity	0.615
Implicit trust	<-->	Legitimate power	0.575
Legitimate power	<-->	Procedural justice (admin)	0.603
Legitimate power	<-->	Procedural justice (decisions)	0.593
Reason-based trust	<-->	Procedural justice (admin)	0.833
Procedural justice (decisions)	<-->	Reason-based trust	0.802
Implicit trust	<-->	Procedural justice (decisions)	0.812
Legitimate power	<-->	Tax law complexity	0.426
Distributive justice	<-->	Retributive justice	-0.464
Voluntary cooperation	<-->	Distributive justice	0.249
Distributive justice	<-->	Committed cooperation	0.316
Distributive justice	<-->	Service & confidence climate	0.68
Committed cooperation	<-->	Enforced compliance	-0.276
Voluntary cooperation	<-->	Committed cooperation	0.694
Retributive justice	<-->	Committed cooperation	-0.121
Retributive justice	<-->	Enforced compliance	0.179
Retributive justice	<-->	Service & confidence climate	-0.394
Voluntary cooperation	<-->	Enforced compliance	-0.231
Voluntary cooperation	<-->	Service & confidence climate	0.309
Committed cooperation	<-->	Service & confidence climate	0.302
Voluntary cooperation	<-->	Procedural justice (consult)	0.155
Retributive justice	<-->	Procedural justice (consult)	-0.387

			Estimate
Distributive justice	<-->	Procedural justice (consult)	0.688
Committed cooperation	<-->	Procedural justice (consult)	0.173
Enforced compliance	<-->	Procedural justice (consult)	0.102
Service & confidence climate	<-->	Procedural justice (consult)	0.577
Administration quality	<-->	Distributive justice	0.59
Administration quality	<-->	Retributive justice	-0.355
Administration quality	<-->	Procedural justice (consult)	0.53
Administration quality	<-->	Voluntary cooperation	0.117
Administration quality	<-->	Committed cooperation	0.178
Administration quality	<-->	Service & confidence climate	0.507
Tax law complexity	<-->	Distributive justice	0.649
Tax law complexity	<-->	Retributive justice	-0.285
Tax law complexity	<-->	Voluntary cooperation	0.18
Tax law complexity	<-->	Committed cooperation	0.178
Tax law complexity	<-->	Service & confidence climate	0.465
Legitimate power	<-->	Distributive justice	0.617
Legitimate power	<-->	Retributive justice	-0.224
Legitimate power	<-->	Procedural justice (consult)	0.461
Legitimate power	<-->	Committed cooperation	0.19
Legitimate power	<-->	Service & confidence climate	0.411
Reason-based trust	<-->	Distributive justice	0.773
Reason-based trust	<-->	Retributive justice	-0.391
Reason-based trust	<-->	Procedural justice (consult)	0.619
Reason-based trust	<-->	Voluntary cooperation	0.197
Reason-based trust	<-->	Service & confidence climate	0.616
Implicit trust	<-->	Distributive justice	0.775
Implicit trust	<-->	Retributive justice	-0.434
Implicit trust	<-->	Procedural justice (consult)	0.661
Implicit trust	<-->	Voluntary cooperation	0.178
Implicit trust	<-->	Committed cooperation	0.189
Implicit trust	<-->	Service & confidence climate	0.635
Procedural justice (admin)	<-->	Distributive justice	0.853
Procedural justice (admin)	<-->	Retributive justice	-0.461
Procedural justice (admin)	<-->	Procedural justice (consult)	0.742
Procedural justice (admin)	<-->	Voluntary cooperation	0.208
Procedural justice (admin)	<-->	Committed cooperation	0.239
Procedural justice (admin)	<-->	Service & confidence climate	0.687
Procedural justice (decisions)	<-->	Service & confidence climate	0.65
Procedural justice (decisions)	<-->	Committed cooperation	0.222
Procedural justice (decisions)	<-->	Voluntary cooperation	0.188
Procedural justice (decisions)	<-->	Procedural justice (consult)	0.672
Procedural justice (decisions)	<-->	Distributive justice	0.841
Legitimate power	<-->	Voluntary cooperation	0.2
Procedural justice (decisions)	<-->	Retributive justice	-0.458
Tax law complexity	<-->	Procedural justice (consult)	0.578

			Estimate
Reason-based trust	<-->	Committed cooperation	0.256
Antagonistic climate	<-->	Service & confidence climate	-0.364
Antagonistic climate	<-->	Enforced compliance	0.2
Antagonistic climate	<-->	Committed cooperation	-0.07
Antagonistic climate	<-->	Procedural justice (consult)	-0.281
Antagonistic climate	<-->	Retributive justice	0.627
Antagonistic climate	<-->	Distributive justice	-0.382
Antagonistic climate	<-->	Procedural justice (decisions)	-0.411
Antagonistic climate	<-->	Procedural justice (admin)	-0.38
Antagonistic climate	<-->	Implicit trust	-0.382
Antagonistic climate	<-->	Reason-based trust	-0.343
Antagonistic climate	<-->	Legitimate power	-0.238
Antagonistic climate	<-->	Tax law complexity	-0.246
Antagonistic Climate	<-->	Administration quality	-0.27

Source: Own computation from data collected

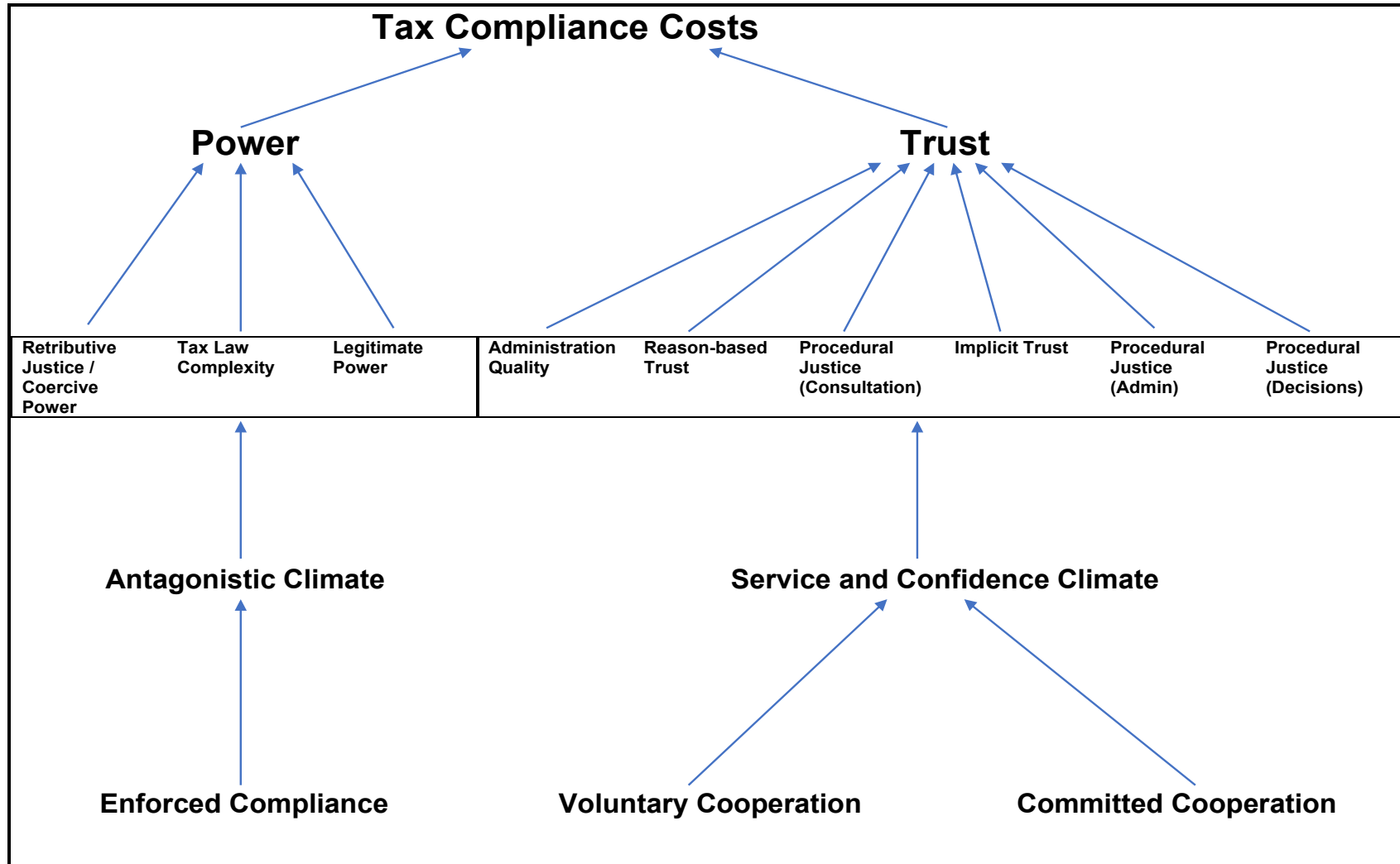
All the correlations with an estimate between 0 and 0.2 must be considered very weak, those between 0.2 to 0.4 weak, between 0.4 to 0.6 moderate, between 0.6 to 0.8 strong, and above 0.8 very strong (Alsaqr 2021; Akoglu 2018). Strong correlations were found between the following constructs: Administration quality and Reason-based trust (0.75), Implicit trust and Administration quality (0.718), Administration quality and Procedural justice (admin) (0.97), Administration quality and Procedural justice (decisions) (0.652), Legitimate power and Reason-based trust (0.621), Tax law complexity and Procedural justice (admin) (0.667), Procedural justice (decisions) and Tax law complexity (0.615), Legitimate power and Procedural justice (admin) (0.603), Distributive justice and Service and confidence climate (0.68), Voluntary cooperation and Committed cooperation (0.694), Distributive justice and Procedural justice (consult) (0.688), Tax law complexity and Distributive justice (0.649), Legitimate power and Distributive justice (0.617), Reason-based trust and Distributive justice (0.773), Reason-based trust and Procedural justice (consult) (0.619), Reason-based trust and Service and confidence climate (0.616), Implicit trust and Distributive justice (0.775), Implicit trust and Procedural justice (consult) (0.661), Implicit trust and Service and confidence climate (0.635), Procedural justice (admin) and Procedural justice (consult) (0.742), Procedural justice (admin) and Service and confidence climate (0.687), Procedural justice (decisions) and Service and confidence climate (0.65), Procedural justice (decisions) and Procedural justice (consult) (0.672), and finally between Antagonistic climate and Retributive justice (0.627).

Very strong correlations were found between the following constructs: Procedural justice (decisions) and Procedural justice (admin) (0.889), Implicit trust and Procedural justice (admin) (0.879), Implicit trust and Reason-based trust (0.848), Reason-based trust and Procedural justice (admin) (0.833), Procedural justice (decisions) and Reason-based trust (0.802), Implicit trust and Procedural justice (decisions) (0.812), Procedural justice (admin) and Distributive justice (0.853), and finally between Procedural justice (decisions) and Distributive justice (0.841).

After testing the relationship between the SSF constructs and total tax compliance costs (Model 1), it was decided to investigate the influence of the interaction between SARS and SMMEs on the perception of the power of SARS and/or trust in SARS and the subsequent effect of power and/or trust on tax compliance costs. However, it is submitted that the perception of the power of and trust in SARS may be influenced by other factors, as set out in the study's theoretical framework in Section 2.4. Therefore, these factors and their influence on power and trust were included in the SEM analysis set out in Model 2, which is also based on the extended SSF, as described below. Model 2 is presented in Figure 7.19. Model 2 is based on the conceptual relationships depicted in Figure 7.18 (see Sections 2.3.5 and 4.5.1 for a discussion of the basis of this relationship).

Figure 7.18 shows that the effect of power and trust on tax compliance costs was investigated through testing the structural paths. Power and trust are influenced by several factors, as described in Section 2.3.5. Therefore, following the extended SSF, the influence of power of and/or trust in SARS on SMMEs' tax compliance costs was tested by investigating the structural paths. It is submitted that perceptions of power and trust result from the climate between SARS and SMMEs (antagonistic, service or confidence), which in turn stems from the type of compliance from SMMEs (enforced, voluntary or committed).

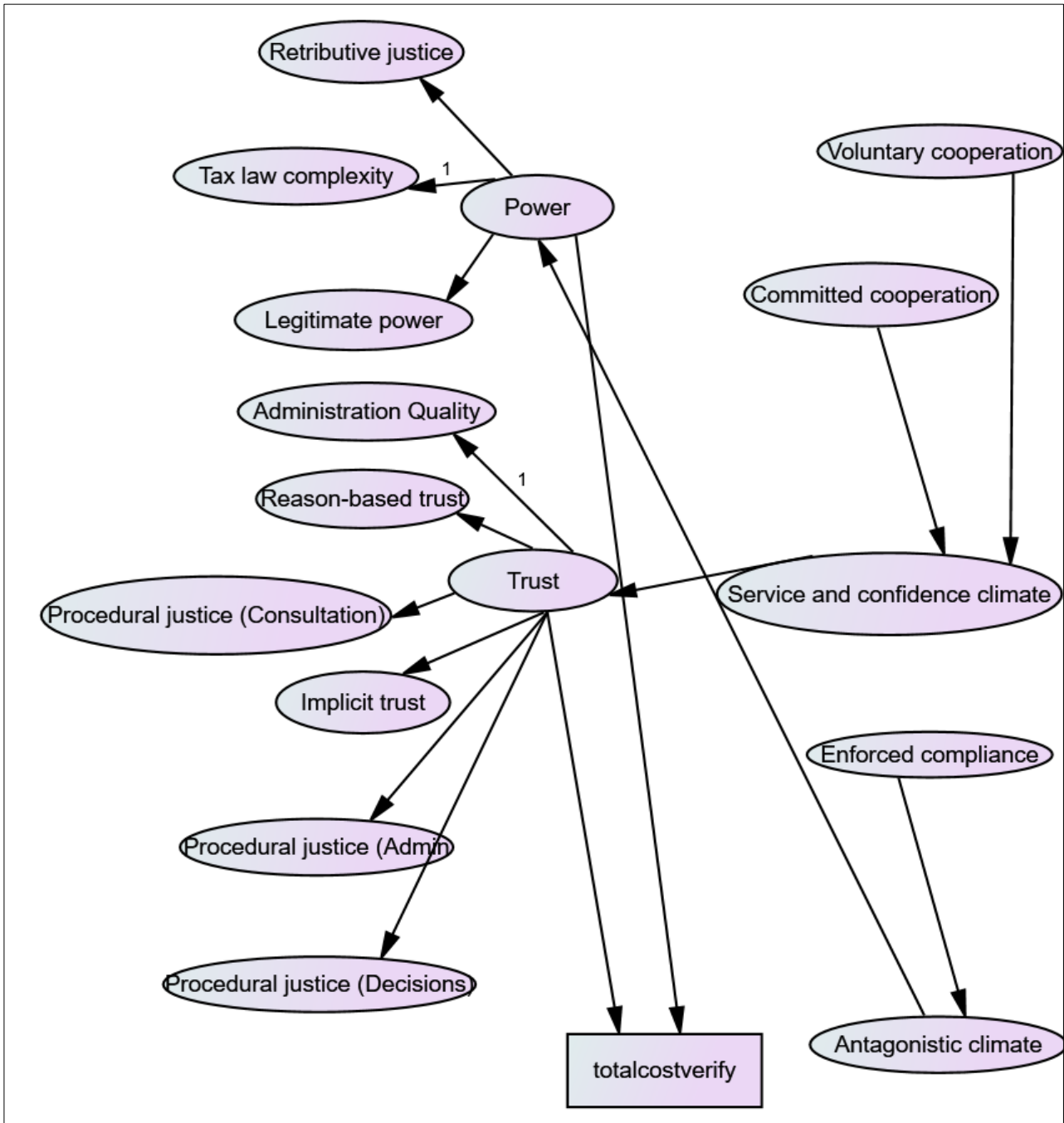
Figure 7.18: Conceptual relationships



Source: Gangl et al. (2012: 15) and own computation from data collected

The results of Model 2 are graphically presented in Figure 7.19.

Figure 7.19: Testing the effect of power and trust on tax compliance costs (Model 2)



Source: Own computation from data collected

The goodness-of-fit indices and the threshold values presented in each were applied to establish the goodness-of-fit of Model 2.

Table 7.10: Goodness-of-fit indices of Model 2

Model	CMIN (X ²)	df	P	CMIN/df	RMSEA	CFI	TLI	IFI
Model 2	7915.0	2683	0.000	2.950	0.05	0.880	0.875	0.880
Indicate acceptable fit	-	-	-	<3 or <5	≤0.08	≥0.90	≥0.90	≥0.90

Source: Own computation from data collected

When the structural model was fitted to the data, the RMSEA was good, at 0.05 and 0.0580, the CFI (0.880), TLI (0.875) and IFI (0.880) were slightly below 0.90, and CMIN/df (2.95) fitted the data under the threshold of <3. As has been discussed in relation to Model 1, various authors have indicated that a value above 0.8 for CFI, TLI and IFI is permissible for SEM. Therefore, the relationships indicated in Model 2 (Figure 7.19) were interpreted and represented in the research hypothesis set for Model 2. Table 7.11 presents the structural path coefficients, namely the standardized regression weights.

Table 7.11: Structural path coefficients of Model 2

Relationships			Standardised regression weights and statistical significance
Antagonistic climate	<---	Enforced compliance	0.239***
Service & confidence climate	<---	Voluntary cooperation	0.229***
Service & confidence climate	<---	Committed cooperation	0.136*
Trust	<---	Service & confidence climate	0.712***
Power	<---	Antagonistic climate	-0.842***
Total tax compliance costs	<---	Power	0.050
Total tax compliance costs	<---	Trust	-0.273***
*** Significant at a 0.1% level of significance (p-value <0.001) ** Significant at a 1% level of significance (p-value <0.01) * Significant at a 5% level of significance (p-value <0.05)			

Source: Own computation from data collected

The results reported in Table 7.11 indicate the following relationships:

- the relationship between Total tax compliance costs and Power was very weak and not statistically significant ($\beta = 0.050$; $p > 0.05$);

- the relationship between Total tax compliance costs and Trust was negative and moderate, and statistically significant ($\beta = -0.273$; $p < 0.001$);
- the relationship between Service and confidence climate and Trust was positive and strong, and statistically significant ($\beta = 0.712$; $p < 0.001$);
- the relationship between Antagonistic climate and Power was negative and strong, and statistically significant ($\beta = -0.842$; $p < 0.001$);
- the relationship between Committed cooperation and the Service and confidence climate was positive and weak, and statistically significant ($\beta = 0.136$; $p < 0.05$);
- the relationship between Voluntary cooperation and the Service and confidence climate was positive and weak, and statistically significant ($\beta = 0.229$; $p < 0.001$); and
- the relationship between Enforced compliance and Antagonistic climate was positive and weak, and statistically significant ($\beta = 0.239$; $p < 0.001$).

From these results, it appears that an increase in enforced compliance leads to an increased antagonistic climate (although the relationship is positive and weak). An antagonistic climate reduces the perception of the power of SARS (the relationship is negative and strong). Still, this perception of the power of SARS and total tax compliance costs is not statistically significant, implying that an increased use of its powers by SARS does not have a statistically significant impact on the total tax compliance costs.

However, contrary to this result, the relationship between voluntary cooperation and committed cooperation by taxpayers to a service and confidence climate was positive and weak (but statistically significant), which indicates that voluntary cooperation and committed cooperation lead to an increased service and confidence climate. Furthermore, increased levels regarding a service and confidence climate appear to lead to an increased perception of trust in SARS (there was a positive and strong relationship). Finally, and most importantly, a higher level of trust in SARS seemed to reduce tax compliance costs (there was a negative and moderate relationship).

7.4. Conclusion

The chapter has analysed the determinants of tax compliance costs and the effect of the

use of power by SARS and trust in SARS on SMMEs' tax compliance costs. Based on the introductory questions dealing with the respondents' perceptions of their tax compliance burden, it seems that almost half of respondents had not experienced any noticeable change to their tax compliance burden during the preceding five years, and only a few reported a decrease in their tax compliance burden. According to the respondents, income tax was the most burdensome in terms of compliance costs, followed by VAT, employment-related taxes, customs and excise, and withholding taxes. From the list of determinants of tax compliance costs (obtained from the literature) provided to respondents, respondents perceived the determinant that most influenced tax compliance costs to be "Compliance and regulatory tax requirements imposed by SARS".

Because risk management was identified in the literature as a possible determinant of tax compliance costs, a question (listing 10 items dealing with the extent of tax risk management, the strategy and governance processes of the business), was posed to respondents to determine the extent of this factor as a determinant of tax compliance costs, and then a composite score was calculated for regression analysis purposes to calculate a single composite risk score. Thereafter, an analysis of the open-ended questions was done to identify any other possible determinants of tax compliance costs. The suggestions and comments from the respondents were categorised under several categories, and, where possible, discussed in relation to the study's theoretical framework. In preparation for a regression analysis, the respondents' responses to the "interaction with SARS" questions were descriptively analysed and briefly discussed. Thereafter, an exploratory factor analysis was performed to determine whether there was an underlying factor structure. The identified underlying factor structure was subsequently used in the regression and SEM analyses.

In order to address the second research objective of the study (to ascertain the determinants of the tax compliance costs for SMMEs in South Africa), a regression analysis was conducted. It was determined that there were some statistically significant determinants of tax compliance costs:

- The number of employees employed by an SMME was the first. SMMEs in the other categories had a tendency to pay more than the reference category (1-5 employees) for tax compliance costs.

- Some SSF constructs stood out. A positive perception from respondents of the service and confidence climate with SARS and a positive procedural justice (admin) perception of SARS are related to a decrease in total tax compliance costs. By contrast, a higher perception of the legitimate power of SARS was associated with an increase in total tax compliance costs. A higher perception of enforced compliance from SARS also indicated increased tax compliance costs. Finally, an higher perception of the presence of retributive justice (a proxy for coercive power) indicated increased tax compliance costs.
- The risk management score was a statistically significant determinant. The higher the risk management score of an SMME, the higher its tax compliance costs.
- The incurrence of tax-related penalties and interest was another statistically significant determinant. SMMEs that incurred tax-related penalties and interest during the financial year under review paid more for tax compliance costs than those who did not incur any tax-related penalties and interest.
- The sector in which an SMME operates was a statistically significant determinant. The analysis revealed that SMMEs operating in the Agriculture, Forestry and Fishing and Manufacturing sectors incurred lower tax compliance costs than SMMEs operating in other sectors.

The next section of the chapter focused on the effect of the power of and the trust in SARS on tax compliance costs. This SEM analysis was done by determining the structural paths (size and direction of relationship) from each SSF construct to total tax compliance costs, taking into account the direction and strength of the covariance relationships between the SSF constructs. The first SEM analysis set out in Model 1 established that a higher score in the antagonistic climate, implicit trust and procedural justice (consultation) constructs was associated with a lower value in total tax compliance costs. In contrast, the enforced compliance, retributive justice, and legitimate power constructs indicated a positive weak relationship with total tax compliance costs. A higher score for these constructs was associated with a higher value in tax compliance costs.

The investigation of the influence of power and trust on tax compliance costs on the perception of respondents on the different forms of power – coercive power and legitimate power, and the two forms of trust (reason-based and implicit trust) – showed that the use of power by SARS did not have a statistically significant impact on total tax compliance costs.

Finally, it was found that a higher level of trust in SARS appeared to lead to reduced tax compliance costs, fulfilling the last research objective of the study, which was to investigate the effect of the use of power by SARS and/or trust in SARS on SMMEs' tax compliance costs. The next chapter is the final chapter that summarizes the findings of the research.

CHAPTER 8: CONCLUSION

8.1. Introduction

In South Africa, as in the rest of the world, SMMEs are critical in expanding the economy, because they are responsible for a large percentage of total employment and therefore contribute significantly to economic growth. Given the importance of SMMEs for economic growth, it is a concern that various studies have confirmed that tax compliance costs for this sector are relatively high, compared to those costs for the large business sector. Furthermore, research has shown that high levels of tax compliance costs affect tax compliance behaviour negatively. Not knowing the level of tax compliance costs for SMMEs, especially in South Africa, could affect the economy if these costs are high, and if the reasons for these high costs are not addressed. Therefore, this study aimed to assess the tax compliance costs of SMMEs in South Africa and aspects surrounding these costs.

This chapter commences with a chapter-by-chapter overview of the study. This overview is followed by a summary of the research findings, in relation to the study's objectives, which were formulated to meet the aim of the study. After that, this study's theoretical, methodological, and practical contributions are highlighted. Lastly, the study's limitations are presented, with recommendations for future research, before concluding remarks are offered.

8.2. Overview of the study

The first chapter provided an introductory discussion of the scope of the current research. A background to the study was provided by highlighting the importance of SMMEs to a country's economy, but also noted the challenges faced by this sector from a regulatory compliance perspective. Next, the chapter discussed the rationale for the study, the problem statement, the aim and objectives of the research, the delineation and scope of the study, and the research methodology used. Finally, key terms and concepts were defined.

In Chapter 2, the various definitions for SMMEs from an international and local perspective were considered. The definition used for the purposes of this study was then established. Next, the constructs “tax compliance costs” and “tax compliance behaviour” were described. In addition, the theories underpinning tax compliance costs and tax compliance behaviour were discussed, and the relationship between tax compliance costs and taxpayer behaviour was explored. The SSF was introduced to investigate the influence of the interaction between SARS and SMMEs on tax compliance costs and, more specifically, to explore the effect of the perception of the power of SARS and/or trust in SARS on SMMEs’ tax compliance costs. Lastly, a theoretical framework for this study was presented.

A literature review of research conducted internationally and in South Africa on SMME tax compliance costs and these studies’ primary outcomes and recommendations was presented in Chapter 3. The elements, measurement, and determinants of tax compliance costs from previous research studies conducted were also discussed. The review established that a quantitative approach using a survey technique would be appropriate for the current research. The review also highlighted that tax compliance costs are regressive and high, and that they have a significant impact on SMMEs. Because of the high levels of tax compliance costs and the impact of these costs on SMMEs, continuous research in the area of tax compliance costs and the effect of these costs on SMMEs is frequently recommended by researchers. Lastly, the review of the findings highlighted the gap in the literature about research on SMMEs’ tax compliance costs and the need for the current study in the South African context. Specifically, some gaps in the literature were identified: there was no prior research in which the total tax compliance costs (prior to and after filing of a tax return) and their determinants in respect of the SMME sector as a whole were measured and identified (medium businesses were excluded in previous research), nor had the effect of the power of SARS and/or trust in SARS on SMMEs’ tax compliance costs been evaluated.

The research methodology of this study was set out in Chapter 4. This chapter described the researcher’s philosophical stance (positivism) and the functionalist paradigm that the current research fits into. Next, the choice of a research design was described (quantitative), and the target population (SMMEs with a turnover of below R250 million) was established. After that, the decision to use an online survey as a data collection method in the current

study was discussed and defended. A detailed discussion was provided on how the questionnaire was designed, developed and improved by undertaking pilot testing. The number of usable responses received was contextualised in relation to the population, after which the statistical tests and techniques used for the data analysis were also described. Strategies employed to ensure valid and reliable data were presented and the possibility of non-response bias investigated. Lastly, the relevant ethical considerations relevant to this study were considered.

Chapter 5 analysed and presented the business characteristics of SMMEs, the use of small business tax concessions by them, and the profile of respondents to understand the responses provided to specific questions in the survey better, and possibly assist with the interpretation of some of the results. However, because the demographic information of the total SMME population in the SARS database (used for this study) was not available to the researcher, the researcher was unable to weight the results to ensure that they would be representative of the total population. This situation forced the researcher to compare the results obtained from the survey, where possible, with the latest published statistics and information available on all businesses. It was found that the respondents' businesses were, to a large extent, in line with those in the total population of SMMEs in South Africa. After that, the chapter investigated the use, general attitude, and respondents' perceptions of the usefulness and complexity of small business tax concessions. The final section of the chapter reviewed the profile of the respondents by investigating the respondents' position in the SMME, their level of education and accounting knowledge.

Chapter 6 presented the analyses of the empirical data related to the measurement of the tax compliance costs of SMMEs in South Africa and the calculations of these compliance costs, based on the survey data collected for the financial year ending between 1 April 2018 and 31 March 2019. The tax compliance costs were measured by first calculating the internal tax compliance costs, then the non-labour tax compliance costs, and finally the external tax compliance costs. The internal tax compliance costs considered the time spent per tax type, per tax activity and per category of person who performs the activity for an SMME. Thereafter the time spent was converted to a Rand value, using an applicable hourly rate to estimate the internal tax compliance costs for an SMME. Non-labour costs, which comprised of overhead costs associated with tax personnel performing tax compliance activities, were

measured next. The final component of tax compliance costs, external tax compliance costs, was measured by asking respondents how much they paid for tax services to external tax service providers. The total tax compliance costs were then calculated by adding the internal, non-labour and external costs together. Where applicable, the results were also analysed per turnover group (micro, small, and medium), which confirmed the regressivity of tax compliance costs.

In Chapter 7, the determinants of SMMEs' tax compliance costs were ascertained using a regression analysis. Prior to the regression analysis, respondents' perceptions on the business and tax environment, risk management and the "interaction with SARS" questions were descriptively analysed and briefly discussed. A regression analysis was performed on the demographic and SSF constructs (as composite scores). The open-ended questions in the survey were also discussed. Due to the fact that the SSF constructs each consisted of a set of items, a SEM analysis was subsequently performed to understand the relationships between the SSF constructs and their relationship to tax compliance costs. This SEM analysis, based on the extended SSF, was done to investigate the effect of the power of SARS and/or trust in SARS, resulting from the interactive relationship between SARS and SMMEs, on SMMEs' tax compliance costs.

8.3. Summary of the research findings

This section synthesises the empirical findings to show whether the research aim and objectives were met. This study aims to assess the tax compliance costs for South African SMMEs. Therefore, the first step was to establish a definition for an SMME for the purposes of this study. To achieve the aim of the study, three research objectives were established. The first objective was to measure the tax compliance costs of SMMEs in South Africa. The second objective was to ascertain the determinants of the tax compliance costs for SMMEs in South Africa. Lastly, the third objective was to investigate the effect of the power of SARS and/or trust in SARS on SMMEs' tax compliance costs.

8.3.1. *Establishing a definition for an SMME for the purposes of this study*

Establishing a definition for an SMME for the purposes of this study was achieved by first examining the international economic perspective of these businesses and the local South African economic and taxation perspective of an SMME. Internationally, the size of a business is often categorised based on annual sales/turnover, assets, number of employees, capital and investment, or any combination of these. However, from an international perspective no precise definition of an SMME that may be used as a universal benchmark to classify SMMEs was found in the literature (see Section 2.2.1). This finding was confirmed by the analysis note in the MSME Country Indicators, which states that 267 definitions for MSMEs were registered for 155 economies, indicating not only that there are many definitions for classifying businesses, but that in many countries more than one definition is used (Gonzales et al. 2014: 5).

Similar to the international economic perspective, it was found that it would be difficult to derive any universal or precise definition of an SMME from a South African economic perspective that could be used as a benchmark to classify SMMEs. Even though an all-inclusive definition for an SMME was provided in the *National Small Enterprise Act* (depending on the sector a business operates in), it was found that some South African institutions, such as the DTI, use only turnover for size classification purposes, and that entities are classified per size for B-BBEE purposes using turnover only. Because the study focuses on tax compliance costs, the size classification of entities from a South African taxation perspective was considered next.

From a South African taxation perspective, it was found that, except for micro businesses registered for the turnover tax and SBCs, no parameters are given in South African tax legislation in terms of how the size of a business is to be determined. Therefore, it was necessary to review the qualifying criteria for each of these small business tax concessions or incentives to determine which qualifying criteria might be best suited to establish a definition for SMMEs for the purposes of this study. This review found that no single consistent SMME definition was available in South Africa from a tax perspective. In addition, determining whether a business qualifies for the small business tax concessions or incentives available in South Africa requires a business to review each tax statute and the

corresponding criteria. It appeared that turnover was the dominant qualifying criterion used in determining whether a business qualifies for small business tax concessions or incentives.

After considering all the above and recognising the limitations of using turnover as the only criterion to classify a business in terms of size, it was thought appropriate to use turnover to determine whether a business qualifies as an SMME for the current study. This decision to use turnover was validated by the results of the cross-tabulation used to determine the association between turnover and the number of individuals employed by the respondents (see Section 5.2.7). Regarding the turnover limit, it was deemed appropriate to use the lowest value for large businesses used by Statistics South Africa for quarterly financial statistics purposes as the highest level for SMMEs. It was then decided that SMMEs should be classified as businesses with a turnover of less than R250 million for this study.

8.3.2. *Measuring SMMEs' tax compliance costs*

The first research objective of this study was to measure the tax compliance costs incurred by SMMEs in South Africa in meeting their tax obligations. Tax compliance costs can be categorised into internal, non-labour, and external tax compliance costs. In this study, internal tax compliance costs are the costs of labour or time spent on tax compliance activities by the owner(s) of the SMME, an employee and/or an unpaid friend or relative of the SMME or its owner. These tax compliance activities included learning and understanding the tax law and the obligations that the law imposes on a business, and the time required to obtain documents and data to complete a tax return, submit tax returns, pay taxes, and any other post-tax return submission activities. Non-labour costs are incidental costs incurred by the SMME's personnel who deal with tax compliance activities, including expenses such as software, stationery, postage, telephone, seminars, and travel. Finally, external costs are the costs paid to an external service provider to provide the SMME with tax services in order for the SMME to be tax compliant. It must be noted that due to the difficulty of quantifying psychological costs, these costs were not included in the quantification of total tax compliance costs in this study, resulting in the estimated total tax compliance costs potentially being underestimated. The results relating to the measurement of these three categories of tax compliance costs are discussed below.

The internal tax compliance costs were quantified by first establishing the time (in hours) taken internally (per tax type, tax compliance activity and type of employee) to comply with tax legislation. These hours were then multiplied by externally verified rates. This multiplication provided the Rand values of the internal tax compliance costs for SMMEs. If an SMME formed part of a group structure and incurred internal tax compliance costs because of this relationship, these costs were also added to the cost calculated above. The results show that the amount of time spent internally on tax-related activities depended on a business's size. As the turnover of businesses increases, so does the internal time spent on tax-related activities.

In analysing the results, it was estimated that SMMEs spent on average **R68 643** (5% trimmed mean) on **internal tax compliance costs**. The 5% trimmed mean was used because it methodically removes the worst distortions that can arise from a small number of extremely high and extremely low values and delivers results that are more helpful in detecting change over time than non-trimmed means. Approximately 40% of the total internal costs of tax compliance was attributable to income tax, with VAT as the second-highest portion of the total internal costs of tax compliance (35%), followed by employment-related taxes (20%). Withholding taxes, and customs and excise both account for the remaining internal tax compliance costs. From an analysis of these results according to the three different business sizes (micro, small and medium), it emerged that income tax was the tax type on which micro businesses incurred, on average, most of their internal tax compliance costs. For small and medium businesses, however, VAT compliance costs were higher than their income tax compliance costs.

For comparison purposes, in the current study, a micro and small business group (businesses with a turnover of R0 to R20 million) was created and compared (where possible) to the small business results (adjusted for inflation) from a similar study conducted by Smulders et al. (2012). The comparison showed that the cost of complying with income tax and VAT found in the current study were very similar to those reported by Smulders et al. (2012). However, the cost of complying with employment-related taxes had decreased. Plausible explanations for this finding are improved technology and payroll software, better communication and education from SARS and the introduction of the electronic easyfile system. Businesses could also have reduced their workforce due to the current economic

climate and therefore had fewer employees to report on. Another reason may be that businesses had decided to outsource their payrolls to external tax practitioners.

The **non-labour costs** were measured by asking respondents to indicate the costs they incurred in respect of the following items in relation to their tax personnel: office space and or parking; furniture, fixtures and fittings; tax software; utilities; staff travel and tax conferences. The results indicate that SMMEs spent, on average, **R15 747** (5% trimmed mean) on non-labour costs related to tax compliance activities. When this was divided according to the different turnover groups, it also became clear that these costs increased as the size of the business increased.

External tax compliance costs consisted, for the purposes of this study, of the costs of a professional tax adviser (fees paid to accountants/lawyers/auditors) to assist with tax-related activities and obligations (see Section 2.3.1). Based on the analysis of the results, it was estimated that SMMEs spent an average of **R18 225** (5% trimmed mean) on **external tax compliance costs**. It is apparent that while the amount paid to external tax service providers for tax services is positively correlated with the business's turnover, the costs of outsourcing tax services as a percentage of turnover are regressive, as businesses with smaller turnovers spend disproportionately more than those with higher turnovers. The current study's finding suggests that the tax services costs of external tax service providers for the micro and small combined turnover group had, in fact, decreased since Smulders et al.'s (2012) study. Plausible explanations for this finding include the argument that services provided previously by external service providers are now performed in-house. It could also be that due to the improvement of accounting and tax-related software and other technology advances (such as e-filing enhancements), external tax service provider costs decreased.

After establishing the internal, non-labour and external tax compliance costs, the **total tax compliance costs** for SMMEs were calculated. The 5% trimmed mean amounted to **R105 609** for the financial year ending between 1 April 2018 and 31 March 2019. The 5% trimmed mean tax compliance costs per turnover group were also calculated. The results indicate that a micro business spent on average R43 226 on tax compliance costs, a small business R158 383 and a medium business R254 589.

8.3.3. *Ascertaining the determinants of SMMEs' tax compliance costs*

Once the tax compliance costs for SMMEs had been measured, the determinants of these costs were determined. The respondents' perceptions of determinants identified in the literature were analysed first. Then, an attempt was made to identify other possible determinants of tax compliance costs using the respondents' responses to the open-ended questions in the survey. Even though no other possible determinants were identified in the open-ended questions, it is evident that most of the respondents' comments followed the same trend and were similar for each question. Still, in general, respondents seemed to emphasise the importance of a customer-friendly, service-oriented revenue authority. Thereafter the respondents' perceptions about various issues affecting the climate of the interactions between SMMEs and SARS concerning all tax matters and tax types were investigated. The results of this analysis were used in the regression analysis. The regression analysis was finally performed to identify the possible determinants that could influence the tax compliance costs of SMMEs, in line with the second research objective of the study.

The regression analysis revealed the specific determinants that had a statistically significant effect on tax compliance costs of SMMEs. The following findings were recorded:

- The 50 - 100 employees category was the most significant determinant of tax compliance costs.
- A positive perception of the SSF construct "Antagonistic climate" was found to be related to decreased tax compliance costs.
- A positive perception of the SSF construct "Procedural justice (admin)" was related to decreased tax compliance costs.
- An increase in the perception of the SSF construct "Legitimate power" was indicative of an increase in tax compliance costs.
- The higher the risk management score of an SMME, the higher its tax compliance costs.
- A higher perception of enforced compliance from SARS indicates increased tax compliance costs.

- SMMEs that incurred tax-related penalties and interest during the financial year paid more for tax compliance costs than those who did not incur any tax-related penalties and interest.
- SMMEs operating in the Agriculture, Forestry and Fishing and Manufacturing sectors incurred lower tax compliance costs than SMMEs in the other sectors.
- Finally, an increased perception of the SSF construct “Retributive justice” (also a proxy for coercive power) was indicative of increased tax compliance costs.

8.3.4. *Investigating the effect of the power of SARS and/or trust in SARS on SMMEs’ tax compliance costs*

The third objective was to investigate the effect of the power of SARS and/or trust in SARS (resulting from the climate of interactions between SARS and SMMEs) on SMMEs’ tax compliance costs. To achieve this objective, a SEM analysis was performed, by determining the structural paths from each SSF construct to the total tax compliance costs, taking into account the direction and strength of the covariance relationships between the SSF constructs. Following the extended SSF, the influence of the power of and trust in SARS on tax compliance costs was investigated using the respondents’ perceptions of the different forms of power, namely coercive power and legitimate power, and the two forms of trust, namely reason-based and implicit trust. It was submitted that these different perceptions of power and trust result from the climate of interactions between SARS and SMMEs (antagonistic, service or confidence), which in turn stems from the type of compliance by SMMEs (enforced, voluntary or committed). The SEM analysis indicated that the use of power by SARS did not have a statistically significant impact on total tax compliance costs. However, a higher level of trust in SARS led to reduced tax compliance costs.

8.4. Contribution of the study

This study contributes at a theoretical, methodological and practical level to the body of knowledge on SMMEs’ tax compliance costs in South Africa.

8.4.1. *Theoretical contribution*

The literature relating to tax compliance costs (its measurement and determinants) is vast and comprehensive, and such research should be done continuously to investigate the impact of these costs on SMMEs. However, it was clear from the outset that there is no single definition for an SMME. If one wants to measure the tax compliance costs of SMMEs (or undertake any other research related to SMMEs, for that matter), one should know what an SMME is. Therefore, the study makes a theoretical contribution by establishing a definition for a South African SMME for the purposes of this study. Even though a definition was established, it is not without shortcomings, as indicated in Section 2.2.4. However, it provides a start, and more importantly, it may be used as a basis for future SMME tax compliance cost research.

Various studies on tax compliance costs have been conducted in South Africa (see Section 3.3), but the review of these studies showed that none of the previous studies attempted to measure *SMMEs'* tax compliance costs – in other words, these previous studies limited their research to small businesses, ignoring a vital segment of the SMME sector, namely medium business. Moreover, even though two studies measured post-filing tax compliance costs, these were done only in respect of small businesses. As a result, no research could be identified where post-filing tax compliance costs (for example, costs related to following up on tax refunds, reviews, audits, objections and appeals, etc.) were measured as part of the total tax compliance costs burden for SMMEs. Therefore, this research sought to fill this gap by estimating the pre- and post-filing tax compliance costs for SMMEs in South Africa. As a result of this study, the tax compliance costs of SMMEs in South Africa was measured, contributing to the body of knowledge relating to SMMEs' tax compliance costs.

Previous studies have also investigated determinants of tax compliance costs in South Africa, but the previous focus was on small businesses only. This study therefore contributes, firstly, by identifying the statistically significant determinants for tax compliance costs for SMMEs. Furthermore, in evaluating possible determinants of the tax compliance cost of SMMEs in South Africa in the context of the theoretical framework, it was shown that tax compliance costs might be influenced by a revenue authority's behaviour, which is discussed next.

No study was found investigating the effect of the power of SARS and/or trust in SARS on SMMEs' tax compliance costs in South Africa. In the theoretical framework presented in Chapter 2 (see Figure 2.8), the relationship between tax compliance costs and the power of and trust in SARS relevant to this study were considered in the light of the underlying theories. The standard economic model focuses on authorities' power to ensure tax compliance using measures such as penalties. By contrast, the social interaction model, built on tax morale, relies on a cooperative approach, with positive dimensions such as trust to improve tax compliance. These two models interact because revenue authorities use power and trust to ensure tax compliance. This theoretical framework points out that the use of power by revenue authorities and/or trust in revenue authorities may influence the tax compliance costs of SMMEs. The data analysis indicated that while the use of power has no statistically significant impact on tax compliance costs, the use of trust does have a significant impact, thereby contributing to the body of tax compliance costs knowledge.

8.4.2. *Methodological contribution*

The main methodological contribution of the research is the combination of the use of the SSF and the application of the SEM analysis to ascertain the effect of power by and/or trust in SARS on SMMEs' tax compliance costs, instead of performing only a regression analysis, as is usually done in tax compliance costs studies. SEM uses various models to investigate a series of dependent relationships among variables, with the primary goal of providing a way to test a theoretical model developed by the researcher (Schumacker & Lomax 2010: 2). This technique offers an advantage over first-generation statistical tools such as regression analysis, because SEM enables a researcher simultaneously to model relationships among independent and dependent constructs (Gefen et al. 2000: 3; Anderson & Gerbing 1988: 422). Another advantage of this technique is that measurement error is considered in the data analysis process itself (Schumacker & Lomax 2010: 7).

The SEM analysis determined the structural paths (size and direction of relationship) from each SSF construct to total tax compliance costs, taking into account the direction and strength of the covariance relationships between the SSF constructs. This technique determined the relationship among the different constructs, according to the determinants that statistically significantly predicted the dependent variable. Therefore, this breakdown

enabled a better understanding of the influence of the power of SARS and/or trust in SARS on SMMEs' tax compliance costs, which would not have been possible with a regression analysis.

8.4.3. *Practical contribution*

SMMEs are internationally acknowledged as the life-blood of modern economies, and the importance of these enterprises to the industrialised world cannot be overemphasised. Rising tax compliance costs are one of SMMEs' main challenges, as these can affect their viability and growth. Therefore, the efficiency of a tax regime should be assessed by reviewing the quantifiable data from tax compliance costs surveys, because policymakers need to know which elements of tax compliance costs are possibly adding to the tax compliance burden for businesses and should, therefore, be targeted for reform. Not knowing the level of tax compliance costs for SMMEs, especially in South Africa, could affect the economy if these costs are high, and if the reasons for these high costs are not addressed.

Members of the SAICA have indicated that, in their experience, there has been a significant increase in taxpayers' costs relating to tax compliance and the collection of taxes on behalf of SARS. They argue that this increase, especially since 2008, is due to SARS's various additional compliance and disclosure procedures (SAICA 2016). Therefore, SAICA initiated a project to investigate this concern expressed by their members. The current study formed part of this research initiative, focusing on the tax compliance costs of SMMEs to try to verify the concerns mentioned above. But concerns are also raised from the government's side. For example, in 2017, the then Minister of Finance said that compliance concerns were mounting in the context of tax administration challenges for SARS and were weakening tax morality on the taxpayers' side (National Treasury 2017a: 22). Given that SARS is making a concerted effort to increase tax compliance and provide a customer-friendly environment for taxpayers, SARS is also interested in the results of tax compliance costs studies, as is indicated in the memorandum of understanding signed between UNISA and SARS. Hence, SARS authorised the survey and agreed to distribute the link to the survey to SARS's database of SMMEs. According to the memorandum of understanding, SARS has access

to the raw data, and the study's final results will be formally presented to SARS.⁸¹ Therefore, it is submitted that this research has a practical contribution, because this information will assist SARS to reduce tax compliance costs for taxpayers from the revenue authority's side. A customer-friendly, service-oriented revenue authority will go far in achieving this goal, because that will build trust between SARS and taxpayers. Furthermore, the tax compliance costs calculations in the current study will provide a baseline against which SARS's improvement efforts can be measured.

8.5. Limitations of the study and recommendations for future research

Three tax compliance benefits, namely tax deductibility, cash flow benefits and managerial benefits, were not explored in the study, because tax deductibility benefits are likely to remain unchanged, cash flow benefits are minimal for SMMEs, and managerial benefits are generally extremely difficult to quantify (see Section 1.5). In addition, although psychological costs are relevant and recognised in the SMME environment, these costs cannot be measured objectively and consistently. Therefore, it is recommended that future research endeavours to find innovative ways to quantify or report on the managerial benefits and psychological costs associated with tax compliance.

Regarding the research methodology followed, the first limitation noted is that the demographics of the SMME population listed in the SARS database were not available to the researcher. This limitation made it impossible to weight the responses received to ensure that they were representative of the total population according to the SARS database. This situation forced the researcher to compare the results obtained from the survey, where possible, with the latest published statistics and information available on all businesses in South Africa. Therefore, it is recommended that future research focusing on SMMEs engage with SARS first (if possible) to establish the demographics available on the SMMEs listed in the SARS database, which may then be used to evaluate the representativeness of the given study.

⁸¹ Preliminary results of the data were presented to SARS in December 2019.

The second limitation noted is the limitations of an online survey as the data collection technique used in this study. These limitations include the fact that the response rate is usually low for online assessments, no interviewer intervention is available for probing or explanation, the survey can be long and complicated, and there may be anxiety among participants (especially if the survey is sent out by the local revenue authority) (Varghese et al. 2017: 2; Cooper & Schindler 2014: 225). An online forum might also preclude participation by smaller businesses that do not have access to computers or are not computer literate. These limitations were also encountered in the current study. Because a relatively low response rate was achieved, it was considered necessary to evaluate the possibility of non-response bias to establish whether it could have affected the survey results. Therefore, a wave analysis was done to investigate any possible non-response bias. The results of the wave analysis suggested the absence of non-response bias. However, it is submitted that this limitation could have been addressed if at least some face-to-face surveys (interviews) had been conducted with respondents. Therefore, it is recommended that future tax compliance costs research, in addition to the online survey, conduct face-to-face interviews with respondents as well, funding and time permitting.

The next limitation of online surveys, namely that no interviewer intervention is available for probing or explanation, was addressed by providing additional information to particular questions to respondents in the questionnaire to ensure that the questions are as straightforward as possible. During the pilot study process, any unclear questions were also identified and improved. In addition, the details of the researcher, his supervisor and the contact person at SARS's email addresses were made available in the email sent to respondents and in the introduction section of the survey. Respondents were encouraged to contact any of these three persons if they had any inquiries or needed help with any of the questions in the survey. It is recommended that future studies of a similar nature prepare a manual with additional instructions on how to answer specific questions and make it available to respondents. Pop-up messages as part of the questionnaire design to explain or provide details about specific questions can also be used.

As with many tax compliance cost studies, the survey was lengthy – the reason for this was twofold. Firstly, obtaining access to these specific taxpayers (SMMEs in South Africa) is challenging, so it was considered prudent to use the access granted to these respondents

by SARS to the full to obtain the maximum amount of information possible. Secondly, it was necessary to include comprehensive questions that captured both the data needed to measure total tax compliance costs and the SSF questions to achieve all the research objectives of the study. Because the researcher knew that the questionnaire was lengthy, the respondents were informed in the covering letter to the survey that it would take about 45 minutes to complete the questionnaire. The estimated time may have discouraged potential respondents, some of whom may not even have opened the survey. In addition to the length of the survey, the questions in the survey were detailed, which may have negatively affected some respondents while they were completing the survey. Unfortunately, this level of information is necessary to determine a reasonable estimate of the tax compliance costs incurred by the responding businesses. Any reduction in this information could make the results less meaningful or, in some instances, even meaningless. Although most of the questions were critical to this research, perhaps, in future, shorter surveys sent out more frequently (considering different portions of the population) dealing with specific issues (for instance, just small business tax concessions) would prevent survey fatigue and prevent potential respondents from deciding up front not to complete the survey.

Some respondents also expressed concerns because they received the link to the online survey from SARS. Some respondents mailed the researcher and enquired about the authenticity of the mail, and others said outright that they did not have time to answer more questions from SARS. However, there are some advantages to using the approach where SARS sends out the link to an online survey. One advantage of this, in the current study, was that some of the taxpayers immediately responded to the survey, seeing that it came from SARS, as they were “afraid” of not doing something requested by SARS. Another advantage was that some respondents were impressed that SARS was taking the initiative to research this area and therefore completed the survey. Thus, there are both advantages and disadvantages to SARS sending out the survey. Overall, it is recommended that future research in tax compliance costs be done in conjunction with SARS.

Over and above the areas recommended for future research mentioned above, several specific areas require further investigation in the future. These areas are discussed next.

The questionnaire did not ask respondents how many part-time employees the SMME

employs, and consideration must be given to the fact that this might skew the results to some extent. Therefore, it is suggested that future research includes questions to establish the number of part-time employees employed by respondents and the associated tax compliance costs related to this.

Appropriate rates to convert the hours spent by the different employees on tax compliance activities are a contentious issue (see Sections 3.4 and 6.2.5). Using an incorrect rate can cause tax compliance costs to be under- or overestimated. The methodology used in this study (benchmarking respondents' values with externally available values) is in line with that used in previous international research, but can be challenged. Hence, it is recommended that the use of alternative rates be explored in future studies. Checking the reasonableness of any alternative rates against external benchmarks is still recommended.

A question could also have been included requesting respondents indicating that they did not use external tax service providers to give reasons for choosing not to use external tax service providers. This suggestion should be considered in future surveys because the costs involved in hiring external tax service providers can be quite considerable. Also related to external tax service providers, the present study's finding suggests that the tax services costs of external tax service providers for the micro and small combined turnover group did, in fact, decrease since the Smulders et al. (2012) study but that non-tax related costs by external tax service providers increased. Plausible explanations for these findings are discussed in Section 6.4.2. However, further investigation into these findings is recommended.

As indicated in Section 6.3, the survey did not cater for the fact that some of the items mentioned in Question 4.35 (which asked respondents to estimate the non-labour costs of the business) are of a capital nature. This situation may have caused respondents to report the total cost instead of the annual cost of these items, which may have caused an overestimation of these costs. Therefore, in future research, items of a capital nature should be determined in a separate question which will assist in estimating the annual costs of these items.

Further research should also be undertaken to measure changes in tax compliance costs

over a given period. The current survey can be used as the baseline against which future research results can be compared. Such comparisons would be critical if any reforms are instituted after this study to assist SMMEs. The effect of such reforms on tax compliance costs would then also need to be measured. These changes and their effects could be incorporated into any future tax compliance costs measuring instrument. Cooperation from SARS and the National Treasury in these endeavours is highly recommended.

From a statistical perspective, future research could expand on this study by using regression analysis models and SEM analysis to evaluate other variables found, in addition to those identified in this study, due to changes in the business or tax environment for instance.

8.6. Concluding remarks

The current study bears out the observation in the introduction of this study regarding the importance of SMMEs for the economic development of South Africa, and the detrimental effect of high tax compliance costs on them. Therefore, this study attempted to contribute to the body of knowledge on the tax compliance costs of SMMEs in several ways. Firstly, the study confirmed that there is definitional complexity regarding SMMEs. It is not easy to research a topic if one is not exactly sure who the population relevant to the topic is. Therefore, a definition was set up as a starting point. Secondly, the study comprehensively measured tax compliance costs for SMMEs against which future research can be benchmarked, especially after reforms, or when new incentives are introduced to reduce tax compliance costs. Thirdly, the study used regression analysis to identify the determinants of tax compliance costs for SMMEs. Finally, by using SEM analysis, the study established that both the power of SARS and trust in SARS affect tax compliance costs. While the effect of the use of power by SARS does not have a significant impact, trust in SARS does reduce tax compliance costs. Trust, however, is earned. Therefore, it is recommended that SARS make an effort to address those aspects under its control, and which will affect SMME taxpayers' trust in SARS. Taxpayers who trust SARS will incur lower tax compliance costs. In return, the tax compliance behaviour of SMME taxpayers will improve, creating a win-win situation for both parties.

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APPENDIX A
Data collection instrument

SMME TCC Survey – Final 2019

Start of Block: Introduction

Q1.1 Please read this before completing the survey.

This survey should be completed by the person who knows about, or is chiefly responsible for the tax affairs of the company. The UNISA College of Accounting Sciences Research Ethics Review Committee has approved this survey (reference no 2017_CAS_044). There is no payment or incentive for participating in this study and no costs for completing this study are anticipated. The online survey will take approximately 45 minutes to complete and does not need to be completed in a single session as the system automatically saves a partially completed survey for up to 2 weeks after your last entry.

Please note that by electing to proceed you agree to voluntarily participate in the survey and are aware of its nature, procedure and potential benefits, have read and understood the study as explained below, have had sufficient opportunity to ask questions, are free to withdraw at any time without any penalty and that you are aware that the findings of the study will be anonymously processed into a research report and academic publications/conference proceedings.

The survey responses are being collected independently of SARS and the anonymity of all information provided by respondents is guaranteed and cannot be linked back to SARS's database.

Survey responses will be saved electronically and stored in a secure password-protected database for five years, after which it will be deleted. Further, the survey is completely voluntary and participants are under no obligation to consent to participation, although participation is encouraged to achieve the desired outcome as explained in the cover letter. Participants can withdraw at any time, except once the online survey had been electronically submitted on completion thereof.

If you would like to discuss the survey or if you need help in completing particular questions please do not hesitate to contact Aleseng Moshoeite on Amoshoette@sars.gov.za, Heinrich Dixon on dixonhj@tut.ac.za or Sharon Smulders on Smuldsa@unisa.ac.za

Thank you for your kind cooperation and assistance in completing this survey.

Q2.4 What was the turnover (excluding VAT) of the business for the financial year ending between 1 April 2018 and 31 March 2019?

- R0 - R1 000 000 (1)
- R1 000 001 - R20 000 000 (2)
- R20 000 001 – R50 000 000 (3)
- R50 000 001 – R100 000 000 (4)
- R100 000 001 - R250 000 000 (5)
- More than R250 000 000 (6)

Display This Question:

*If What was the turnover (excluding VAT) of the business for the financial year ending between 1 Apr...
= More than R250 000 000*

Q2.5 Thank you for your response. A business with a turnover of more than R250 000 000 should please complete the survey for large businesses [here](#)

End of Block: Introduction

Start of Block: General information

Q2.1 What is the main activity of the business?

- Agriculture, forestry and fishing (1)
- Mining and quarrying (2)
- Manufacturing (3)
- Electricity, gas and water (4)
- Construction (24)
- Wholesale and retail trade (includes specialised repair services) (5)
- Accommodation and catering (6)
- Community, social and personal services (includes educational services, medical, dental and other health and veterinary services, personal and household services, recreational and cultural services and social and related community services) (12)
- Transport, storage and communication (8)
- Financial intermediation and insurance (7)
- Real estate and business services (includes research and scientific institutes) (10)
- Other (please describe) (37)

Q122 In which province/s does the business operate?

Please tick all that apply

- National (all 9 provinces) (11)
- Eastern Cape (1)
- Free State (2)
- Gauteng (3)
- Kwazulu-Natal (4)
- Limpopo (5)

- Mpumalanga (6)
- North-West (7)
- Northern Cape (8)
- Western Cape (9)
- Trading abroad (10)

Q2.2 What is the legal structure of the business?

- Close corporation (CC) (1)
 - Private company ((Pty) Ltd) (2)
 - Public company (Ltd) (3)
 - Personal liability company (Inc.) (8)
 - Sole proprietor (4)
 - Partnership (5)
 - Trust (6)
-

Q2.3 How long has the business been trading for?

- less than a year (1)
- 1- 2 years (2)
- 3- 5 years (3)
- 6- 10 years (4)
- more than 10 years (5)

Q99 Which month is the financial year-end of the business?

- February (1)
 - March (4)
 - June (5)
 - December (6)
 - Other (please specify the month) (2)
-

Q98 Which category best describes the taxable income of the business for the financial year ending between 1 April 2018 and 31 March 2019?

- Less than R nil (loss) (1)
- R nil (2)
- Greater than R nil (3)

Q2.6 How many full-time employees did the business employ for the financial year ending between 1 April 2018 and 31 March 2019? *Note: Employees do not include independent contractors who bill the business for their time.*

- 0-5 (1)
- 6-20 (2)
- 21-50 (3)
- 51-100 (4)
- 101-200 (5)
- More than 200 (6)

Q2.7 Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? *Please tick all that apply*

- Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) (4)
- Value added tax (VAT) (1)
- Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) (2)
- Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) (6)
- Customs and excise duties (7)
- Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) (8)
-

Q2.8 Was the business subject to any tax queries (including reviews), inspections or audits from SARS during the financial year ending between 1 April 2018 and 31 March 2019?

- No (5)
- Yes (6)

Skip To: Q2.10 If Was the business subject to any tax queries (including reviews), inspections or audits from SARS... = No

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'

X→

Q2.9 Indicate the area of tax that was the focus of the tax queries, inspections or audits. *Please tick all that apply*

- Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) (1)
- Value added tax (VAT) (2)
- Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) (3)
- Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) (4)
- Customs and excise duties (5)
- Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) (6)

Q2.10 Has the business objected to any tax assessment during the financial year ending between 1 April 2018 and 31 March 2019?

- No (3)
- Yes (4)

Skip To: Q2.12 If Has the business objected to any tax assessment during the financial year ending between 1 April... = No

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'

X→

Q2.11 Indicate the area of tax that was the focus of the objection. *Please tick all that apply*

- Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) (1)
 - Value added tax (VAT) (2)
 - Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) (3)
 - Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) (4)
 - Customs and excise duties (5)
 - Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) (6)
-

Q2.12 Did the business lodge any appeals to SARS during the financial year ending between 1 April 2018 and 31 March 2019?

- No (3)
- Yes (4)

Skip To: Q2.16 If Did the business lodge any appeals to SARS during the financial year ending between 1 April 2018... = No

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'

X→

Q2.13 Indicate the area of tax that was the focus of the appeal. *Please tick all that apply*

- Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) (1)
- Value added tax (VAT) (2)
- Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) (3)
- Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) (4)
- Customs and excise duties (5)
- Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) (6)

Q2.16 Was the business involved in any litigation with SARS during the financial year ending between 1 April 2018 and 31 March 2019?

- No (3)
- Yes (4)

Skip To: Q2.18 If Was the business involved in any litigation with SARS during the financial year ending between 1... = No

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'



Q2.17 Indicate the area of tax that was the focus of the litigation. *Please tick all that apply*

- Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) (1)
- Value added tax (VAT) (2)
- Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) (3)
- Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) (4)
- Customs and excise duties (5)
- Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) (6)
-

Q2.18 Did the business make use of the Advanced Tax Ruling (ATR) system during the financial year ending between 1 April 2018 and 31 March 2019?

- No (3)
- Yes (4)

Skip To: Q100 If Did the business make use of the Advanced Tax Ruling (ATR) system during the financial year ending... = No

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'

X→

Q2.19 Indicate the area of tax that was the focus of the ATR. *Please tick all that apply*

- Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) (1)
- Value added tax (VAT) (2)
- Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) (3)
- Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) (4)
- Customs and excise duties (5)
- Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) (6)

<p>Q100 This question seeks to understand the extent of tax risk management, strategy and governance processes of the business. Please select one of the options provided for each of the following statements.</p>	Yes (1)	No (2)	Not Applicable (3)	Don't know (4)
<p>Tax is recognised as a key strategic function. (1)</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<p>The business has a risk management framework in place. (12)</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<p>The business has a documented tax strategy in place. (13)</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<p>The business has a transfer pricing strategy in place. (14)</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<p>Tax is on the managers/leaders of the business agenda. (15)</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<p>The business has a tax committee or tax compliance monitoring team that identifies, manages, controls and reports tax risks. (16)</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<p>The business has an automated tax compliance process. (17)</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

The internal or external audit team review tax controls on an annual basis. (18)

Tax compliance information is reported to the audit committee. (19)

Tax risk management information is reported to the audit committee. (20)

End of Block: General information

Start of Block: External costs

Q3.1 MONEY SPENT ON EXTERNAL TAX-RELATED AND ACCOUNTING-RELATED ACTIVITIES (EXTERNAL COSTS)

Did the business pay for any external tax services during the financial year ending between 1 April 2018 and 31 March 2019? *External tax services means monetary payments to external parties for tax related services, for example, tax consultants or tax lawyers. It also includes fees paid to a dedicated tax expert or central tax department in another company that provides tax-related services to companies within a group of companies. External tax services may include routine (or recurrent or business as usual) costs, such as obtaining external tax advice or assistance in relation to filing returns or dealing with reviews or audits from SARS etc. They may also include non-routine (exceptional or one-off) costs such as the costs of professional advice in relation to the installation of a new IT system for the tax function.*

- Yes (5)
- No (6)

Skip To: End of Block If MONEY SPENT ON EXTERNAL TAX-RELATED AND ACCOUNTING-RELATED ACTIVITIES (EXTERNAL COSTS) Did the bu... = No

Q3.2 Who provided the business with external tax services? *Please tick all that apply*

- A dedicated tax expert or central tax department located in another company within a group of companies (8)
 - Professional accountants (1)
 - Professional tax advisers/consultants (11)
 - Lawyers/attorneys/advocates (2)
 - Financial advisers (4)
 - IT consultants (5)
 - SARS (for example Advanced Tax Rulings) (6)
 - Other (please describe) (7)
-

Q3.3 Please indicate the extent to which you agree with the following statements relating to why the business sought external tax services.

Strongly disagree (1) Disagree (2) Neutral (3) Agree (4) Strongly agree (5)

Tax law is too complicated (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The depth of technical knowledge is not available internally (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The business needed an expert opinion on a specific tax issue (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
An independent expert opinion was required about legislative changes (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Legal advice sought on litigation or tax disputes (12)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The business wanted to maximise allowable deductions / tax offsets (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

For tax planning (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
To reduce the chance of being audited by SARS (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It was more cost effective to seek external tax services (10)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other (please specify) (11)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Q3.4 How much did the business pay for **non-tax related services** rendered by external service providers (excluding VAT) during the financial year ending between 1 April 2018 and 31 March 2019? *(Non-tax related services include audit, general accounting services, managerial advice, secretarial services and computerised accounting software assistance.) Do not use any symbols or spaces e.g. 10945 not R10 945*



Q3.5 How much did the business pay for **taxation services** rendered by tax practitioners/external service providers (excluding VAT) during the financial year ending between 1 April 2018 and 31 March 2019? *Include fees paid to a dedicated tax expert or central tax department in another company within a group of companies (if charged). Ignore costs associated with foreign taxes or general bookkeeping/accounting functions. Do not use any symbols or spaces e.g. 10945 not R10 945*

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'



Q3.6 In broad terms, please indicate the percentage allocation of the estimated expenditure for external tax services between the following **tax types** for the financial year ending between 1 April 2018 and 31 March 2019.

(Total must sum to 100)

Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) : _____ (1)

Value added tax (VAT) : _____ (2)

Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) : _____ (3)

Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) : _____ (4)

Customs and excise duties : _____ (5)

Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) : _____ (6)

Total : _____



Q3.7 In broad terms, please indicate the percentage allocation of this estimated expenditure for external tax services between the different **tax functions or activities** identified below for the financial year ending between 1 April 2018 and 31 March 2019?

(Total must sum to 100)

Record-keeping : _____ (1)

Calculating tax, completing tax return and paying tax : _____ (2)

Dealing with SARS (phone calls, e-mails, visits) : _____ (3)

Obtaining refunds from SARS : _____ (7)

Controlled foreign companies (CFCs): activities related to the South African domestic tax law implications of CFCs. (Do not include advice or input in relation to compliance with foreign tax laws). : _____ (17)

Tax planning / advice on international tax issues : _____ (9)

Tax planning / advice on local tax issues : _____ (8)

Was the business subject to any tax queries (including reviews), inspections or audits from SARS... = Yes

Assistance with tax queries (including reviews), inspections or audits conducted by SARS : _____ (4)

Has the business objected to any tax assessment during the financial year ending between 1 April... = Yes

Assistance with objections to SARS : _____ (5)

Did the business lodge any appeals to SARS during the financial year ending between 1 April 2018... = Yes

Assistance with appeals to SARS : _____ (14)

Was the business involved in any litigation with SARS during the financial year ending between 1... = Yes

Assistance with tax related litigation : _____ (6)

Did the business make use of the Advanced Tax Ruling (ATR) system during the financial year ending... = Yes

Assistance with ATR applications : _____ (11)

Which of the following taxes or incentives did the business have to calculate or report on for th... = Customs and excise duties

Assistance or advice for export/import/customs issues (tax related) : _____ (12)

Information technology requirements relating to tax matters : _____ (15)

Tax risk management, strategy and governance activities (i.e. identifying, controlling and reporting of operational and compliance risks (of not complying with tax laws or compliance obligations) to the board of directors and/or audit committee) : _____ (18)

Tax related training (conferences, seminars, workshops) : _____ (16)

Third party returns (for example, IT3s certificates, DWT files, FATCA files, common reporting standards, etc.) : _____ (10)

Other (please describe) : _____ (13)

Total : _____

End of Block: External costs

Start of Block: Internal costs

Q4.1 INTERNAL TIME AND COST SPENT ON TAX COMPLIANCE In this section I ask questions about the time (and the cost of that time) that staff employed by the business (internal staff) spent on all aspects of tax compliance during the financial year ending between 1 April 2018 and 31 March 2019.

If your business is part of group of companies or has a central tax department read the following carefully:

It is recognised that a central tax department or shadow department can administer tax in the business. The **central tax department** is defined as a designated tax department that exists separately from the accounting, payroll, or similar departments. The **shadow tax department** is the term used to describe those staff outside the central tax department who also play a role in tax compliance, such as accounting, finance and payroll staff. It is further recognised that some businesses may not have an in-house central tax department but may have access to a central tax department in another company that provides tax-related services to other companies within a group of companies. **Is the business part of a group of companies?**

- YES (1)
- NO (9)

Skip To: Q4.3 If INTERNAL TIME AND COST SPENT ON TAX COMPLIANCE In this section I ask questions about the time (a... = NO

Q4.2 Does the business have an in-house central tax department? *The central tax department is defined as a designated tax department that exists separately from the accounting, payroll, or similar departments.*

- YES (1)
- NO (2)

Skip To: 4.4 If Does the business have an in-house central tax department? The central tax department is defin... = NO

Skip To: Q4.10 If Does the business have an in-house central tax department? The central tax department is defin... = YES

Q4.3 Does the business have a central tax department?

- YES (1)
- NO (2)

Skip To: Q4.30 If Does the business have a central tax department? = NO

Skip To: Q4.20 If Does the business have a central tax department? = YES

4.4 Does the business have access to a central tax department?

- YES (1)
- NO (2)

Skip To: Q4.30 If Does the business have access to a central tax department? = NO

Q4.5 Does the business pay a fee to the central tax department (either separately charged or as part of a general management fee) for tax related services?

- YES (1)
- NO (2)

Skip To: Q4.30 If Does the business pay a fee to the central tax department (either separately charged or as part o... = NO

Q4.6 Have you included the fee costs paid to the central tax department in your estimates of external costs for the business?

- YES (1)
- NO (2)

Skip To: Q4.30 If Have you included the fee costs paid to the central tax department in your estimates of external... = YES



Q4.7 How much did you pay the central tax department for tax related services?

(Do not use any symbols or spaces e.g. 10945 not R10 945)

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'



Q4.8 In broad terms, please indicate the percentage allocation of the central department cost between the following tax types for the financial year ending between 1 April 2018 and 31 March 2019. (Total must sum to 100)

Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) : _____ (1)

Value added tax (VAT) : _____ (2)

Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) : _____ (3)

Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) : _____ (4)

Customs and excise duties : _____ (5)

Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) : _____ (6)

Total : _____



Q4.9 In broad terms, please indicate the percentage allocation of this central department cost between the different tax functions or activities identified below for the financial year ending between 1 April 2018 and 31 March 2019. (Total must sum to 100)

Human resources and management of staff performing tax functions : _____ (15)

Routine tax work (recurrent/business as usual tax matters), for example, recording tax information, computing tax liabilities, filing returns or submission of documents relating to all taxes, levies or duties : _____ (19)

Controlled foreign companies (CFCs): activities related to the South African domestic tax law implications of CFCs. (Do not include advice or input in relation to compliance with foreign tax laws.) : _____ (29)

International tax matters (advice and input in relation to the South African domestic tax law implications of foreign income of the company including but not limited to the following issues:

transfer pricing, thin capitalisation, foreign tax credits, DTA's). Do not include advice or input pertaining to compliance with foreign tax laws : _____ (25)

Tax planning and tax advice (including tax opinions and advance tax rulings) : _____ (20)

Tax review (for example, inspections, verification and audit by SARS) : _____ (21)

Objection and appeal relating to tax matters : _____ (22)

Disputes (including alternate dispute resolution) and litigation relating to tax matters : _____ (23)

Information technology requirements relating to tax matters : _____ (16)

Tax risk management, strategy and governance activities (i.e. identifying, controlling and reporting of operational and compliance risks (of not complying with tax laws or compliance obligations) to the board of directors and/or audit committee) : _____ (24)

Tax related training (including learning about tax, costs of employed trainers, cost of time spent attending conferences, seminars, workshops, reading newsletters, SARS websites, bulletins etc).

Do not include costs of seminars, newsletter subscriptions etc. : _____ (26)

Third party returns (for example IT3 certificates; DWT files, FATCA files, common reporting standards etc.) : _____ (17)

Other tax related functions or activities required in terms of South African domestic tax law not listed above (please describe) : _____ (27)

Total : _____

Skip To: Q4.30 If In broad terms, please indicate the percentage allocation of this central department cost between... <= Human resources and management of staff performing tax functions

Q4.10 A number of questions follow requiring an indication of the number of staff (at senior, middle and general staff level), estimated direct labour costs, and the percentage allocation of estimated costs by tax type and by tax activity. Please provide answers first for the in-house central tax department and thereafter for the shadow tax department (staff outside the central tax department who also play a role in tax compliance, such as accounting, finance and payroll staff).

Q4.11 How many full-time staff were employed in the in-house central tax department for the financial year ending between 1 April 2018 and 31 March 2019? *Notes: 1. Employees do not include independent contractors who bill you for their time. 2. The central tax department is defined as a designated tax department that exists separately from the accounting, payroll, or similar departments.*

Senior management level : _____ (1)

Middle management level : _____ (2)

General staff level : _____ (3)

Total : _____

Q4.12 Does the in-house central tax department provide tax-related services to other companies within the group?

- YES (1)
- NO (2)

Skip To: Q4.17 If Does the in-house central tax department provide tax-related services to other companies within t... = NO

Q4.13 It is recognised that tax-related services may be provided by the in-house central tax department to other companies within the group at no cost or for a fee (either charged separately or as part of a general management fee). **Where services are provided for a fee:** Ignore the cost of time spent on these services from estimates in the questions that follow. **Where services are provided at no cost.** The questions that follow require estimates of the cost of time spent by staff employed in the in-house central tax department (indicating the percentage allocation of cost by tax type and tax activity/function) **first** for tax related services to other companies within the group and **thereafter** for time spent on tax compliance matters of the company itself.



Q4.14 Please estimate the total direct cost (including on-costs) of staff employed in the in-house central tax department for time spent on tax related services for other companies within the group during the financial year ending between 1 April 2018 and 31 March 2019. *Direct costs include, for example, salaries, bonuses, fringe benefits and share scheme allocations. On-costs include, for example, employer contributions to medical aid, retirement funds, UIF, SDL. Ignore costs associated with foreign taxes or general bookkeeping/accounting functions.* *Include only that portion of the direct labour costs (and on-costs) that would disappear if all taxes, duties and levies were abolished.* *(Do not use any symbols or spaces e.g. 10945, not R10 945)*

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'



Q4.15 In broad terms, please indicate the percentage allocation of this estimated direct cost (including on-costs) of staff employed in the in-house central tax department for time spent on tax-

related services for other companies within the group between the following tax types for the financial year ending between 1 April 2018 and 31 March 2019. *(Total must sum to 100)*

Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) : _____ (1)

Value added tax (VAT) : _____ (2)

Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) : _____ (3)

Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) : _____ (4)

Customs and excise duties : _____ (5)

Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) : _____ (6)

Total : _____



Q4.16 In broad terms, please indicate the percentage allocation of this estimated direct costs (including on-costs) of staff employed in the in-house central tax department for time spent on tax-related services for other companies within the group between the different tax functions or activities identified below for the financial year ending between 1 April 2018 and 31 March 2019. *(Total must sum to 100)*

Human resources and management of staff performing tax functions : _____ (15)

Routine tax work (recurrent/business as usual tax matters), for example, recording tax information, computing tax liabilities, filing returns or submission of documents relating to all taxes, levies or duties : _____ (19)

Controlled foreign companies (CFCs): activities related to the South African domestic tax law implications of CFCs. (Do not include advice or input in relation to compliance with foreign tax laws) : _____ (28)

International tax matters (advice and input in relation to the South African domestic tax law implications of foreign income of the company including but not limited to the following issues:

transfer pricing, thin capitalisation, foreign tax credits, DTA's) Do not include advice or input pertaining to compliance with foreign tax laws : _____ (25)
 Tax planning and tax advice (including tax opinions and advance tax rulings) : _____ (20)
 Tax review (for example, inspections, verification and audit by SARS) : _____ (21)
 Objection and appeal relating to tax matters : _____ (22)
 Disputes (including alternate dispute resolution) and litigation relating to tax matters : _____ (23)
 Information technology requirements relating to tax matters : _____ (16)
 Tax risk management, strategy and governance (advice and input) : _____ (24)
 Tax related training (including learning about tax, costs of employed trainers, cost of time spent attending conferences, seminars, workshops, reading newsletters, SARS websites, bulletins etc) Do not include costs of seminars, newsletter subscriptions etc. : _____ (26)
 Third party returns (for example IT3 certificates; DWT files, FATCA files, common reporting standards etc.) : _____ (17)
 Other tax related functions or activities required in terms of South African domestic tax law not listed above (please describe) : _____ (27)
 Total : _____



Q4.17 Please estimate the total direct cost (including on-costs) of staff employed in the in-house central tax department for time spent on all aspects of tax compliance for the company during the financial year ending between 1 April 2018 and 31 March 2019. *Direct costs include, for example, salaries, bonuses, fringe benefits and share scheme allocations. On-costs include, for example, employer contributions to medical aid, retirement funds, UIF, SDL. Ignore costs associated with foreign taxes, general bookkeeping/accounting functions and time spent on tax-related services to other companies within the group.*
Include only that portion of the direct labour costs (and on-costs) that would disappear if all taxes, duties and levies were abolished.
(Do not use any symbols or spaces, e.g. 10945 not R10 945)

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'



Q4.18 In broad terms, please indicate the percentage allocation of this estimated direct cost (including on-costs) of staff employed in the in-house central tax department for time spent on all

aspects of tax compliance for the company between the following tax types for the financial year ending between 1 April 2018 and 31 March 2019. (*Total must sum to 100*)

Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) : _____ (1)

Value added tax (VAT) : _____ (2)

Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) : _____ (3)

Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) : _____ (4)

Customs and excise duties : _____ (5)

Other tax types levied under South African domestic law relevant to your industry – ignore foreign taxes (please specify) : _____ (6)

Total : _____



Q4.19 In broad terms, please indicate the percentage allocation of this estimated direct cost (including on-costs) of staff employed in the in-house central tax department for time spent on all aspects of tax compliance for the company between the different tax functions or activities identified below for the financial year ending between 1 April 2018 and 31 March 2019. (*Total must sum to 100*)

Human resources and management of staff performing tax functions : _____ (15)

Routine tax work (recurrent/business as usual tax matters), for example, recording tax information, computing tax liabilities, filing returns or submission of documents relating to all taxes, levies or duties : _____ (19)

Controlled foreign companies (CFCs): activities related to the South African domestic tax law implications of CFCs. (Do not include advice or input in relation to compliance with foreign tax laws) : _____ (28)

International tax matters (advice and input in relation to the South African domestic tax law implications of foreign income of the company including but not limited to the following issues:

transfer pricing, thin capitalisation, foreign tax credits, DTA's) Do not include advice or input pertaining to compliance with foreign tax laws : _____ (25)

Tax planning and tax advice (including tax opinions and advance tax rulings) : _____ (20)

Tax review (for example, inspections, verification and audit by SARS) : _____ (21)

Objection and appeal relating to tax matters : _____ (22)

Disputes (including alternate dispute resolution) and litigation relating to tax matters : _____ (23)

Information technology requirements relating to tax matters : _____ (16)

Tax risk management, strategy and governance (advice and input) : _____ (24)

Tax related training (including learning about tax, costs of employed trainers, cost of time spent attending conferences, seminars, workshops, reading newsletters, SARS websites, bulletins etc) Do not include costs of seminars, newsletter subscriptions etc. : _____ (26)

Third party data returns (for example IT3 certificates; DWT files, FATCA files, common reporting standards etc.) : _____ (17)

Other tax related functions or activities required in terms of South African domestic tax law not listed above (please describe) : _____ (27)

Total : _____

Skip To: Q4.25 If In broad terms, please indicate the percentage allocation of this estimated direct cost (includin... <= Human resources and management of staff performing tax functions

Q4.20 A number of questions follow requiring an indication of the number of staff (at senior, middle and general staff level), estimated direct labour costs, and the percentage allocation of estimated costs by tax type and by tax activity.

Q4.21 How many full-time staff were employed in the central tax department to specifically handle taxation matters in the company for the financial year ending between 1 April 2018 and 31 March 2019? *Notes: 1. Employees do not include independent contractors who bill you for their time. 2. The central tax department is defined as a designated tax department that exists separately from the accounting, payroll, or similar departments.*

Senior management level : _____ (1)

Middle management level : _____ (2)

General staff level : _____ (3)

Total : _____



Q4.22 Please estimate the total direct cost (including on-costs) of staff employed in the central tax department for all aspects of tax compliance for the company during the financial year ending between 1 April 2018 and 31 March 2019. *Direct costs include, for example, salaries, bonuses, fringe benefits and share scheme allocations. On-costs include, for example, employer contributions to medical aid, retirement funds, UIF, SDL. Ignore costs associated with foreign taxes or general bookkeeping/accounting functions.*

Include only that portion of the direct labour costs (and on-costs) that would disappear if all taxes, duties and levies were abolished.

(Do not use any symbols or spaces e.g. 10945 not R10 945)

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'



Q4.23 In broad terms, please indicate the percentage allocation of this estimated direct cost (including on-costs) of staff employed in the central tax department between the following tax types for the financial year ending between 1 April 2018 and 31 March 2019. *(Total must sum to 100)*

Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) : _____ (1)

Value added tax (VAT) : _____ (2)

Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) : _____ (3)

Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) : _____ (4)

Customs and excise duties : _____ (5)

Other tax types levied under South African domestic law relevant to your industry – ignore foreign taxes (please specify) : _____ (6)

Total : _____



Q4.24 In broad terms, please indicate the percentage allocation of this estimated direct cost (including on-costs) of staff employed in the central tax department between the different tax functions or activities identified below for the financial year ending between 1 April 2018 and 31 March 2019. *(Total must sum to 100)*

Human resources and management of staff performing tax functions : _____ (15)

Routine tax work (recurrent/business as usual tax matters), for example, recording tax information, computing tax liabilities, filing returns or submission of documents relating to all taxes, levies or duties : _____ (19)

Controlled foreign companies (CFCs): activities related to the South African domestic tax law implications of CFCs. (Do not include advice or input in relation to compliance with foreign tax laws) : _____ (28)

International tax matters (advice and input in relation to the South African domestic tax law implications of foreign income of the company including but not limited to the following issues:

transfer pricing, thin capitalisation, foreign tax credits, DTA's) Do not include advice or input pertaining to compliance with foreign tax laws : _____ (25)
Tax planning and tax advice (including tax opinions and advance tax rulings) : _____ (20)
Tax review (for example, inspections, verification and audit by SARS) : _____ (21)
Objection and appeal relating to tax matters : _____ (22)
Disputes (including alternate dispute resolution) and litigation relating to tax matters : _____ (23)
Information technology requirements relating to tax matters : _____ (16)
Tax risk management, strategy and governance (advice and input) : _____ (24)
Tax related training (including learning about tax, costs of employed trainers, cost of time spent attending conferences, seminars, workshops, reading newsletters, SARS websites, bulletins etc) Do not include costs of seminars, newsletter subscriptions etc. : _____ (26)
Third party returns (for example IT3 certificates; DWT files, FATCA files, common reporting standards etc.) : _____ (17)
Other tax related functions or activities required in terms of South African domestic tax law not listed above (please describe). : _____ (27)
Total : _____

Q4.25 A number of questions pertaining to the shadow tax department (those staff outside the central tax department who also play a role in tax compliance, such as accounting, finance and payroll staff) follow. Please answer the questions to provide insight about staff employed who play a role in tax compliance matters of the company such as accounting, finance and payroll staff.

Q4.26 How many full-time staff were employed in the shadow tax department to specifically handle taxation matters in the company for the *financial year ending between 1 April 2018 and 31 March 2019*? *Note: Employees do not include independent contractors who bill you for their time.*
Senior management level : _____ (1)
Middle management level : _____ (2)
General staff level : _____ (3)
Total : _____



Q4.27 Please estimate the total direct cost (including on-costs) of staff employed in the shadow tax department for all aspects of tax compliance for the company during the financial year ending between 1 April 2018 and 31 March 2019. *Direct costs include, for example, salaries, bonuses, fringe benefits and share scheme allocations. On-costs include, for example, employer contributions to medical aid, retirement funds, UIF, SDL. Ignore costs associated with foreign taxes or general bookkeeping/accounting functions.*

Include only that portion of the direct labour costs (and on-costs) that would disappear if all taxes, duties and levies were abolished. (Do not use any symbols or spaces e.g. 10945 not R10 945)

Carry Forward Selected Choices – Entered Text from 'Which of the following taxes or incentives did the business have to calculate or report on for the financial year ending between 1 April 2018 and 31 March 2019? Please tick all that apply'



Q4.28 In broad terms, please indicate the percentage allocation of this estimated direct cost (including on-costs) of staff employed in the shadow tax department between the following tax types for the financial year ending between 1 April 2018 and 31 March 2019. (Total must sum to 100)

Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) : _____ (1)

Value added tax (VAT) : _____ (2)

Employment related taxes (PAYE, UIF, SDL and Employment tax incentive) : _____ (3)

Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property) : _____ (4)

Customs and excise duties : _____ (5)

Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify) : _____ (6)

Total : _____



Q4.29 In broad terms, please indicate the percentage allocation of this estimated direct cost (including on-costs) of staff employed in the shadow tax department for all aspects of tax compliance for the company between the different tax functions or activities identified below for the financial year ending between 1 April 2018 and 31 March 2019. (Total must sum to 100)

Human resources and management of staff performing tax functions : _____ (1)

Routine tax work (recurrent/business as usual tax matters), for example, recording tax information, computing tax liabilities, filing returns or submission of documents relating to all taxes, levies or duties. : _____ (5)

Controlled foreign companies (CFCs): activities related to the South African domestic tax law implications of CFCs. (Do not include advice or input in relation to compliance with foreign tax laws). : _____ (14)

International tax matters (advice and input in relation to the South African domestic tax law implications of foreign income of the company including but not limited to the following issues:

transfer pricing, thin capitalisation, foreign tax credits, DTA's) Do not include advice or input pertaining to compliance with foreign tax laws. : _____ (11)

Tax planning and tax advice (including tax opinions and advance tax rulings) : _____ (6)

Tax review (for example, inspections, verification and audit by SARS) : _____ (7)

Objection and appeal relating to tax matters : _____ (8)

Disputes (including alternate dispute resolution) and litigation relating to tax matters : _____ (9)

Information technology requirements relating to tax matters : _____ (2)

Tax risk management, strategy and governance (advice and input) : _____ (10)

Tax related training (including learning about tax, costs of employed trainers, cost of time spent attending conferences, seminars, workshops, reading newsletters, SARS websites, bulletins etc) Do not include costs of seminars, newsletter subscriptions etc. : _____ (12)

Third party returns (for example IT3 certificates; DWT files, FATCA files, common reporting standards etc) : _____ (3)

Other tax related functions or activities required in terms of South African domestic tax law not listed above (please describe). : _____ (13)

Total : _____

Skip To: Q4.35 If in broad terms, please indicate the percentage allocation of this estimated direct cost (includin... <= Human resources and management of staff performing tax functions



Q4.30 How many hours in total did individuals in the business spent on core accounting activities (for example processing of customer invoices, following up debtors and paying bills, stocktaking and stock control, cash flow and budget calculations etc.) during the financial year ending between 1 April 2018 and 31 March 2019? *Note: Round off to the nearest hour*



Q4.31 Please indicate the distribution of total time spent on accounting activities (for example processing of customer invoices, following up debtors and paying bills, stocktaking and stock control, cash flow and budget calculations etc.) by the following people during the financial year ending between 1 April 2018 and 31 March 2019.

Members / directors / sole proprietor or partners : _____ (1)

Paid employees (e.g. clerks, internal accountants) : _____ (2)

Unpaid helpers (e.g. friends, spouses) : _____ (3)

Total : _____

<p>Q4.32 Please indicate the estimated average time spent by individuals in the business on tax related activities during the financial year ending between 1 April 2018 and 31 March 2019. Include time spent by members, directors, sole proprietor, partners, paid employees and unpaid helpers. <i>Note: Round off to the nearest hour. Only include hours once (e.g. if you count hours under the heading "recordkeeping", please do not count the same hours towards "calculating tax, completing tax forms,</i></p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax)</i></p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Value added tax (VAT)</i></p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Employment related taxes (PAYE, UIF, SDL and Employment tax incentive)</i></p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property)</i></p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Customs and excise duties</i></p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify)</i></p>
	<p>Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) (1)</p>	<p>Value added tax (VAT) (2)</p>	<p>Employment related taxes (PAYE, UIF, SDL, employment tax incentive) (3)</p>	<p>Withholding taxes (dividends, royalties, interest, foreign entertainers and sport persons, foreign property) (4)</p>	<p>Customs and excise duties (5)</p>	<p>#{Q2.7/ChoiceTextEntryValue/8} (6)</p>

<p><i>paying tax"). Do not include time spent by any external party.</i></p>						
<p>Recordkeeping (1)</p>						
<p>Calculating tax, completing tax return and paying tax (2)</p>						
<p>Dealing with SARS (phone calls, e-mails, visits) (3)</p>						

MONEY
SPENT ON
EXTERNAL
TAX-
RELATED
AND
ACCOUNTIN
G-RELATED
ACTIVITIES
(EXTERNAL
COSTS) Did
the bu... =
Yes

Dealing with
your external
tax adviser,
including
providing
information
to him/her
(5)

Obtaining
refund from
SARS (24)

Tax planning
on
international
tax issues
(25)

Tax planning
on local tax
issues
(including
tax opinions
and advance
tax rulings)
(4)

Was the business subject to any tax queries (including reviews), inspections or audits from SARS... =

Collection and submission of information for SARS queries, inspections or audits. For example verification of VAT declaration (7)

Has the business objected to any tax assessment during the financial year ending between 1 April... =

Preparation and submission of objections (8)

<p><i>Did the business lodge any appeals to SARS during the financial year ending between 1 April 2018... =</i></p>						
<p>Preparation and submission of appeals (9)</p>						
<p><i>Was the business involved in any litigation with SARS during the financial year ending between 1... =</i></p>						
<p>Time spent on litigation (10)</p>						
<p>Information technology requirements relating to tax matters (11)</p>						
<p>Tax risk management, strategy and governance (12)</p>						

<p>Tax related training (including learning about tax, costs of employed trainers, cost of time spent attending conferences, seminars, workshops, reading newsletters, SARS websites, bulletins etc) Do not include costs of seminars, newsletter subscriptions etc. (6)</p>						
<p>Third party returns (for example IT3 certificates; DWT files, FATCA files, common reporting standards etc) (15)</p>						

<p>Other tax related functions or activities required in terms of South African domestic law not listed above. Please specify (14)</p>						
<p>Total</p>						



<p>Q4.33 Please estimate the percentage of the total time spent on different taxes by the following people during the financial year ending between 1 April 2018 and 31 March 2019. The total should add up to 100%</p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax)</i></p> <p>Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax) (1)</p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Value added tax (VAT)</i></p> <p>Value added tax (VAT) (2)</p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Employment related taxes (PAYE, UIF, SDL and Employment tax incentive)</i></p> <p>Employment related taxes (PAYE, UIF, SDL, employment tax incentive) (3)</p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property)</i></p> <p>Withholding taxes (dividends, royalties, interest, foreign entertainers and sport persons, foreign property) (4)</p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Customs and excise duties</i></p> <p>Customs and excises duties (5)</p>	<p><i>Which of the following taxes or incentives did the business have to calculate or report on for th... = Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify)</i></p> <p>#{Q2.7/ChoiceTextEntryValue/8} (7)</p>
<p>Members / directors / sole proprietor or partners (1)</p>						

Paid employees (e.g. clerks, internal accountants) (2)						
Unpaid helpers (e.g. friends, spouses) (3)						
Total						

Q4.34 Time spent on these activities is valuable. What do you think is the approximate hourly value for each group of people?

_____ Members / Directors / sole proprietor or partners (1)

_____ Paid employees (2)

Q4.35 Please estimate the following **non-labour costs** for tax personnel that deal with all aspects of tax compliance for the company during the financial year ending between 1 April 2018 and 31 March 2019. *Ignore costs associated with foreign taxes or general bookkeeping/accounting functions. Include only that portion of the non-labour costs that would disappear if all taxes, duties*

and levies were abolished. Exclude amortised costs incurred in previous financial years. (Do not use any symbols or spaces e.g. 10945 not R10 945)

Office space and/or parking for tax personnel : _____ (6)

Furniture, fixtures and fittings for tax personnel : _____ (1)

Tax hardware and software (including annual license fees) : _____ (2)

Utilities (telephone, internet, electricity etc.) : _____ (7)

Staff travel on tax related business : _____ (3)

Tax conferences and tax training (cost of conferences, workshops, newsletter subscriptions etc) : _____ (4)

Other (please describe) : _____ (8)

Other (please describe) : _____ (9)

Other (please describe) : _____ (10)

Total : _____

Q101 Did the business incur any tax related penalties or interest during the financial year ending between 1 April 2018 and 31 March 2019?

Yes (1)

No (2)

Skip To: End of Block If Did the business incur any tax related penalties or interest during the financial year ending bet... = No

Q103 Please indicate the reason for the penalty or interest. *Select all that may apply*

- Late submission of provisional tax (1)
 - Late submission of VAT (2)
 - Late submission of PAYE, SDL, UIF (3)
 - Late submission of income tax (4)
 - Late payment of provisional tax (5)
 - Late payment of VAT (6)
 - Late payment of PAYE, SDL, UIF (7)
 - Late payment of income tax (8)
 - Underestimation of provisional tax (9)
 - Administrative non-compliance penalty (10)
 - Understatement penalty (11)
 - Other (please describe) (12)
-

End of Block: Internal costs

Start of Block: Small business tax concessions

Q5.1 SMALL BUSINESS TAX CONCESSIONS Under the South African tax system, small business entities may be eligible for a number of tax concessions or other simplification measures which aim to reduce the tax or tax compliance burden on small businesses. Businesses with an “aggregate” annual turnover of less than R20 million (or R1 million in the case of “micro businesses”) may be eligible. The main small business tax concessions include: 1. Small Business Corporation (SBC) tax rules in terms of s12E (accelerated tax write off of assets and lower tax rates). 2. Turnover Tax a simplified tax system for micro businesses (businesses with a turnover of up to R1 million a year) as an alternative to the current income tax, provisional tax, capital gains tax, secondary tax on companies and VAT systems. 3. CGT Concession that excludes capital gains of up to R1 800 000 on the disposal of active business assets when these

persons reach 55 years of age or when the disposal is a consequence of ill-health, other infirmity, superannuation or death. 4. Accelerated depreciation relief in Urban Development Zones In URBAN DEVELOPMENT ZONES (UDZ) the erection/acquisition or improvement of buildings are subject to an allowable deduction in the form of an accelerated depreciation allowance. This deduction is available until 31 March 2020 and available to medium and large businesses as well. 5. Employment tax incentive (ETI) The ETI is an incentive aimed at encouraging employers to hire young work seekers. It was implemented with effect from 1 January 2014. This concession is available to medium and large businesses as well.

Q5.2 Was the business eligible for any of the small business tax concessions during the financial year ending between 1 April 2018 and 31 March 2019?

- Yes (1)
- No (2)
- Unsure/ don't know (3)

Skip To: End of Block If Was the business eligible for any of the small business tax concessions during the financial year... = No

Skip To: Q5.3 If Was the business eligible for any of the small business tax concessions during the financial year... = Unsure/ don't know

Skip To: Q5.4 If Was the business eligible for any of the small business tax concessions during the financial year... = Yes

Q5.3 Give reasons why are you unsure or don't know that the business was eligible for any of the small business concessions.

Skip To: End of Block If Give reasons why are you unsure or don't know that the business was eligible for any of the small... Is Not Empty

Q5.4 Did the business actually use any of the small business tax concessions during the financial year ending between 1 April 2018 and 31 March 2019?

- Yes (1)
- No (2)

Skip To: Q5.6 If Did the business actually use any of the small business tax concessions during the financial year... = Yes

Q5.5 If the business was eligible for any of the small business tax concessions and the business chose not to use them, please indicate the extent to which you agree with the following statements relating to why the business chose not to use them.

Strongly disagree (1) Disagree (2) Neutral (3) Agree (4) Strongly agree (5)

An accountant advised against the use of the small business tax concessions (1)

The business would have paid more tax as a result of using the tax concessions (2)

The registration process for the turnover tax concession is too complicated (7)

I don't know how to register for the turnover tax concession (8)

I don't see the benefits of registering for turnover tax concession (9)

The rules regarding the tax concessions are too complex (3)

Using the tax concessions would have increased external accounting services costs (4)

Using the tax concessions would have increased the time that individuals in the business spend on tax related activities (5)

Other (please describe) (6)

Q5.6 Which of the following small business tax concessions did the business actually use during the financial year ending between 1 April 2018 and 31 March 2019? *Tick as many as apply*

- Small Business Corporation rules in terms of section 12E or the Turnover Tax system (1)
- CGT Concession (3)
- Accelerated depreciation relief in Urban Development Zones (4)
- Employment tax incentive (ETI) (5)

Display This Question:

If Which of the following small business tax concessions did the business actually use during the fi... = Small Business Corporation rules in terms of section 12E or the Turnover Tax system

Q97 Which of the following concessions did the business actually use during the financial year ending between 1 April 2018 and 31 March 2019?

- Small Business Corporation rules in terms of section 12E (1)
- Turnover Tax System (2)

Q5.7 Please indicate your level of agreement to the following statements regarding the various tax concessions available to small businesses in South Africa:

Strongly disagree (1)

Disagree (2)

Neutral (3)

Agree (4)

Strongly agree (5)

Not sure (8)

They saved the business some tax Rands (1)

They are so complex to understand that it is hardly worth the effort to save just a few tax Rands (2)

An accountant provided good advice about the benefit(s) that small business tax concessions could have for the business (3)

Accountants have a self-interested incentive to push the use of small business tax concessions (4)



Small business tax concessions are a waste of time for everybody, and we would be better off with lower tax rates and a simpler tax system (5)



Q5.8 How useful are the following small business concessions in reducing the tax compliance burden for the business?

Extremely useful (1) Moderately useful (2) Neither useful nor useless (3) Moderately useless (4) Extremely useless (5) Not sure (6)

Which of the following concessions did the business actually use during the financial year ending... = Small Business Corporation rules in terms of section 12E

Small Business Corporation rules (1)

Which of the following concessions did the business actually use during the financial year ending... = Turnover Tax System

Turnover tax (2)

Which of the following small business tax concessions did the business actually use during the financial year?
= CGT Concession

CGT concession (3)

Which of the following small business tax concessions did the business actually use during the financial year?
= Accelerated depreciation relief in Urban Development Zones

Accelerated depreciation relief in Urban Development Zones (4)

Which of the following small business tax concessions did the business actually use during the financial year?
= Employment tax incentive (ETI)

Employment tax incentive (ETI) (5)

Q5.9 How complex are the following small business concessions for the business to comply with?

Extremely easy (1)

Moderately easy (2)

Neither easy nor difficult (3)

Moderately difficult (4)

Extremely difficult (5)

Not sure (6)

Which of the following concessions did the business actually use during the financial year ending... = Small Business Corporation rules in terms of section 12E

Small Business Corporation rules (1)

Which of the following concessions did the business actually use during the financial year ending... = Turnover Tax System

Turnover tax (2)

Which of the following small business tax concessions did the business actually use during the financial year?
= CGT Concession

CGT concession (3)

Which of the following small business tax concessions did the business actually use during the financial year?
= Accelerated depreciation relief in Urban Development Zones

Accelerated depreciation relief in Urban Development Zones (4)

Which of the following small business tax concessions did the business actually use during the financial year?
= Employment tax incentive (ETI)

Employment tax incentive (ETI) (5)

End of Block: Small business tax concessions

Start of Block: Drivers of tax compliance

Q7.1 DRIVERS OF TAX COMPLIANCE

In this section I am interested in your views on what factors may drive or cause the tax compliance costs that the company may encounter.

How has the overall tax compliance burden of the company changed during the past 5 years?

- Decreased (1)
- No noticeable change (4)
- Increased (5)



Q7.2 In respect of the business, please rank the compliance burden for the following taxes in order of most burdensome (1) to least burdensome (2-6) depending on the number of tax types relevant to the business:

Which of the following taxes or incentives did the business have to calculate or report on for th... = Income tax (including provisional tax, capital gains tax, turnover tax and small business corporation tax)

_____ \${Q2.7/ChoiceDescription/4} (1)

Which of the following taxes or incentives did the business have to calculate or report on for th... = Value added tax (VAT)

_____ \${Q2.7/ChoiceDescription/1} (3)

Which of the following taxes or incentives did the business have to calculate or report on for th... = Employment related taxes (PAYE, UIF, SDL and Employment tax incentive)

_____ \${Q2.7/ChoiceDescription/2} (4)

Which of the following taxes or incentives did the business have to calculate or report on for th... = Withholding taxes (dividends, royalties, foreign entertainers and sport persons, foreign property)

_____ \${Q2.7/ChoiceDescription/6} (5)

Which of the following taxes or incentives did the business have to calculate or report on for th... = Customs and excise duties

_____ \${Q2.7/ChoiceDescription/7} (6)

Which of the following taxes or incentives did the business have to calculate or report on for th... = Other tax types levied under South African domestic law relevant to your industry - ignore foreign taxes (please specify)

_____ \${Q2.7/ChoiceTextEntryValue/8} (15)

Q7.3 On a scale of 0 to 10 please score each of the following factors as a driver of tax compliance costs.

0 implies no impact, 10 implies an enormous impact

Not Applicable											
	0	1	2	3	4	5	6	7	8	9	10
The industry sector in which the business is involved ()											
The business structure ()											
The complexity of commercial transactions of the business ()											
The existence of international operations and cross-border transactions of the business ()											
The number of different taxes that the business has to deal with ()											
Uncertainty in the wording of the tax law ()											
Uncertainty in the judicial interpretation of the tax law ()											
Complexity of the tax law ()											
Frequency of changes in the tax law ()											
Uncertainty in tax administrative rules/practices by SARS (the application of the legislation) ()											
Compliance and regulatory tax requirements imposed by SARS ()											
Duration and costs of tax dispute resolution ()											
Different reporting standards for tax and accounting ()											
Introduction of the tax administration act in 2012 ()											
Other (please describe) ()											

End of Block: Drivers of tax compliance

Start of Block: Interaction with SARS

Q8.1 INTERACTION WITH SARS In this section I am interested in your views about various issues affecting the interactive climate between the business and SARS in relation to all tax matters or tax types.

Q8.2
Please indicate the extent to which you agree with the following statements relating to information services provided by SARS.

Strongly Disagree (2)

Disagree (3)

Neutral (4)

Agree (5)

Strongly Agree (6)

Don't know (1)

It is easy to know which SARS department should be contacted. (1)

It is easy to contact the correct SARS department. (2)

SARS officials give clear answers. (3)

SARS officials give an answer within legally prescribed time periods. (5)

The answer provided by SARS is consistent regardless of who provides it (for example staff at different branches and staff at Head Office). (6)

Information obtained from SARS meets the query needs of the business. (7)

Q8.3
Please indicate the extent to which you agree with the following statements relating to tax legislation.

Strongly Disagree (2)

Disagree (3)

Neutral (4)

Agree (6)

Strongly Agree (7)

Don't know (1)

Tax legislation is easy to understand. (1)

The objectives of tax legislation are clear. (2)

Tax legislative provisions are coherent in relation to each other. (3)

Tax legislation is sufficiently adapted to cater for all business situations. (4)

Tax legislation changes are brought to the business attention in advance of their adoption. (5)

Changes to tax legislation are brought to the business attention within reasonable time to comply. (6)

The explanation of tax legislation changes are sufficient and adequate. (7)

Q8.4 Please indicate the extent to which you agree with the following statements relating to SARS' power to manage tax evasion:

	Strongly Disagree (2)	Disagree (3)	Neutral (4)	Agree (5)	Strongly Agree (7)	Don't know (1)
The chance that tax evasion will be detected by SARS is high. (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS combats tax crimes timeously. (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS are effective in the suppression of tax crimes. (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS officials are able to detect tax evasion due to their knowledge. (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is easy for SARS to catch tax evaders. (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q8.5
Please indicate the extent to which you agree with the following statements relating to the expertise and abilities of SARS officials who interact with the business:

Strongly Disagree (2)

Disagree (3)

Neutral (4)

Agree (5)

Strongly Agree (6)

Don't know (1)

SARS officials approach their job with dedication. (1)

Tax personnel in the business are very confident about the skills of SARS officials. (3)

SARS officials have sufficient knowledge of the work that needs to be done. (8)

SARS officials can be relied upon not to endanger the business by careless work. (4)

SARS officials will go out of their way to assist the business. (5)

SARS officials really look out for what is important to the business. (10)

SARS officials act with integrity. (6)

SARS officials can be counted on to do what they say they will do. (2)

Q8.6 Please indicate the extent to which you agree with the following statements relating to interactions between tax personnel of the business and SARS officials:

Strongly Disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly Agree (6) Don't know (1)

SARS officials and tax personnel of the business freely share ideas. (1)

Tax personnel of the business can talk freely to SARS officials about difficulties the business is having regarding tax and know that SARS officials are willing to listen. (2)

If tax personnel of the business shared tax problems of the business with SARS officials, they know the SARS officials will respond constructively. (4)

Tax personnel of the business are cautious in dealing with SARS officials. (6)

Tax personnel of the business automatically trust SARS most of the time (9)

Q8.7 Please indicate the extent to which you agree with the following statements relating to administrative procedures of SARS:

	Strongly Disagree (2)	Disagree (3)	Neutral (4)	Agree (5)	Strongly Agree (6)	Don't know (1)
SARS gives consideration to the views of the business. (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS respects the business's rights. (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS officials keeps the business fully informed about matters that might affect the business. (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS treats the business as if it can be trusted to do the right thing. (12)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Administration of the tax system is consistent from year to year. (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Administration of the tax system is consistent across taxpayers. (10)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q8.8 Please indicate the extent to which you agree with the following statements relating to decisions of SARS:	Strongly Disagree (2)	Disagree (3)	Neutral (4)	Agree (5)	Strongly Agree (6)	Don't know (1)
SARS tries to be fair when making decisions. (10)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Decisions by SARS are free from bias. (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The rationale for decisions made by SARS is clear. (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Decisions made by SARS are based on accurate information (17)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The business has been able to appeal decisions of SARS. (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Decisions of SARS are often favourable to the business. (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

The
business
usually
agrees with
the
decisions of
SARS. (9)



Q8.9 Please indicate the extent to which you agree with the following statements relating to the fairness of SARS:

	Strongly Disagree (6)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Don't know (1)
In the opinion of the business, SARS takes care that everyone pays the right amount of tax. (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The tax benefits the business is entitled to are fair in relation to the amount of tax paid. (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is fair that some groups in society profit more from the tax system than the business does (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The business has to pay too much tax (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q8.10 Please indicate the extent to which you agree with the following statements relating to assessments, audits and penalties:	Strongly Disagree (6)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Don't know (1)
SARS primarily aims to punish. (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS enforces its demands through audits and fines. (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Penalties are too severe relative to the offence. (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS is aggressive toward taxpayers. (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS interprets tax laws in order to punish the highest number of taxpayers. (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Audits are too rigid for the specific case. (11)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

SARS is more interested in catching you doing the wrong thing than helping you do the right thing.
(7)

Q8.11 Please indicate the extent to which you agree with the following statements relating to consultation:

	Strongly Disagree (6)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Don't know (1)
SARS consults widely about how they might change things to make it easier for taxpayers to meet their obligations. (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SARS goes to great lengths to consult with the community over changes to their systems. (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q8.12 Please indicate the extent to which you agree with the statements that complete this sentence: *When the business pays its taxes as required by the South African tax laws and regulations, it does so...*

	Strongly Disagree (6)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Don't know (1)
... voluntarily. (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... without spending a long time thinking how it could reduce them. (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... because its obvious that this is what businesses do. (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... to support the state and other citizens. (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... even though others do not. (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q8.13 Please indicate the extent to which you agree with the statements that complete this sentence:

When the business pays its taxes as required by the South African tax laws and regulations, it does so...

	Strongly Disagree (6)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Don't know (1)
...because it's the right thing to do. (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...because it is regarded as an important civic duty. (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...because there is a moral obligation to pay taxes. (9)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...because it is ultimately in everyone's interest. (10)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q123 Please indicate the extent to which you agree or disagree with the statements that complete this sentence:

When the business pays its taxes as required by the South African tax laws and regulations, it does so...

	Strongly disagree (42)	Disagree (43)	Neutral (44)	Agree (45)	Strongly agree (46)	Don't know (48)
... because it feels forced to pay its taxes. (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... although it would really prefer not to pay any taxes. (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... because it will be audited. (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... because the consequences for tax evasion are very severe. (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... because evasion of taxes without attracting attention is not easy. (9)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q124 Please indicate the extent to which you agree or disagree with the statements that complete this sentence: *Between SARS and SMMEs there exists a climate...*

	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)	Don't know (6)
...of inconsiderateness. (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...of mutual mistrust. (9)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...in which SARS is eager to catch tax evaders and punish them while at the same time SMMEs are unwilling to pay taxes and hide their income from SARS. (10)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...in which SMMEs are treated as customers of SARS. (11)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...of clearly defined, comprehensible rules that determine the interactions between SARS and SMMEs. (12)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...that is service orientated in nature. (13)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...of mutual trust. (14)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...of joint responsibility. (15)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...of cooperation. (16)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

End of Block: Interaction with SARS

Start of Block: Closing questions

Q9.1 What is your position in the business? *Tick one only (select the option that most accurately describes your position)*

- Owner/ partner/ trustee/ director (1)
 - Manager (2)
 - Internal accountant (3)
 - Clerk or administrative staff (4)
 - External accountant or tax practitioner (5)
 - Bookkeeper (7)
 - Other (please describe) (6)
-

Q9.2 What is your highest level of education achieved? *Tick one only*

- Less than secondary schooling (1)
 - Some secondary schooling (2)
 - Completed secondary schooling (3)
 - Diploma, Certificate (FTE) (4)
 - Undergraduate degree (6)
 - Postgraduate degree (7)
 - Other (please describe) (5)
-

Q9.3 Please describe your accounting knowledge *Tick only one*

- No knowledge at all (1)
 - No bookkeeping knowledge but I can understand financial reports (2)
 - Basic bookkeeping knowledge (3)
 - Good bookkeeping knowledge (4)
 - Qualified bookkeeper (5)
 - Qualified accountant / auditor (6)
-



Q9.4 Do you have any suggestions how tax compliance costs might be mitigated or reduced for the business or for the SMME sector as a whole?



Q9.5 What other issues, problems or concerns have you encountered in complying with the SA tax system that have not been addressed by this survey?

Q9.7 Please use the following space to make any comments which you feel may be helpful. WE
THANK YOU FOR PARTICIPATING IN THIS SURVEY

End of Block: Closing questions

APPENDIX B

**Schedule 1, National Small Business Amendment Act 26 of 2003, amended
by Government Notice No.399, published 15 March 2019**

DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

NO. 399

15 MARCH 2019

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

I, **Lindiwe D Zulu**, Minister of Small Business Development, acting in terms of section 20 (2) of the National Small Enterprise Act, 1996 (Act No. 102 of 1996), hereby proclaim as follows, in matters pertaining to the Definition of Small Enterprise in South Africa-

Amend the Schedule of the Small Enterprise Definition as contained in the National Small Enterprise Act, 1996 (Act No. 102 of 1996), read with the National Enterprise Amendment Act, 2003 (Act No. 26 of 2003) and the National Small Enterprises Act, 2004 (Act No. 29 of 2004) to:

- 1) New turnover threshold values to account for inflation, since the Schedule was last revised in 2003.
- 2) Two proxies instead of three. The new schedule defines small enterprise using two proxies - 'total full-time equivalent of paid employees' and 'total annual turnover'.
- 3) Removal of the third proxy of Total Gross Asset Value in the current definition as the proxy is often inappropriate and difficult to measure.
- 4) The size or class category 'very small enterprise' collapsed into the 'micro enterprise' category. Many users found this size or class category unhelpful and inconsistent with international practice.

In this proposed proclamation:

Definition of Small Enterprise

"Small enterprise" 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.

1

Initial 

SCHEDULE 1

The new National Small Enterprise Act thresholds for defining enterprise size classes by sector, using two proxies

Column 1	Column 2	Column 3	Column 4
Sectors or sub-sectors in accordance with the Standard Industrial Classification	Size or class of enterprise	Total full-time equivalent of paid employees	Total annual turnover
Agriculture	Medium	51 - 250	≤ 35,0 million
	Small	11- 50	≤ 17,0 million
	Micro	0 – 10	≤ 7,0 million
Mining and Quarrying	Medium	51 - 250	≤ 210,0 million
	Small	11- 50	≤ 50,0 million
	Micro	0 – 10	≤ 15,0 million
Manufacturing	Medium	51 - 250	≤ 170,0 million
	Small	11- 50	≤ 50,0 million
	Micro	0 – 10	≤ 10,0 million
Electricity, Gas and Water	Medium	51 - 250	≤ 180,0 million
	Small	11- 50	≤ 60,0 million
	Micro	0- 10	≤ 10,0 million
Construction	Medium	51 - 250	≤ 170,0 million
	Small	11- 50	≤ 75,0 million
	Micro	0- 10	≤ 10,0 million
Retail, motor trade and repair services.	Medium	51 - 250	≤ 80,0 million
	Small	11- 50	≤ 25,0 million
	Micro	0 – 10	≤ 7,5 million
Wholesale	Medium	51 - 250	≤ 220,0 million
	Small	11- 50	≤ 80,0 million
	Micro	0 – 10	≤ 20,0 million
Catering, Accommodation and other Trade	Medium	51 - 250	≤ 40,0 million
	Small	11- 50	≤ 15,0 million
	Micro	0 – 10	≤ 5,0 million
Transport, Storage and Communications	Medium	51 - 250	≤ 140,0 million
	Small	11- 50	≤ 45,0 million
	Micro	0 – 10	≤ 7,5 million
Finance and Business Services	Medium	51 - 250	≤ 85,0 million
	Small	11- 50	≤ 35,0 million
	Micro	0- 10	≤ 7,5 million
Community, Social and Personal Services	Medium	51 - 250	≤ 70,0 million
	Small	11- 50	≤ 22,0 million
	Micro	0 – 10	≤ 5,0 million



Lindiwe D Zulu, MP
Minister of Small Business Development

Date: 27/02/2019



APPENDIX C
E-mail send to respondents from SARS

Dear Taxpayer,

Costs of tax compliance survey: 2019: SMMES

The South African Revenue Service (SARS), in collaboration with the University of South Africa (UNISA), is conducting a survey for taxpayers to compare and evaluate their costs of compliance with the tax system.

Research has revealed that tax compliance costs surveys provide valuable data that can be used to enhance a tax system, making it simpler and more efficient. The current survey will also provide a baseline against which the results of future surveys can be compared, and will assist us compare compliance costs before and after implementing specific tax reforms. Your participation in the survey will assist in refining the survey instrument. You will be required to provide feedback on any positive or negative experiences that you encountered while completing the survey, for example, whether the questions are easy to understand and if the survey is user-friendly etc. The survey responses will be collected **independently of SARS**, and the anonymity of all information provided is guaranteed and cannot be linked back to the SARS' database

The duration for completing the survey is 12/03/2019 to 12/04/2019.

[Please click here to access the survey.](#) Note that participation is voluntary and your input will be greatly appreciated.

Should you have any enquiries or feedback, contact Heinrich Dixon on dixonhj@tut.ac.za for SMMES or Sharon Smulders on Smuldsa@unisa.ac.za and/or Aleseng Moshoeite on Amoshoette@sars.gov.za.

Yours Sincerely

THE SOUTH AFRICAN REVENUE SERVICE
March 2019

Please do not reply to this mail. Replies to this message will be sent to an unmonitored mailbox. If you have any questions, visit the SARS website on www.sars.gov.za or call the SARS Contact Centre on 0800 00 7277.

Legal disclaimer: This email is intended solely for the use of the individual or entity to who it is addressed. If you have received this email in error, please delete the email from your system. If you are not the intended recipient you are notified that disclosing, copying, distributing or taking any action in reliance on the contents of this information is strictly prohibited.

APPENDIX D
Ethics Approval

UNISA COLLEGE OF ACCOUNTING SCIENCES ETHICS REVIEW COMMITTEE

Date 2017-08-22

Dear Mr HJ Dixon

ERC Reference:
2017_CAS_044
Name: Mr HJ Dixon
Student/ Staff #:32079923

**Decision: Ethics Approval from
2017-08-22 to 2022-08-21**

Main researcher: Mr HJ Dixon
dixonhj@tut.ac.za

Working title of research:

**Measurement of Tax Compliance Costs: A Proposed Model for Small, Medium and
Micro Businesses in South Africa**

Qualification: Postgraduate research

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee for the above mentioned 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 22 August 2017 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.

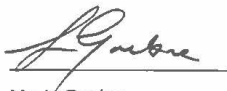


4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.
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.

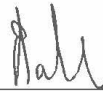
Note:

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,



Ms L Grebe
Chair of CAS RERC
E-mail: grebel@unisa.ac.za
Tel: 012 429 4994



Prof E Sadler
Executive Dean CAS