

A CONCEPTUAL FRAMEWORK FOR TRUST-BASED VOLUNTARY TAX
COMPLIANCE IN SOUTH AFRICA

by

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A CONCEPTUAL FRAMEWORK FOR TRUST-BASED VOLUNTARY TAX COMPLIANCE
IN SOUTH AFRICA

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

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26 June 2024

SIGNATURE

DATE

DEDICATION

This dissertation is dedicated to two very special people:

- To my father, Mr Gaylard Seyamo Mangisa, who always believed in us and encouraged us to reach for greater heights. What a privilege it is to have called you tata!! You are dearly missed and forever cherished Mvelase wam.
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A CONCEPTUAL FRAMEWORK FOR TRUST-BASED VOLUNTARY TAX COMPLIANCE IN SOUTH AFRICA

ABSTRACT

Small and medium-sized enterprises (SMEs) constitute the majority of businesses in emerging economies. However, tax authorities find it challenging to trace SMEs, which results in continuous tax non-compliance. Enforced tax compliance is not always viable because tax authorities are under-resourced versus many existing SMEs. Voluntary tax compliance of SMEs is therefore beneficial for tax authorities. According to the Slippery Slope Framework, voluntary tax compliance improves when there is trust in the tax authority. The purpose of this study was to identify and explore attributes related to trust-based voluntary tax compliance and recommend strategies that may enhance voluntary tax compliance. A qualitative study was undertaken through semi-structured interviews with eight SMEs from the Nelson Mandela Bay Municipality in South Africa. The study found that tax authority legitimacy, procedural and distributive fairness, tax awareness, transparency and communication are attributes of trust in the tax authority that lead to taxpayers trusting the tax authority. Trust in the tax authority positively impacts voluntary tax compliance. It is recommended that the tax authorities treat taxpayers fairly and strive to be seen as competent and transparent. The increased legitimacy of tax authorities influences and improves the tax awareness avenues offered to taxpayers. In addition, the tax authorities may benefit from developing collaborative relationships with various stakeholders to engage taxpayers, specifically SMEs, by providing tax awareness services.

KEY TERMS: distributive justice; emerging economies; government accountability; government service delivery; legitimacy; moral obligation; procedural justice; responsive regulation theory; slippery slope framework; small and medium-sized enterprises (SMEs); tax authority; trust; trust in the tax authority; voluntary tax compliance

ISIKHOKELONGQIQO SOKUTHOTYELWA KWERHAFU NGOKUZITHANDELA ESISEKELWE KWINTSEMBEKO EMZANTSI AFRIKA

ISISHWANKATHELO

AmaShishini aPhakathi namaNcinci (iiSME) ayinxalenye yesininzi samashishini kuqoqosho olusakhulayo. Nangona kunjalo, abasemagunyeni berhafu bakufumana kungumcelimngeni ukulanda umkhondo weeSME, nto leyo ebangela ukuthi gqolo kokungathotyelwa kwerhafu. Ukuthotyelwa kwemithetho yerhafu okunyanzeliswayo akusoloko kusebenza kuba abasemagunyeni berhafu bayasilela ngezixhobo zokwenza oku xa kuthelekiswa neeSME ezikhoyo ezininzi. Ukuthotyelwa kwerhafu ziiSME ngokuzithandela, ke ngoko kuluncedo kwabasemagunyeni berhafu. Ngokwe*Slippery Slope Framework*, ukuthobela imithetho yerhafu ngokuzithandela kuyaphucuka xa kukho intembeko kosegunyeni lerhafu. Injongo yolu phando yayikukuchonga nokuphonononga iimpawu ezinxulumene nokuthotyelwa kwerhafu ngokuzithandela okusekelwe kwintembeko kunye nokucebisa izicwangciso ezinokuthi ziphucule ukuthotyelwa kwerhafu ngokuzithandela. Kwaye kwenziwa uphando oluchazayo ngokuthi kwenziwe udliwanondlebe oluqingqwe lwaphakathi neeSME ezisibhozo kuMasipala oMbaxa iNelson Mandela Bay eMzantsi Afrika. Uphando lufumanise ukuba semthethweni kwigunya lerhafu, ubulungisa obujolise kuhanjiso lweenkonzo ngokwenkqubo, ulwazi ngerhafu, ukwenza izinto elubala nonxibelelwano ziimpawu zentembeko kwigunya lerhafu elikhokekelela ekuthenjweni kwegunya ngabahlawuli berhafu. Intembeko kwigunya lerhafu kunefuthe elihle ekuthotyelweni kwerhafu ngokuzithandela. Kucetyiswa ukuba abasemagunyeni berhafu babaphethe ngobulungisa abarhafi kwaye basebenzele ukubonwa njengabanesakhono nabasebenza elubala. Ukuba semthethweni kwabasemagunyeni berhafu kunefuthe kwaye kuphucula iindlela zolwazi ngerhafu ezinikezelwa kubahlawuli berhafu. Ukongeza, abasemagunyeni berhafu banganenzuzo ekwakheni ubuhlobo bentsebenziswano kunye nabathathinxeba abahlukeneyo ukuze banxulumane nabahlawuli berhafu, ngakumbi amashishini aphakathi namancinci asakhulayo (iiSME) oko bekwenza ngokunikezela ngeenkonzo zolwazi ngerhafu.

ISIGAMA ESINGUNDOQO: ubulungisa obusasazwayo; uqoqosho olusakhulayo; ukukwazi ukuphendula kukarhulumente; ukuhanjiswa kwenkonzo zikarhulumente; ukuba semthethweni; isibophelelo sentsulungeko; ubulungisa ngokwenkqubo; ithiyori yommiselo

ephundulayo; *slippery slope framework*; amashishini aphakathi namancinci (iiSME); igunya lerhafu; intembeko; ukuthembela kwigunya lerhafu; ukuthotyelwa kwemithetho yerhafu ngokuzithandela

'N KONSEPTUELE RAAMWERK VIR VERTROUENSGBASEERDE VRYWILLIGE BELASTINGNAKOMING IN SUID-AFRIKA

ABSTRAK

Klein en medium-ondernemings maak die meerderheid van ondernemings in opkomende ekonomieë uit. Belastingowerhede vind dit egter uitdagend om klein en medium-ondernemings na te spoor, wat lei tot volgehoue nie-belastingnakoming. Gedwonge belastingnakoming is nie altyd uitvoerbaar nie aangesien belastingowerhede 'n tekort aan hulpbronne het vergelykende met klein en medium-ondernemings. Vrywillige belastingnakoming van klein en medium-ondernemings is dus voordelig vir belastingowerhede. Ingevolge die gladdehelling-raamwerk (*Slippery Slope Framework*) is daar 'n verbetering in vrywillige belastingnakoming wanneer daar vertroue in die belastingowerheid is. Die doel van hierdie studie was om die kenmerke te identifiseer en te verken wat verband hou met vertrouensgebaseerde vrywillige belastingnakoming en om strategieë aan te beveel wat vrywillige belastingnakoming kan bevorder. 'n Kwalitatiewe studie is onderneem deur halfgestruktureerde onderhoude met agt klein en medium-ondernemings van die Nelson Mandelabaai-munisipaliteit in Suid-Afrika. Die studie het gevind dat die egtheid van belastingowerhede, prosessuele en verdelende billikheid, belastingbewustheid, deursigtigheid en kommunikasie kenmerke van vertroue in die belastingowerheid is wat daartoe lei dat belastingbetalers die belastingowerheid vertrou. Vertroue in die belastingowerheid het 'n positiewe invloed op vrywillige belastingnakoming. Daar word aanbeveel dat die belastingowerhede belastingbetalers billik moet behandel en moet streef om so bekwaam en deursigtig as moontlik te wees. Die toegenome egtheid van belastingowerhede beïnvloed en verbeter die belastingbewustheidsmiddels wat aan belastingbetalers gebied word. Verder kan belastingowerhede voordeel trek uit die ontwikkeling van gesamentlike verhoudings met verskeie belanghebbers om gemoeid te raak met belastingbetalers, veral klein en medium-ondernemings, deur belastingbewustheidsdienste te verskaf.

SLEUTELTERME: regverdigheid van die inkomsteverdeling; opkomende ekonomieë, staatsrekenpligtigheid; staatsdienslewering; egtheid; morele verpligting; prosessuele billikheid; reagerende regulasieteorie; gladdehelling-raamwerk; klein en medium-ondernemings; belastingowerheid; vertroue; vertroue in die belastingowerheid; vrywillige belastingnakoming

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LIST OF ACRONYMS

ACRONYM	DESCRIPTION
ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
ATAF	African Tax Administration Forum
A-S model	Allingham and Sandmo model
CAGR	Compounded Annual Growth Rate
CAQDAS	Computer-Assisted Qualitative Data Analysis Software
CC	Close Corporation
CIPC	Companies and Intellectual Property Commission
CGT	Capital Gains Tax
DSBD	Department of Small Business Development
eSSF	Extended Slippery Slope Framework
EU	European Union
G7	Group of Seven
G20	Group of 20
GDP	Gross Domestic Product
IFC	International Financial Centres
IMF	International Monetary Fund
ITEP	Institution on Taxation and Economic Policy
MSME	Micro, Small and Medium Enterprise
NMBBC	Nelson Mandela Bay Business Chamber
NYDA	National Youth Development Agency
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay-As-You-Earn

LIST OF ACRONYMS

ACRONYM	DESCRIPTION
RRT	Responsive Regulation Theory
RSA	Republic of South Africa
SARS	South African Revenue Service
SBC	Small Business Corporation
SDG	Sustainable Development Goals
SDL	Skills Development Levy
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SME	Small and Medium-sized Enterprise
SMME	Small, Medium and Micro Enterprise
SSF	Slippery Slope Framework
UIF	Unemployment Insurance Fund
UK	United Kingdom
USA	United States of America
VAT	Value-Added Tax
WCO	World Customs Organisation

DEFINITION OF TERMS AND CONCEPTS

This section outlines the definitions of terms and concepts used in this study.

i. Tax revenue

Tax revenue refers to the money collected from income and profit taxes, contributions to social security, taxes on goods and services, payroll taxes, property ownership and transfer taxes, as well as other taxes (OECD 2022a).

ii. Developed country

A developed country is an autonomous nation with a sophisticated economy and whose underlying structures, such as roads, transit systems, water pipes and treatments, parks, waste facilities, etc., are technologically developed compared to other states (Freed, Kwon, El, Gottlieb & Roth 2020:2).

iii. Emerging or developing country

An emerging or developing country is a nation with low revenue that is undergoing hasty fiscal development because government programs are pitched toward fiscal emancipation (Paul 2020:446).

iv. Group of seven (G7)

G7 is an informal grouping of the seven most developed world countries globally namely, Canada, France, Germany, Italy, Japan, the United Kingdom, the United States, and the European Union (World Population Review 2022a).

v. Group of 20 (G20)

G20 is a council that engages in deliberations regarding global monetary stability and consists of developed and emerging countries namely, Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi

Arabia, South Africa, South Korea, Turkey, United Kingdom and the United States (World Population Review, 2022b).

vi. Organisation for Economic Cooperation and Development (OECD)

The OECD is an organisation providing an alliance for participating nations, thereby allowing them to communicate about their shared ecological and societal issues and to work together on searching for resolutions. Most of the OECD member countries are high-income economies. The OECD currently consists of 34 member countries namely, Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom and the United States (World Population Review 2022c).

vii. Tax authority/ authorities

For the purposes of this study, the term tax authority/ tax authorities include those who have a mandate from the government to “offer services, and to implement controls and impose punishments according to their conception of the motives driving the behaviour of the taxpayers” (Alm, Kirchler, Muehlbacher, Gangl, Hofmann, Kogler, Pollai 2009:34).

The core services of the tax authorities include the following:

- Registering of taxpayers, including detecting non-registrations and false registrations,
- Processing of tax returns, withholding taxes and third-party information,
- Verifying or examining the correctness and completeness of the information received (including reviews and audit processes),
- Assessing taxes due,
- Enforcing debt collection,
- Handling administrative appeals, objections and complaints,
- Providing assistance and services to taxpayers,
- Detecting and prosecuting tax fraud, and
- Imposing penalties and interest payments (Alink & Van Kommer 2016:163).

viii. United Nations (UN)

The UN is an international organisation that was founded in 1946 and now constitutes one hundred and ninety-three Member States whose work is guided by the purposes and the principles in the United Nations' founding Charter (United Nations 2023a)

ix. SARS eFiling

SARS eFiling is an online platform that is provided by SARS to taxpayers at large in order to allow them to submit returns, declarations, make payments and any other related services. This platform is available for free and facilitates the conducting of tax-related services in a secure online environment (SARS 2024).

CHAPTER 1: INTRODUCTION AND OVERVIEW OF THE STUDY

1.1 INTRODUCTION

Every government is required to deliver services to its constituents (Musimenta 2020:2; Sholpanbaeva, Apysheva, Shaihanova, Alimbetov, Jempeissova, Saktayeva & Dusembaeva 2019:274). These services, such as public health, police services, public education and many others, are funded through tax revenue collected by such governments (Fotiadis & Chatzoglou 2021:1066). Nobel Prize laureate, Maurice Allais, commented that tax is the amount that is paid by residents for services the government offers to them (Fotiadis & Chatzoglou 2021:1066). In emerging countries (otherwise known as developing countries), tax revenue accounts for more than 90% of the total income accumulating to governments and is available to expend on service delivery (Nyamapfeni 2021:1). Gobena and Van Dijke (2017:1) state that for the tax revenue to generate the highest achievable advantage for the citizens, the tax authorities should collect such taxes efficiently without spending too much of that tax revenue on collection costs. When tax authorities are inefficient, a societal crisis emanates, resulting in constituents being subjected to a lack of service due to unmet tax collection targets because of tax non-compliance by taxpayers (Fotiadis & Chatzoglou 2021:1066; Oluka, Chiwawa & Kader 2021:455; Ramfol 2019:3).

Small and Medium-sized Enterprises (SMEs) account for a large percentage of businesses in most societies and emerging economies, thus making their tax compliance critical (Dom, Custers, Davenport & Prichard 2022:113). Unfortunately, SMEs have a reputation for paying less than their fair share of taxes, being difficult to trace and thus remaining tax non-compliant (Musimenta, Nkundabanyanga, Muhwezi, Akankunda & Nalukenge 2017:150). To attempt to understand reasons why taxpayers choose to be tax compliant the Theory of Expected Utility was developed. This theory views taxpayers as individuals who always seek to avoid paying taxes if the benefit of evading taxes outweighs the associated penalties (Allingham & Sandmo 1972:326; Oluka et al. 2021:456). The theory concludes that enforcement is the only key factor

that motivates tax compliance and therefore, encourages tax authorities to employ enforced tax compliance to reduce tax non-compliance (Alm 2018:4).

Enforced tax compliance is not always possible or effective because of corruption and because tax law enforcement authorities are underfunded and their resources are limited (Lederman 2018:625). Notably, where SMEs are concerned, because tax authorities in emerging countries are underfunded and under-resourced, enforced tax compliance is nearly impossible due to their abundant numbers, yet contributing a small percentage to the tax revenue (Swistak 2016:130). Consequently, researchers assert that voluntary tax compliance is advantageous for all taxpayers, especially SMEs, because it does not require costly enforcement measures (Djajanti, Sutrisno, Subekti & Nurkholis 2019:74; Kastlunger, Lozza, Kirchler & Schabmann 2013:37).

The Slippery Slope Framework (SSF) proposes that voluntary tax compliance and enforced tax compliance can be looked at from the pertinent determinants, namely, the power of the tax authority together with trust in the tax authority (Kirchler, Hoelzl & Wahl 2008:210). Kirchler et al. (2008:210) elaborate that trust in tax authorities is the determinant of voluntary compliance; the higher the trust levels in tax authorities are, the higher the voluntary tax compliance. These determinants of the SSF interact with and moderate each other but can also operate autonomously (Tsikas 2020:150). This study will focus on the attributes of trust in tax authorities that may lead to voluntary tax compliance among SMEs, for the following reasons:

Firstly, voluntary tax compliance is desirable because it does not require resources from the tax authority. Secondly, the two determinants of the SSF can operate independently, allowing for studies to be conducted on one or both. Lastly, SMEs are the focus because every country desires to include SMEs in their tax base due to their large numbers in almost every economy (Malik & Younus 2020:906). In the next section, the background of this study is outlined.

1.2 BACKGROUND

This section includes a literature review of studies previously carried out to outline the context and framework within which this study was conducted.

1.2.1 Definition of SME

There is no singular definition of SME (Kibuuka and Tustin 2019:34). As an illustration, for statistical purposes the OECD categorises SMEs using the number of employees as the variable as follows: micro (one – nine), small (ten – 49) and medium (50 – 249) (OECD 2017:4). This definition was adopted by the OECD because it allows for comparability since the different OECD countries have varying practices for collecting data (OECD 2017:4). The World Bank, on the other hand categorises SMEs as micro, small and medium enterprises (MSMEs) by size, using the turnover and/ or the number of employees as variables (World Bank Group 2019:10). The World Bank categorises MSMEs according to their size, age and their growth orientations namely: new and young *or* established MSMEs due to different specific needs within these categories (World Bank Group 2019:2).

There are not only variations in the definition of SMEs in the international context but also variations in the definition of SMEs in South Africa. Two of South Africa's Acts, namely the National Small Enterprise Act 102 of 1996 (hereafter stated as the National Small Enterprise Act) and the Income Tax Act No.58 of 1962 (hereafter stated as the Income Tax Act), offer differing definitions of a SME. The National Small Enterprise Act, in Section 1, uses the variables of the number of employees together with the total turnover and classifies these entities as micro, small or medium enterprises. The Income Tax Act uses different variables to define a 'Small Business Corporation' (SBC) as a type of entity that has a turnover limit of R20 million, does not allow shareholders to hold shares in other entities save a few exceptions, and does not allow for the entity to be a personal service provider unless some exceptions are met.

Another South African definition of a SME is Small, Medium and Micro Enterprise (SMME), which states that it is an enterprise owned by an individual who is 16 years or older, identifies themselves to be conducting income-generating activities through a small business and employing less than 251 employees (Finscope Survey 2020:13). As seen from the various definitions, there is no agreement as to which variables make up its definition despite SMEs being touted as a critical tool for growth in economies (Berisha & Pula 2015:17). For this study, a SME is defined as an enterprise owned by

an individual who is 16 years or older, identifies themselves to be conducting income-generating activities through a formally registered small business, and employs between 11 and 251 employees.

1.2.2 Importance of SMEs

Despite the disparities in the various definitions of these entities, SMEs are imperative to the growth of nations (Abdelwahed, Soomro & Shah, 2022:1; Naicker & Rajaram 2018:96). SMEs are often referred to as “the engines of growth” and “catalysts for socio-economic transformation of any country” (Lawal, Barau & Umoru 2020:200). Van Zyl (2020:2) and Naik and Mallur (2018:1) echo the above by elaborating that SMEs are often the most important pillars of an economy that make a substantial contribution to a nation's gross domestic product (GDP) and the creation of employment opportunities. SMEs impact the achievement of the 2030 Agenda for Sustainable Development Goals (SDGs) because they decrease poverty levels by creating jobs and contributing to economic growth (United Nations Department of Economic and Social Affairs 2023b).

In the OECD area, the importance of SMEs is emphasised because they are the most prevalent entity size as they make up around 99% of all enterprises and are the main drivers of job creation (OECD 2019:3). In the European Union (EU), 99.8% of all employer entities and 65% of private-sector job creation are from SMEs (Kalemli-Ozcan, Gourinchas, Penciakova & Sander 2020:1). Similarly, SMEs in Nigeria, Africa, account for 96% of business ventures and 84% of the employment prospects (Vincent 2021:2). The Republic of South Africa (RSA) has shown similar numbers as approximately 91% of registered entities in RSA are SMEs, contributing between 52% and 57% to the nation's GDP and of 61% to employment opportunities (Naicker & Rajaram 2018:96). While research proves that SMEs are critical for any economy, they have a reputation of not being tax compliant (Musimenta et al. 2017:150; Timothy & Abbas, 2021:169).

1.2.3 Tax compliance

Tax compliance is defined as the capability and inclination of taxpayers to comply with the tax laws, declare the accurate revenue for each year and pay the accurate amount of taxes on time (e Hassan, Naeem & Gulzar 2021:1). A simplified view defines tax compliance as meeting the presented deadlines for the preparation, submission and payment of taxes due (Naicker & Rajaram 2018:94). Tax compliance can be divided into enforced compliance and voluntary tax compliance (Pretorius 2015:15). Enforced tax compliance encompasses the steps taken by the tax authority to ensure that the taxpayers meet the tax obligations presented in the tax legislation of a country (Randlane 2016:3). On the other hand, voluntary tax compliance is defined as the preparedness of a natural person and corporations to abide by the laws when there is no enforcement by the tax authorities (e Hassan et al. 2021:1; South African Revenue Service [SARS] 2020a:7).

For SMEs to achieve tax compliance, they must adhere to various tax laws. A review of the South African tax legislation revealed that registered entities (including SMEs) subject to the structure and nature of operations must comply with the following tax types: Income tax, Provisional tax, Dividends tax, VAT, Employees' tax (Pay-As-You-Earn [PAYE]), Capital gains tax (CGT), Securities transfer tax, Transfer duty, Donations tax, Customs and Excise duty, Unemployment Insurance Fund (UIF), Environmental levy, Property tax, Business licences, and Compensation Fund (for occupational injuries or diseases) (Pretorius 2015:8). These tax laws are complex and often involve frequent changes which breed confusion for taxpayers, leading to opportunities to avoid taxation and thus be tax non-compliant (Sithebe 2022:116). The question of tax compliance motivations has been asked for as long as the burden of paying has existed (Bazart & Bonein, 2014:84; e Hassan et al. 2021:1). The factors that influence tax compliance decisions will be discussed in the next section.

1.2.4 Factors influencing tax compliance

Over the years, researchers have sought to understand the factors that influence tax compliance for individuals and SMEs. The first theoretical framework that gained much popularity was the Theory of Expected Utility, which is also known as the Allingham &

Sandmo model or A-S model (Allingham & Sandmo 1972). This theory is also known as the “deterrence model” due to its reliance on the deterrence measures implemented to reduce tax non-compliance (Oluka et al. 2021:456; Mas’ud, Manaf & Saad 2019:192). This theory assumes that taxpayers always look at the economic factors; that is, taxpayers will take the opportunity to evade tax if the gains from such tax evasion exceed the penalty (Oluka et al. 2021:456). The reliance on only economic factors has, however, been criticised by scholars because tax compliance decisions are complicated since they are driven by human conduct, which in turn is influenced by economic factors as well as psychological and sociological factors (Feld & Frey, 2007:115; Kiow, Salleh & Kassim 2017:36; Kostritsa & Sittler 2017:344; Mardhiah, Miranti & Tanton 2019:5; Oluka et al. 2021:456; Saeed, Zubair & Khan 2020:573).

Further deficiencies of the “A-S model” are highlighted as some researchers argue that it is advantageous for tax authorities when the compliance is voluntary, as they do not have to incur the enforcement costs required through tax non-compliance deterrence (Soon, Derashid & Bidin 2020:31; Kirchler et al. 2008:220). The South African tax authority strives for voluntary tax compliance through its strategic objective number eight, which states that the institution and the taxpayers will “leverage each other’s strengths to resolve tax administration challenges and improve voluntary compliance” (SARS 2020:11).

1.2.5 Voluntary tax compliance and its influencing factors

Voluntary tax compliance is a concept that arose from the SSF which sought to combine the economic and psychological factors, thus creating a two-dimensional approach (Gangl, Hofmann & Kirchler 2015:14). This theory was developed because of the A-S model’s weakness in considering the cooperation between taxpayers and tax authorities (Faizal, Palil, Maelah & Ramli 2019:4). The SSF states that the applicable factors to comprehend enforced and voluntary compliance are the power of the tax authority and trust in the tax authority respectively (Kirchler et al. 2008). The extended Slippery Slope Framework (eSSF) then breaks down the power of the tax authority into legitimate and coercive power, while it breaks down trust in tax authority into reason-based and implicit trust (Gangl, Hofmann, Hartl & Berkics 2020:99).

Gangl et al. (2015:14) elaborate that trust in tax authorities is the determinant of voluntary compliance such that the higher the trust levels in tax authorities are, so is tax compliance. To ensure that taxpayers cooperate, tax authorities must build and maintain trust (Gangl, van Dijk, van Dijk & Hofmann 2020:1). Mardhiah et al. (2019:5) assert that if tax authorities instil trust in taxpayers, the taxpayers reciprocate the trust and are voluntarily compliant. This reciprocal trust among the tax authorities and the constituents is termed the 'psychological tax contract' (Feld & Frey 2007:104). Where the tax authority does not trust the taxpayers to voluntarily pay their taxes, the taxpayers may reciprocate with the same attitude, which will impact their voluntary tax compliance (Oluka et al. 2021:457). Scholars affirm that trust in tax authorities is an imperative and key factor in motivating taxpayers' cooperation and voluntary compliance, even for SMEs (Djajanti et al. 2019:81; Malik & Younus 2020:911; Mei Tan & Liu 2016:552).

1.2.6 Trust in tax authorities

Trust in others is a personal decision, and 'trust' has distinct meanings and values founded on experiences and individual beliefs. Trust is generally defined as the anticipation that another party will not take advantage of one's vulnerability (Bornman 2015:774; Tsikas 2020:156). Gangl et al. (2015:16), through the eSSF, provided two autonomous characters of trust, namely reason-based trust and implicit trust, with the former being more contributory to voluntary tax compliance. Reason-based trust is when the constituents choose to trust the tax authorities on whom they are dependent because these tax authorities carry out a critical purpose, are considered determined, skilled, and munificent and the external conditions allow them to be proficient (Gangl et al. 2020:2). On the other hand, implicit trust is an involuntary response that is based on learned behaviour, such as mutual identity, welcoming faces or official papers (Gangl et al. 2020:2). Reason-based trust is, therefore, rational decision-making which goes through a cognitive process and occurs when taxpayers conclude that they can trust the tax authorities (Rashid, Ramli, Palil & Amir 2021a:138).

While trust is identified as an important determinant of voluntary compliance, the Group of Twenty (G20) public trust in tax authorities survey found an increased trust level in tax authorities between 2018 and 2021 (Association of Chartered Certified

Accountants [ACCA] 2021:17). Though the percentage increased from 2.7% in 2018 to 14.9% in 2021 of the respondents reporting that they trust the tax authorities, this number is concerning as the majority of the respondents do not trust the tax authorities (ACCA 2021:17). Additionally, among the Group of Seven (G7) countries, the United Kingdom (UK) and Germany were the only G7 countries to exhibit a positive trust rating in every income level (ACCA 2021:17). Among the G20 countries, six countries, including South Africa, continue to exhibit a high distrust in tax authorities (ACCA, 2021:17). The results of this survey highlight the necessity for tax authorities to build public trust, more especially in emerging countries (ACCA 2021:17).

The Afrobarometer report of 2019 concurs with the public trust survey compiled by ACCA as it postulated that many African citizens do not trust the tax authorities and perceive tax officials as corrupt (Isbell 2017:18). Afrobarometer, a non-profit company, conducts public attitude surveys on democracy, governance, the economy and society (Afrobarometer 2022). Djajanti et al. (2019:73) noted that the majority of emerging countries' revenue is generated from taxes. As noted above, it is imperative to understand the attributes of trust in tax authorities, especially in emerging countries, hence this study sought to identify and explore attributes related to trust-based voluntary tax compliance, and then recommend strategies that may enhance trust-based voluntary tax compliance of SMEs in Nelson Mandela Bay Municipality in South Africa.

1.2.7 Attributes of trust in tax authorities

Bornman (2015:786) found that an environment of trust is typified by the tax authority's procedural justice (how tax authorities treat taxpayers), nation identification, state legitimacy and personal norms. Kornhauser (2022:149), as well as Gobena and Van Dijke (2017:11), agree that a perception of procedural justice increases trust, allegiance and state identification. To develop trust, citizens have to continually experience positive just treatment when engaging with tax authorities and share a mutual bond such as nationality or geographical roots (Braithwaite 2021; Schmolle 2020). Kornhauser (2022:145) explains that where a taxpayer identifies with a nation and sees their position as interlinked with that of the nation, they are prone to the viewpoint that paying taxes is a benefit.

Ababio and Manguye (2021:859) mention that SMEs who perceive the tax as unfair and, therefore, perceive the government as not legitimate were found to be influenced to reduce their revenues to avoid their tax dues. Farrar, Rennie and Thorne (2022:203), as well as Otadi, Mojibi, Ashrafi and Sobhkhiz (2019:51), highlight that tax authorities should make certain that their practices are recognised as fair (procedural justice or fairness) and that their outcomes are consistent across taxpayers (distributive fairness) because this enhances voluntary compliance. In developed countries, when serving the public, the behaviour of the tax authority and how they treat the taxpayers play a major role in shaping the taxpayer's compliance conduct (Feld & Frey 2007:116; Fotiadis & Chatzoglou 2021:1090). Interestingly, contrasting findings stated that procedural justice does not have a noteworthy relationship with either voluntary or enforced tax compliance (Mei et al. 2016:552).

On the inclusion of personal norms, as suggested by Bornman (2015:786), Kornhauser (2022:147) states that tax compliance is positively impacted by personal norms and further asserts that these personal norms interact with each other and the environment because they are not static. These personal norms were found to have a considerable effect on trust in government, and trust in government is linked to the perception of fairness and thus linked to tax compliance intentions (Jimezen & Iyer 2016:25). Studies have also found that lack of accountability is an important factor that reduces the taxpayers' trust in the tax authorities (Sobhkhiz, Ashrafi, Mojibi & Otadi 2020:169). Accountability is based on the political and administrative sectors, where the political sector includes tax policymakers who are outside of the tax administration, and the administrative sector of the tax system includes managers and other tax officials within the tax administration (Sobhkhiz et al. 2020:174).

Listed above are some of the attributes of trust in the tax authority, yet obtaining attributes of trust in current research is done in a very limited manner and suggests there could be a greater variety of attributes of trust included (Bornman 2015:786). It is thus postulated that most studies in tax compliance have not considered the determinants or attributes of trust in tax authorities (Mei et al. 2016:552). Kornhauser (2022:170) suggests that behavioural research about compliance in general and tax

compliance in particular holds great promise for enhancing voluntary tax compliance. The discussion on attributes of trust in the tax authority is elaborated on in Chapter 3.

1.3 PROBLEM STATEMENT

The problem to be investigated by this study exists because tax non-compliance continues to be a challenge worldwide, especially among SMEs. As literature has identified that trust precedes voluntary tax compliance, the study, therefore, sought to explore the attributes of trust in tax authorities to recommend strategies that may enhance trust-based voluntary compliance among SMEs in South Africa, an emerging country.

1.4 RESEARCH AIM AND OBJECTIVES

The aim of this study is to identify and explore attributes related to trust-based voluntary tax compliance, and then recommend strategies that may enhance trust-based voluntary tax compliance of SMEs in Nelson Mandela Bay in South Africa.

Based on the aim of this study, the following objectives were formulated:

- 1.4.1 To identify and explore the perceptions of trust in tax authorities among SMEs in the Nelson Mandela Bay Municipality, South Africa.
- 1.4.2 To identify whether SMEs in the Nelson Mandela Bay Municipality practice voluntary tax compliance or not, and if so how.
- 1.4.3 To identify what attributes of trust in tax authorities may create better strategies for voluntary tax compliance.

1.5 THESIS STATEMENT

There are attributes of tax authorities that lead to taxpayers trusting such tax authorities and ultimately leading to enhanced voluntary tax compliance among SMEs in South Africa.

1.6 DELINEATION AND LIMITATIONS

This study was directed at SME owners and/or managers from the Nelson Mandela Bay Municipality and thus the information gathered is from their perspective. As a result, certain factors might only apply to the Nelson Mandela Bay municipal area, but the results can be applied to other SMEs in other municipal areas in South Africa. The interviews were conducted with natural persons who own and/or manage an SME because they have reasonable knowledge of the taxation affairs of their business entities. The data analysis incorporates some of the taxes and liabilities included in specific South African Acts, as mentioned in section 1.2.3. The administrative burden of the Tax Administration Act 28 of 2011 is also incorporated, including the changes applicable to SMEs, academic literature, and statistical data as published up to the end of February 2024. The study focused on SMEs and specifically excluded micro-enterprises. Informal and micro enterprises, as defined under the Sixth Schedule of the Income Tax Act are therefore excluded. Since the study is for master's degree purposes, the tax authority has been delineated to narrow it down to refer to the SARS and its representatives and employees, and specifically exclude tax policymakers, local municipalities who collect some rates and taxes, and the government itself. Since trust is a personal decision and is based on personal beliefs, the literature review was conducted from both an individual and SME perspective because SME owners/managers were interviewed.

1.7 RESEARCH METHODOLOGY

The research methodology that was used to achieve the aim of this study, together with the research design and interviews are outlined in the sections that follow.

1.7.1 Research design

A qualitative research approach was considered appropriate to satisfy the research objectives because it is about seeking to better comprehend complex circumstances (Leedy & Ormrod 2021:258). Due to the exploratory nature of the study, semi-structured interviews were deemed appropriate because exploratory studies are useful for understanding a phenomenon (Saunders, Lewis & Thornhill 2019:187). To

minimise potential bias, the research instrument was designed mindfully to avoid asking leading questions and by seeking clarity on the responses from the interviewee, probing meanings and exploring responses from different perspectives to avoid any misrepresentations (Saunders et al. 2019:451).

1.7.2 Interviews

Owners and/or managers, and where applicable, accountants of SMEs were selected as participants because they take part in the day-to-day operations of their SMEs and due to their responsibilities, it was assumed that they are familiar with the tax compliance dealings of their enterprises. SMEs that fit the profile of the definition of an SME for this study, as per section 1.2.1, were the target population.

Purposive sampling, also referred to as judgmental or purposeful sampling, was used where participants are chosen based on the researcher's judgement concerning their relevance to answering the research questions (Saunders & Townsend 2018:487). In line with the snowball sampling method (Saunders & Townsend 2018:487), where participants were requested to refer and provide contact details of further possible participants. For any research bias to be eliminated, the sample size was expanded until data saturation was attained, and the two sample selection methods were therefore deemed appropriate (Saunders & Townsend 2018:487). Brinkmann and Kvale's (2018:41) seven stages of an interview inquiry were adopted as a guide to develop the research instrument. Once completed, the supervisors and the College of Accounting Sciences reviewed the interview schedule. Once Research Ethics approval was received from the College of Accounting Sciences, data collection commenced.

Once the information was collected, it was transcribed, coded, and analysed thematically. Thematic data analysis was considered suitable for the study because it is a compelling technique when seeking to understand a collection of experiences, opinions, or mannerisms throughout a data set (Kiger & Varpio 2020:2). This thematic data analysis was performed by the researcher and supported by ATLAS.ti, a Computer-Assisted Qualitative Data Analysis Software (CAQDAS) that permits for the information to be managed and stored in a centralised platform (Friese, Soratto & Pires

2018:12) and both the transparency of the analysis and methodological rigour is increased by it (Saunders et al. 2019:692). The next section discusses the ethical considerations that the researcher was mindful of in conducting the study.

1.8 ETHICAL CONSIDERATIONS

Hofstee (2006:118) emphasises that it is imperative to adhere to the ethical guidelines of the university. The university guidelines require researchers to apply for approval from the University of South Africa's College of Accounting Sciences' Ethics committee before data collection commences. As such, approval was obtained to conduct the study, since the research was going to involve human participants (Biggam 2021:28-29). The researcher adhered to the ethical principles of transparency, confidentiality, impartiality, voluntary participation and no harm to participants, as well as the university's requirement that the participants of a study be safeguarded from any prospective adverse consequences that could occur as an outcome of taking part in the research. All participants were briefed fully about the study's purpose, how the research would be conducted, and the intended use of the research findings. They were notified that their involvement was voluntary and granted an opportunity to decline their involvement. None of the participants was exposed to any harm at any time during their participation in this study. The participants were assured that their confidentiality was of paramount importance and the data collected would be stored in a way that upholds this confidentiality. Before the commencement of each participant's interview, the participant signed the informed consent.

1.9 SIGNIFICANCE OF STUDY

It is expected that the study will be of value to taxpayers, governments, and tax authorities of emerging countries similar to South Africa in addition to academia. Governments levy taxes to provide their constituents with services. Whenever the government does not meet its revenue collection targets due to tax non-compliance, governments are forced to finance the service delivery with interest-bearing loans. These loans erode the financial stability of a country over time and leave countries dependent on foreign aid. As shown in the introduction, this is currently the case in South Africa, with most of the government's revenue being generated from foreign

debt. The study will help revenue authorities gain an understanding of the taxpayers' perception of trust in tax authorities and thus be able to develop strategies that may be used to encourage trust-based voluntary compliance by SMEs. The study will also identify the attributes of the tax authorities that enhance the trust of the taxpayers which will assist the internal revenue authorities to include in the policies and thus conduct themselves in a manner that will enhance this trust. Lastly, identifying the attributes of the tax authority may lead to improved trust in tax authorities, which will hopefully lead to the enhancement of voluntary tax compliance of SMEs in South Africa and other similar emerging countries.

1.10 CONCLUSION

In this chapter, the researcher has provided the various definitions of SME and defined SME for the purposes of this study. Further, an overview of the importance of tax compliance among SMEs in emerging countries, specifically voluntary tax compliance, was provided together with an introduction to the qualities of trust and the climates that lead to such qualities being developed and nurtured. The aim and objectives of this study were formulated. This dissertation has been structured into the following chapters:

Chapter 1 – Introduction and overview of the study

In this chapter, the background of the study and the underlying research problem was introduced by elaborating on several key aspects essential to the study. This was to establish the underlying correlation between the research problem, the identified key aspects, the aim, and the objectives of the study. The definition of SME for the purposes of this study and why it was considered appropriate was also outlined in this chapter.

Chapter 2 – An overview of tax compliance and small and medium-sized enterprises

In this chapter, tax and tax compliance as a field are discussed as they pertain to both international norms and South African norms. In the South African tax compliance

environment, including that of SMEs, the tax compliance challenges of SMEs are emphasised to highlight the regulations that SMEs are encouraged to comply with voluntarily. Finally, the theoretical frameworks underlying tax compliance are outlined.

Chapter 3 – Trust in tax authorities

In this chapter, the literature review on trust and the attributes of trust in tax authorities is discussed. These attributes of trust are highlighted from both the individual's perspective and that of an SME. The conceptual framework developed for the purposes of this study is included in this chapter.

Chapter 4 – Research methodology

In this chapter, the research design and methodology that were adopted are outlined. Further, an explanation and motivation for the appropriateness of the selected research methodology are included.

Chapter 5 – Data presentation and interpretation

This chapter includes a recap of the research aim and objective, the presentation of the participant information as well as the presentation and interpretation of the data collected and how each of the objectives was addressed.

Chapter 6 – Theoretical contributions, recommendations and conclusion

This chapter includes the findings presented per the research objective and how the aim of the study has been met. Recommendations for the tax authorities and future research are provided. Additionally, the conclusions attained are illustrated by explaining the results of the literature that has been reviewed.

CHAPTER 2: AN OVERVIEW OF TAX COMPLIANCE AND SMALL AND MEDIUM-SIZED ENTERPRISES

2.1 INTRODUCTION

The background and introduction of this study were detailed in Chapter 1 where the context and the definition of SMEs for the purposes of this study were discussed in detail. Chapter 2 provides an overview of taxes and the tax environment in South Africa. The field of tax and tax compliance is outlined in a detailed analysis of the SME tax compliance and legislative environment together with the tax revenue collection environment.

2.2 OVERVIEW OF THE TAX ENVIRONMENT IN SOUTH AFRICA

Taxation can be understood as the price that the constituents of the country pay for the government's positive actions (Torgler 2003:129). Taxation is a predictable and viable source for government revenue (OECD 2022b:28). In South Africa, "taxes on the man on the street" have been levied since 1914 in the form of the Income Tax Act (Jones 2014:2; Nyamapfeni 2021:47). In the period between 1910 (when the Union of South Africa was established formally) until the introduction of the Income Tax Act in 1914, taxes levied were the African direct taxation, gold revenues and customs duties (Ndlovu 2017:18). It is worth noting that in this pre-Income Tax Act era, the South African government suffered an increasing budget deficit year to year (Surtees 1985:35). Since the introduction and promulgation of the Income Tax Act, various direct and indirect taxes have been promulgated and are now levied in South Africa (SARS 2022a:4). Direct taxes are paid by the persons that produce income, whereas indirect taxes are levied on households or entities that consume the taxed items (Nyamapfeni 2021:52). An example of an indirect tax is Value Added Tax (VAT) and examples of direct taxes are withholding taxes, and both Corporate and Personal Income Tax (which includes Employees' Tax (PAYE)) (Nyamapfeni 2021:52; SARS 2022a:3).

The tax base of South Africa is broad in comparison to other emerging nations, yet it is narrow when compared to the OECD average (OECD 2022c). In simple terms, all elements or interests that are subject to tax are referred to as the tax base (Institution on Taxation and Economic Policy [ITEP] 2011:1). A broad tax base thus means that a country is taxing most of the prospective tax base, while a narrow tax base signifies that a country is taxing fewer items (ITEP 2011:1). While emerging countries face a critical policy challenge of establishing and maintaining a sustainable source of revenues to finance domestic expenditure, the most important aspect is the protection of the domestic tax base (United Nations 2015:1). Thus, the South African government has a responsibility to protect their tax base.

The South African tax authority is the SARS. SARS is an independent agency responsible for managing the South African tax system and customs service (SARS 2022a:2). This organisation was established on 1 October 1997, on the heels of the promulgation of the South African Revenue Services Act No. 34 of 1997 (SARS 2022b:i). Before 1997, there were two departments responsible for tax collection. The Inland Revenue and Customs and Excise departments were merged, which resulted in SARS (Katz Commission 1996:6). SARS is led by the Commissioner who reports to the Minister of Finance (as the Head of the National Treasury) (SARS 2022c). The mandate and vision of SARS is to “collect all revenues due, to ensure optimal compliance with Tax and Customs legislation and to provide a Customs service that will optimise revenue collection, protect our borders and facilitate legitimate trade” (SARS 2023a:9). As such, SARS currently collects more than 90% of the South African government’s revenue (Nyamapfeni 2021:50).

The government revenue collected through taxes allows the government to offer services to its constituents and as such, taxes can be seen as payment for such services (Fotiadis & Chatzoglou 2021:1066; Sholpanbaeva et al. 2019:274). Taxes are not only for financing public goods and services, but they are an important source for funding infrastructure development, which contributes to the economic growth of both developed and emerging countries (Werekoh 2022:2). It is thus globally accepted that taxes matter and are required so that public services can be paid for (Bird 2011:2). Another consideration regarding the importance of taxes is that to achieve the United Nations’ SDGs, the government needs to mobilise additional finance, more especially

from internal sources, to finance goods and services offered to the public (OECD 2022d:28). It was noted earlier that the South African government was in a budget deficit before 1914, and these deficits continued in the years after the introduction of the Income Tax Act (Surtees 1985:56:100). The South African government continues to project a budget deficit. For the 2022/23 fiscal year, the budgeted expenditure exceeded the projected revenue from the various taxes by R355,7 billion and this has been the case for the four preceding years (RSA Department of National Treasury 2022:6). As can be seen from the recurring budget deficits, emerging countries face considerable challenges when wanting to increase their tax revenues to finance not only their service delivery but also their development requirements (Bani-Khalid, Alshira'h & Alshirah 2022:2).

To supplement low tax revenues to meet service delivery needs (despite the budget deficits), governments are forced to source local and foreign debt (Djajanti et al. 2019:73; Osifalujo, Isiaka & Taiwo 2022:1). This foreign debt can be short or long-term and encompasses debt from institutions such as the World Bank, the Asian Development Bank (ADB) and the International Monetary Fund (IMF) (Khan, Raz, Sattar & Haq 2022:388; Oguora 2023:3). South Africa is thus no exception to the requirement of foreign or external debt to supplement the budget deficit shown above. In his 2023 budget speech, Minister Enoch Godongwana postulated that South Africa's government debt is substantial with a projected increase of R1.11 trillion from R4.73 trillion for 2022/23 to R5.84 trillion for 2025/26 (RSA Department of National Treasury 2023:6). This foreign debt comes with an unfortunate trade-off because the resources used to service the debt could otherwise have been used to address pressing social needs or to invest in the country's future (RSA Department of National Treasury 2023:7). In emerging countries, there are unexpected consequences of diversion of resources to service foreign debt. These include countries experiencing sluggish economic growth, debilitating debt concerns, stock market instability, and even unintended consequences such as an increase in human rights violations (Oguora 2023:3). Within South Africa, the Minister of Finance acknowledges the risks to the fiscal outlook, which include a worsening economic outlook, an increased decline of the finances of state-owned companies and an unaffordable public-service wage agreement (RSA Department of National Treasury 2023:7). With the perils that befall a country due to tax non-compliance, in this study the researcher attempted to

identify and explore attributes related to trust-based voluntary tax compliance. The tax collection environment specifically applicable to South Africa and its government regulations is discussed in the next section.

2.3 TAX COLLECTION ENVIRONMENT: SOUTH AFRICA

Economic growth and development of a country are bolstered when the government can collect more revenue and properly spend the said revenue (Kwaramba & Mudzingiri 2016:2). SARS acknowledges its role because it states that it “strive(s) towards enabling the government to build a capable State, to foster sustainable economic and social development, which serves the wellbeing of all South Africans” (SARS 2022b:4). The taxes levied by the national government that SARS is responsible for collecting are listed in Table 2.1.

Table 2.1 Tax types applicable to different taxpayers in South Africa

Type of tax/ levy	Applicable to:		
	Individuals	Companies	SME specific
Income Tax	X (Personal Income Tax)	X (Corporate Income Tax)	X
Employees Tax (PAYE)	X	X	X
Provisional Tax	X	X	X
Withholding Taxes		X	X
Capital Gains Tax (CGT)	X	X	X
Donations Tax	X	X	X
Dividends Tax		X	X
Value-Added-Tax (VAT)	X	X	X
Transfer Duty	X		
Estate Duty	X		
Securities Transfer Tax		X	X
Skills Development Levy (SDL)		X	X
Unemployment Insurance Fund (UIF)		X	X
Air Passenger Departure Tax	X	X	
Mineral and Petroleum Resource Royalties		X	
Diamond Export Levy		X	

Type of tax/ levy	Applicable to:		
	Individuals	Companies	SME specific
International Oil Pollution Compensation Fund Contributions Levy		X	

Source: Own compilation based on SARS (2022a:3-4) and SARS (2022d)

In Table 2.1, the different types of tax are listed, and the type of taxpayers to which it applies is indicated. It should be noted that PAYE, Provisional Tax, Withholding Taxes and CGT are specific taxes as defined within the Income Tax Act. Another noteworthy point is that while PAYE is a method to collect Income Tax from the remuneration earned by individuals, the administration of such a tax is the employer's responsibility, hence it is shown as a tax affecting both individuals and SMEs. Additionally, under the Customs and Excise Act 91 of 1964 (hereafter stated as Customs and Excise Act), the following duties and levies are leviable: Ordinary Customs Duty, Environmental Levy, Anti-dumping, Countervailing and Safeguard Duties on Imported Goods, Specific Excise Duty, Specific Customs Duty, *Ad Valorem* Excise Duty, *Ad Valorem* Customs Duty, General Fuel Levy and Road Accident Levy and the Ordinary Levy (SARS 2022a:3-4). The Tax Administration Act 28 of 2011 (hereafter stated as the TA Act) exists to incorporate the administrative obligations that are duplicated in and standard to all Tax Acts, eliminate unnecessary administrative requirements, and standardise the requirements (SARS 2011a:4). One of the main reasons for its development is that it seeks to improve tax compliance to ensure that every taxpayer pays a fair share of tax (SARS 2011a:5). This stance by SARS is not a surprising phenomenon because the existence of an effective system of tax administration has been argued to be a direct determinant of the levels of revenue collected (Schmoll 2020:18).

As a result, South Africa's tax register has grown over the years due to factors such as socio-economic circumstances, tax policy improvements and the effectiveness of the tax administration (SARS 2022b:4). Even more encouraging is that the tax revenue has improved considerably over the years with a notable increase of 25.1% in the consolidated revenue between 2020/21 and 2021/22 fiscal years (SARS 2022b:7). The significant increase in tax revenue was partly due to the COVID-19 lockdown restrictions being eased, thus increasing global demand as well as prices of

commodities that were higher (SARS 2022b:9). Even so, the Minister of Finance acknowledges the growth in tax revenues by commenting that the tax administration’s efficiency and effectiveness is the reason why the country’s tax revenue is increasing because the tax authority has engaged in trust building with the citizens to increase voluntary tax compliance and improve revenue collection (RSA Department of National Treasury 2023:14). Indeed, when there are developments in the efficacy and effectiveness of the tax system and the collection process, the government concern will certainly enjoy the fruits (Alasfour 2019:253). This increase is mainly due to Corporate and Personal Income Taxes and Customs Duties having higher collection rates (RSA Department of National Treasury 2023:14). The main source of revenue for the government remains Income Tax (SARS 2023b:2). For the fiscal year ending 31 March 2023, Income Tax and VAT remain the largest sources of tax revenue for the South African government (SARS 2023b:1). Within Income Tax, there is a distinction between Personal Income Tax and Corporate Income Tax. Personal Income Tax accounted for 35.7%, while VAT and Corporate Income Tax constituted 25.0% and 20.6%, respectively (SARS 2023b:1). These three taxes combined make up 81.3% of tax revenue received from Income Tax and VAT in 2023 versus just over 70% in 2018, as shown in Figure 2.1.

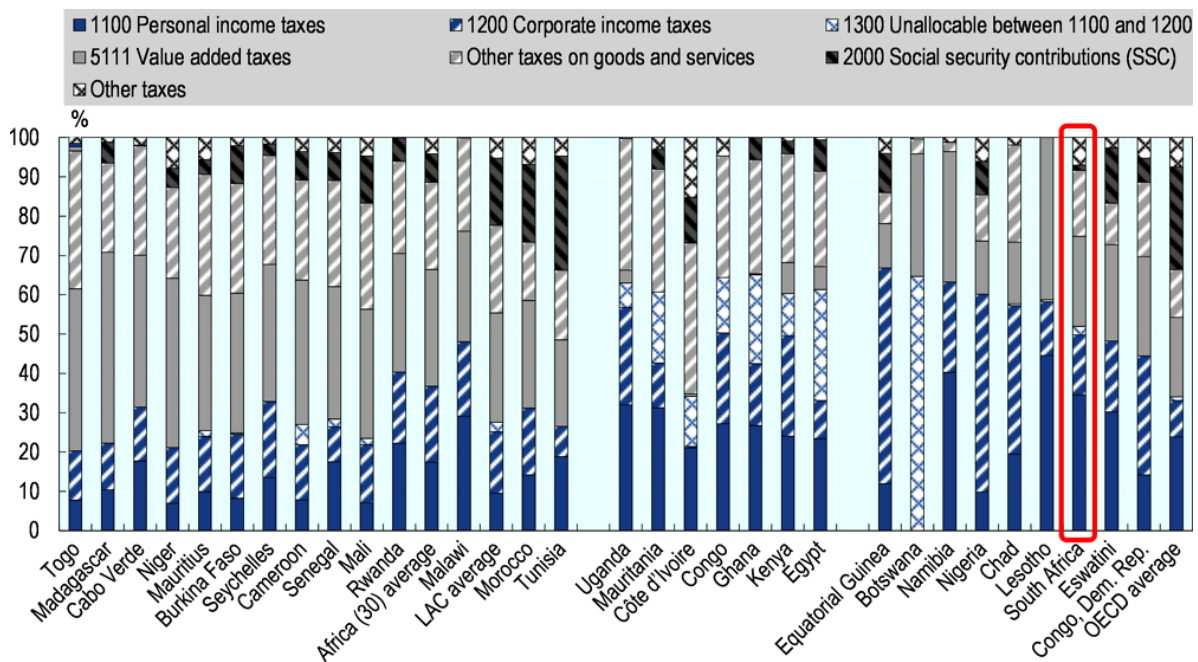


Figure 2.1 The tax mix in South Africa compared to African and OECD countries in 2018

Source: OECD (2022b)

It is clear from Figure 2.1 that Personal Income Tax, VAT and Corporate Income Tax are the main sources of the South African government's revenue. Following closely behind these are the Fuel Levy and specific Excise and Customs Duties, which constitute 11.9% of the total tax revenue (SARS 2022b:10). The paragraphs below include a description of each of the different tax types that are part of the main contributors to government tax revenue.

2.3.1 Personal Income Tax

With a 35.7% contribution to the overall tax revenue in the 2022/23 fiscal year, Personal Income Tax is the most significant contributor to the tax revenue of the South African government (SARS 2023b:1). Personal Income Tax is imposed on the taxable income of trusts and individuals, including taxable capital gains realised (SARS 2022b:34). This taxable income could include profits or losses from a business or trade where the individuals are running a business (SARS 2023c). Individuals and special trusts are taxed at a progressive scale. Personal Income Tax has been designed carefully to ensure that the tax burden on individuals continues to be satisfactory through the tax brackets and rebates, which are modified annually to take into account inflation (SARS 2015:2). The revenue collection within Personal Income Tax comprises three distinct taxable income streams namely, PAYE, provisional tax and assessed tax. Sole proprietors who operate SMEs fall into this category, which makes this tax relevant to the research at hand. In the next section, VAT, which is another major tax type contributing to the country's tax revenue, is discussed.

2.3.2 Value-Added Tax

With a 25% contribution to the overall tax revenue in the 2022/23 fiscal year, VAT is the second biggest contributor to the tax revenue of the South African government (SARS 2023b:1). VAT is an indirect tax that is based on destination and consumption with only goods consumed in South Africa being subject to the tax (SARS 2022a:76; SARS 2022b:228). It is, therefore, payable on the supply of goods and services within the Republic and on goods and services imported into the Republic (SARS 2022a:76). Those who own an enterprise may voluntarily or compulsorily register for VAT if their

taxable supplies exceed or are likely to exceed R50 000 or R1 million respectively, in a 12-month period (SARS 2022a:77-78). 'VAT vendors' is the term given to persons who are registered or those who are required to register for VAT. On registration, vendors are broken down into five different categories and they submit VAT returns every month, or every two months, or every six months, or annually. VAT comprises output and input VAT. Output VAT includes standard-rated and zero-rated supplies with VAT charged at 15% and zero percent respectively, as well as exempt supplies where no VAT is charged (SARS 2022a:77). Input VAT, on the other hand, can be claimed by all VAT vendors who produce taxable supplies. The direct implication is that those who produce exempt supplies may not claim input VAT (SARS 2022a:78; SARS 2022b:228). In the next section, Corporate Income Tax, which is the third biggest contributor to South Africa's tax revenue, is discussed.

2.3.3 Corporate Income Tax

With a 20.6% contribution to the overall tax revenue in the 2022/23 fiscal year, Corporate Income Tax is the third biggest contributor to the tax revenue of the South African government (SARS 2023b:1). Corporate Income Tax is levied on companies that are incorporated in, formed and established in or have their effective place of management in South Africa (SARS 2022d). The Corporate Income Tax rate is currently 27%, as of years of assessment ending on or after 31 March 2023 (previously 28%) (SARS 2022d). Within Corporate Income Tax, there are two submissions required, namely submitting the annual tax return and submitting the provisional tax returns (SARS 2022d). The next section discusses a combination of the remaining tax types that contribute significantly to South Africa's tax revenue.

2.3.4 Other taxes with significant contribution to tax revenues

This section explains the remaining taxes highlighted that contribute significantly to the tax revenue collected. These are Fuel Levy, Specific Customs Duty and Specific Excise Duty. Table 2.2 lists these taxes as well as their descriptions.

Table 2.2 Other significantly contributing tax types to the tax revenue of South Africa

Tax types	Description
Fuel Levy	<ul style="list-style-type: none"> • Levied on diesel, paraffin and petrol manufactured or imported into South Africa. • Levies charged on these products range from 380 cents to 394 cents per litre sold. • The levy comprises the General Fuel Levy and the Carbon Fuel Levy (SARS 2022a:98)
Specific Excise Duty	<ul style="list-style-type: none"> • Levied on products that include alcoholic beverages, tobacco and petroleum products, which are consumed in South Africa. • The quantity or volume of the excisable goods as manufactured or imported is what the duty is assessed on (SARS 2022a:96).
Specific Customs Duty	<ul style="list-style-type: none"> • Levied on goods that are imported into South Africa as categorised by the Harmonised Commodity Description and Coding System developed by the World Customs Organisation (WCO), of which South Africa is a member. • Some imported goods are duty-free; however, others have import duties charged at specific rates, such as cents per litre or cents per kilogram (SARS 2022a:85; SARS 2022d).

Source: Own Compilation

The tax types listed in Table 2.2 collectively contributed 11.9% of the total tax collected in the 2018 fiscal year. In the next section, the various methods of measuring the performance of the South African tax system are discussed.

2.4 MEASUREMENTS OF TAX REVENUE PERFORMANCE IN SOUTH AFRICA

Various methods are used to measure the performance of a tax system. The Compounded Annual Growth Rate (CAGR) measures the compounded growth of the tax revenue year-to-year (SARS 2022b:7). The tax-to-GDP ratio measures the government's tax effort, whereas the tax buoyancy measures the tax revenue's sensitivity to shifts in the fiscal expansion (SARS 2022b:8,9). The efficiency of revenue collection is measured through the cost-of-collection ratio (Nyamapfeni 2021:51). These performance indicators and where South Africa is situated will be discussed in the next paragraphs, starting with the CAGR.

2.4.1 Compounded Annual Growth Rate

South Africa's overall CAGR has been fluctuating over the years (SARS 2022b:8). While the fluctuations of the overall CAGR are shown, it is imperative to note that a positive CAGR is important because it shows that there is growth in the revenue of the country, albeit at varying percentages year-on-year (refer to Figure 2.2).

R million	Individuals ²	CAGR ¹	Companies ²	CAGR ¹	Value - added Tax	CAGR ¹	Tax Revenue	CAGR ¹
2002/03	94 337		55 745		70 150		281 939	
2007/08	168 774	12.3%	140 120	20.2%	134 463	13.9%	572 815	15.2%
2012/13	275 822	10.3%	159 259	2.6%	191 020	7.3%	813 826	7.3%
2017/18	460 953	10.8%	217 412	6.4%	289 167	8.6%	1 216 464	8.4%
2021/22	553 951	4.7%	320 447	10.2%	390 895	7.8%	1 563 754	6.5%

1. Compounded annual growth rate (percentage)

2. Excludes interest on overdue income tax as in Table A1.4.1.

Figure 2.2 Nominal Tax collections, 2002/03 – 2021/22

Source: SARS (2022b:8)

Figure 2.2 indicates the fluctuations in the CAGR of South Africa. Despite the fluctuations in the CAGR between the different years, the South African tax revenue is growing steadily (SARS 2022b:8). The total tax revenue, as shown in Figure 2.2, is not equal to the sum of the shown individuals, companies, and VAT taxes because the amounts per tax type exclude overdue interest and the amount is attributable to other taxes including the Fuel Levy and Customs Duties (SARS 2021:24, 2022b:8).

2.4.2 Tax-to-GDP ratio

Organisations such as the International Monetary Fund (IMF), the World Bank, the OECD, and the African Tax Administration Forum (ATAF) use the tax-to-GDP ratio when they perform comparative analyses on the tax administrations and fiscal performance of various nations (SARS 2022b:8). This ratio measures the tax revenues as a percentage of GDP (OECD 2022b:28). The average tax-to-GDP ratio for OECD countries for the 2021 year was 34.1% (up from 33.5% in 2020) (OECD 2022d:1). Across the African continent, the tax-to-GDP ratio in 2020 varied substantially and ranged between 5.5% in Nigeria and 32.5% in Tunisia (OECD 2022b:29). Despite

lower tax revenues caused by the COVID-19 pandemic that significantly reduced the tax-to-GDP ratio for 2020/21, this ratio has remained consistent for South Africa, with a percentage of 23.7% in 2017/18 and 24.9% in 2021/22 (SARS 2022b:9). Across 31 African countries, the tax-to-GDP ratio has grown steadily with an average ratio of 15.0% in 2012 and 16.2% in 2019 with the COVID-19 pandemic causing the first decline experienced (OECD 2022b:40). In these 31 countries, the increase is attributable mainly to an increase in Personal Income Tax due to high-net-worth individuals increasing in Sub-Saharan Africa (OECD 2022b:40). The second largest driver of this average growth is due to the increase in the VAT revenue received (OECD 2022b:41). Concerning however, are the Corporate Income Tax revenues, which show a steady decline as part of tax collections (OECD 2022b:40). Among the factors that influence the tax-to-GDP ratio are the tax administration's capability as well as the taxpayers' tax morale (OECD 2022b:45).

The high tax morale or the willingness of taxpayers to comply is an important element in taxes because tax compliance will occur without the involvement of the tax authority, thereby allowing the limited resources of tax authorities to be focused on those taxpayers who are not willing to comply. In the next section, another measurement of tax revenue performance, tax buoyancy, is outlined.

2.4.3 Tax buoyancy

Tax buoyancy summarises the tax revenue expansion over time and is calculated by dividing the percentage variation in tax revenue by the percentage variation in GDP (Bird 2011:11; Nyamapfeni 2021:57). Tax buoyancy is not to be confused with tax elasticity, which merely measures changes in tax revenue in the absence of any tax policy changes. Tax buoyancy is measured carefully to include the effects of the changes in tax revenue (Bird 2011:11). When the tax buoyancy is one, it means that the tax revenue is growing at the same pace as the GDP growth (Nyamapfeni 2021:57). When over the long term the tax buoyancy remains greater than one, it highlights the sustainability of the economic strategy (SARS 2022b:9). The world's tax buoyancy for the last two decades of the 21st century was 1.04 (Bird 2011:11). For South Africa, the tax buoyancy for the 2021/22 fiscal year was 2.1 and the average long term buoyancy ratio since 1994/95 was 1.3 (SARS 2022b:10). This average

indicates that the South African tax system is extremely responsive to variations in the economic tax base (SARS 2022b:9). The tax buoyancy rate of South Africa had decreased from 1.2 in 2015/16 to 0.9 in 2016/17 (SARS 2022b:10). This was attributed to a possible deterioration in the tax administration by SARS or increased tax avoidance or even the emigration of wealthy individuals (World Bank 2018:16).

2.4.4 Cost of collection ratio

The efficacy of the tax authorities in their tax administration duties has been receiving increasing attention (SARS 2022b:16). This is partly because for the tax revenue to generate the highest achievable advantage, the tax authorities should collect taxes efficiently without spending too much of that tax revenue on collection costs (Gobena & Van Dijke 2017:1). The cost of revenue collection is a great tool to compare various tax administrations and is calculated by dividing the cost of the tax authority's internal operations by the total tax revenue collected during each fiscal year (Nyamapfeni 2021:51; SARS 2022b:16). The international standard for this ratio is 1.0% for emerging countries and SARS continues to remain below this standard with a ratio that ranges from 0.89% in 2017/18 and decreasing to 0.72% in 2021/22 (SARS 2022b:16). SARS attributes this declining ratio as proof of the decreased costs by the tax authority and/or increased tax compliance (SARS 2022b:16).

2.4.5 Conclusion on the tax collection environment

While the above performance indicators of South Africa's tax collection and its environment show a mostly positive picture, the tax policy of South Africa is heavily reliant on Personal Income Tax and thus on the labour market, which is not sustainable in the long run (Mackett 2021:4). This enhanced dependence on Personal Income Tax and a decrease in Corporate Income Tax makes for a strange tax structure model due to the excessive unemployment and inequality ratios in South Africa (Mackett 2021:8). In the next section, the theoretical frameworks that inform tax compliance will be discussed.

2.5 THEORETICAL FRAMEWORKS ON TAX COMPLIANCE

One of the problems of the tax authorities is tax compliance (Rachmawan, Subekti & Abid 2020:208). It is imperative to ensure that all those who should be paying their taxes are willing to comply (Kondelaji, Sameti, Amiri & Moayedfar 2016:580). Lack of or poor service delivery and stunted economic growth are some of the consequences of the decision by taxpayers to evade and/or avoid tax (Fotiadis & Chatzoglou 2021:1066). Tax compliance questions have been asked for as long as the taxes have been in existence and these questions will remain for as long as taxes exist (Torgler 2003:119). Across the globe and more especially in emerging countries, the scourge of tax non-compliance continues to be a source of great unease (Werekoh 2022:2). Tax non-compliance is a result of these three primary terms: tax avoidance, tax flight and tax evasion. Tax flight alludes to the moving of corporations with the primary purpose of saving taxes by using offshore tax sanctuaries (Kirchler, Maciejovsky & Schneider 2001:2). Tax avoidance refers to attempts by taxpayers to decrease their tax liabilities through legal means while tax evasion is the attempt to reduce tax liability through illicit means (Kassa 2021:2; Kirchler et al. 2001:2). In the following section, the various theoretical frameworks that have been developed over time to understand the conundrum that is tax compliance are presented.

2.5.1 Theory of Expected Utility

The first notable framework was the A-S model (Allingham & Sandmo 1972). This framework determined that the decision on tax compliance for taxpayers is uncertain and dependent on whether the tax authorities will detect and punish this non-compliance (Allingham & Sandmo 1972:324). Scholars applaud the A-S model for drawing attention to the economic factors that influence tax compliance, yet find it wanting due to its failure to offer a comprehensive elucidation as to why persons voluntarily comply with taxes even when there is no enforcement and in those instances, the cost of complying is higher than the cost of non-compliance (da Silva, Guerreiro & Flores 2019:148, Kornhauser, 2022:138; Mas'Ud et al. 2019:193). Another concern was that enforced tax compliance is not always possible or effective because of corruption, and because tax authorities are underfunded and their

resources are limited (Lederman 2018:625). Additionally, in the long term, enforcing tax compliance is not an effective solution (Rachmawan et al. 2020:208).

Voluntary tax compliance is therefore advantageous, especially for SMEs, because the tax authority saves from incurring the notoriously high costs of implementing the enforcement strategies that this theory calls for (Djajanti et al. 2019:74; Gobena & Van Dijke 2017:1; Kastlunger et al. 2013:37). With these deficiencies, another theory that offered more insight into the tax compliance decisions of taxpayers was developed. The next section discusses voluntary tax compliance and the SSF.

2.5.2 The Slippery Slope Framework

The SSF differentiates between the two determinants of tax compliance, namely voluntary and enforced tax compliance (Kirchler et al. 2008:211). Voluntary tax compliance is defined as the inclination of persons (natural and otherwise) to abide by the laws when there is no enforcement by the tax authorities (e Hassan et al. 2021:1; Manhire 2015:17; SARS 2020:7). On the other hand, enforced compliance is a result of the tax authority's enforcement power (Dom et al. 2022:7). These two determinants interact and moderate each other, but also operate independently (Tsikas 2020:150). The SSF highlights that each country has a tax environment that can range between an antagonistic environment and a synergistic environment (Kirchler et al. 2008:211). In the former environment, taxpayers and tax authorities work against each other, while in the latter environment, these two variables work together (Kirchler et al. 2008:211). The SSF postulates that in an antagonistic environment, voluntary tax compliance is likely to be negligible, while in a synergistic environment, voluntary tax compliance is likely to be prevalent (Kirchler et al. 2008:211). As illustrated in Figure 2.3, enforced compliance is understood through the important factor, which is the power of the tax authority, while voluntary tax compliance can be understood through the equally important factor, which is trust in tax authorities (Kirchler et al. 2008:210).

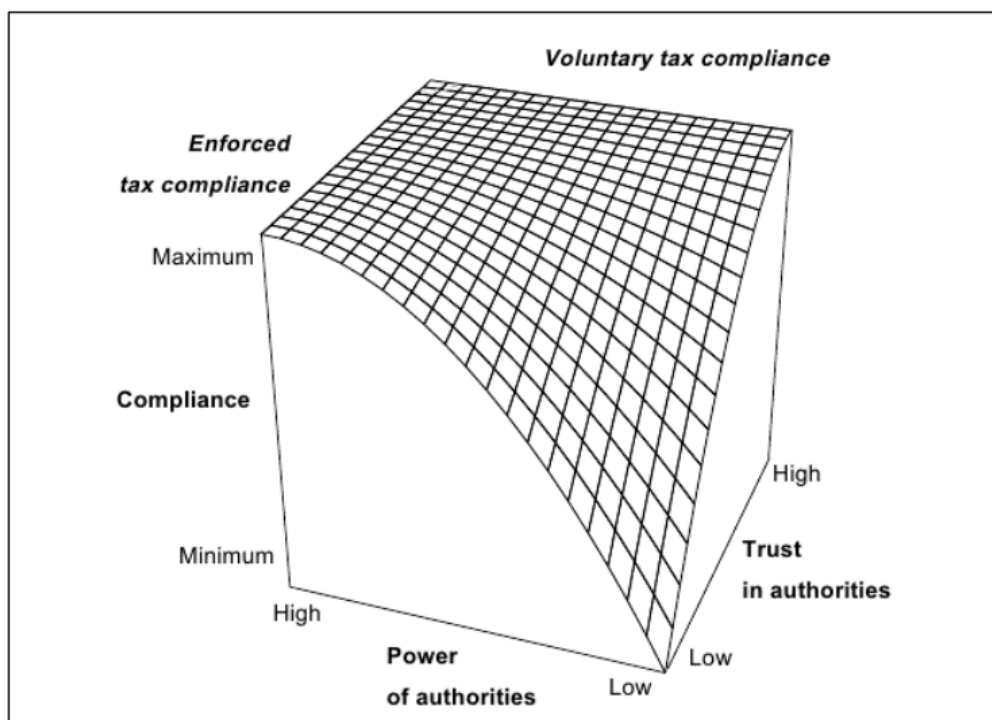


Figure 2.3 The “Slippery Slope” framework approach

Source: Kichler et al. (2008:212)

Figure 2.3 illustrates that tax compliance can be attained through increasing the levels of power of tax authorities and trust in tax authorities (Kirchler et al. 2008:212). Power of tax authorities refers to the perception of taxpayers regarding the tax authorities’ ability to detect tax evasion and to punish such evasion to a significant extent (Kirchler et al. 2008:212). Trust in tax authorities refers to the opinion that taxpayers individually and as social groups have of the tax authority as benevolent and working beneficially for the common good (Kirchler et al. 2008:212). It is important to emphasise that the SSF assumes that if the tax authority is perceived as service-oriented, this results in enhanced voluntary tax compliance because such tax authority is perceived to be trustworthy (Stark 2020:3). Trust in tax authorities will be explored further in Chapter 3. In the next section, it is fitting to explore another theoretical framework that resulted directly from and was an extension of the SSF.

2.5.3 The Extended Slippery Slope Framework (eSFF) and the Responsive Regulation Theory (RRT)

The eSFF further breaks voluntary compliance into voluntary cooperation and committed cooperation (Kirchler, Hofmann & Gangl 2012:140; Rashid et al. 2021a:135). The reason for this further distinction is that the motivations behind voluntary cooperation and committed cooperation are different, even though both result in voluntary tax compliance (Rashid et al. 2021a:135). Another scholar has through the RRT postulated that motivational postures in tax compliance can be differentiated as follows: commitment, capitulation, resistance, disengagement and game-playing (Braithwaite 2003b:18). Of these postures, the two that are positive postures are commitment and capitulation (Braithwaite 2003b:18; Rashid et al. 2021a:135). Capitulation signifies the reluctant acceptance of the power of the tax authority as the legitimate authority, together with the perception that the tax authority is a munificent power, provided that it acts appropriately (da Silva et al. 2019:156). On the other hand, commitment signifies that taxpayers trust the tax authority and this results in the moral motivation to do their part for the benefit of the collective (da Silva et al. 2019:156). The eSFF states that committed cooperation is motivated by the taxpayer's moral values, national responsibility and norms shared within the society, while voluntary cooperation is motivated because the tax authority provides quality services (Rashid, Ramli, Palil & Amir 2021b:104). The responsiveness of the tax authority to both the attitudes and motivations is imperative to the effective management of tax systems (Braithwaite 2003b:32). For this reason, the researcher explored and identified the attributes of trust in tax authorities that may lead to voluntary tax compliance, thus enhancing tax compliance. In the next paragraph, the tax compliance environment in South Africa will be outlined.

2.6 TAX COMPLIANCE IN SOUTH AFRICA

The challenge of tax evasion is even more dire in emerging countries than in developed countries and may result in a damaging loss for a nation's GDP (Kassa 2021:2). Billions of dollars are estimated to be shifted from emerging countries every year and this illicit channelling of public funds destabilises the effort by these countries to secure more domestic funds to meet the globally agreed upon SDG targets (Global

Financial Integrity 2020:5). Noting the impact of tax evasion on emerging countries, the researcher has endeavoured to identify and explore the attributes of trust in tax authorities that may create better strategies for voluntary tax behaviour, which is one of the objectives of this study.

SARS published its inaugural Compliance Programme in 2011 which highlighted the compliance strategy that SARS intended to use to improve tax compliance. Since 2011, SARS continued to review the SARS Compliance Programme and prepare it as part of the Annual Performance Plan (SARS 2020:8). Figure 2.4 was extracted from the 2011 Compliance Programme and shows how SARS intended to respond to the various postures of compliance by the taxpayers.



Figure 2.4 SARS tax compliance strategy

Source: SARS (2011b:7)

In Figure 2.4, it can be surmised that the SARS' response (that is compliance strategy) to tax non-compliance is dependent on the attitude of each taxpayer to compliance. When dealing with human management, it is imperative to prod those taxpayers who are non-compliant towards tax compliance while being careful not to adversely affect those taxpayers who are compliant (Braithwaite 2003a:2). The compliance strategy of SARS is evident in the RRT because the tax authority is attuned to the motivational postures/attitudes of the taxpayers and thus the regulation approach is responsive to the motivational posture/attitude (Ayres & Braithwaite 1992:4). The RRT emphasises the necessity of trust (Six 2013:4). It is not only the RRT that emphasises trust; even the SSF, and eSSF highlight the importance of taxpayers trusting the tax authority, thus leading to an improvement in voluntary tax compliance (Kichler et al. 2008:212;

Kirchler et al. 2012:140). Trust and the RRT will be discussed in more detail in Chapter 3.

Another aspect of the inaugural SARS Compliance Programme was the indication that they would enforce compliance in listed areas determined based on research, yet encourage the taxpayer to voluntarily comply (SARS 2011b:3). This is in line with research which states that most tax authorities in the world endeavour to inculcate the desire to voluntarily comply with tax requirements (Rashid et al. 2021a:135). Since 2011, the SARS Compliance program has evolved with the inclusion of various strategic objectives, with the main strategic intent being “to develop and administer a tax and customs system of voluntary compliance, and where appropriate, enforce responsibly and decisively” (SARS 2023c:12, 2022f:8, 2020:9). As such, the response of the South African tax authority, SARS, continues to be geared towards those taxpayers who are motivated to voluntarily comply. Voluntary tax compliance is advantageous for all taxpayers, especially SMEs, because it does not require costly enforcement measures from the tax authority (Djajanti et al. 2019:74; Gobena & Van Dijke 2017:1; Kastlunger et al. 2013:37). Yet, in most societies and emerging economies, a specific type of taxpayer who makes up a greater part of businesses are SMEs, and the societal crises that arise when these entities are non-compliant make their tax compliance critical (Al-Rahamneh & Bidin 2022:11; Dom et al. 2022:113). When SMEs are tax compliant, their diverse sources of income could increase the government’s internally generated revenue (Amanamah 2016:6). However, there are some challenges with the tax compliance of SMEs, which are discussed in the following section.

2.7 SME TAX COMPLIANCE CHALLENGES

As part of the five-year SARS compliance programme planned for 2012/13 - 2016/17, small businesses were flagged as an area of performance, particularly the tax compliance challenges of non-registration and the abuse of VAT through non-payments and abuse of refunds (SARS 2011b:9). The tax compliance challenges that affect SMEs are economic, social and psychological (Al-Rahamneh & Bidin 2022:11; Vincent 2021:20). Within the EU, tax consultant costs, the existence of different tax administrations, complex forms and tax discourse which is unfamiliar and difficult to

interpret and understand for the laymen, and strict payment deadlines were all found to be challenges for SMEs (Szczepański 2016:7). Evans, Hansford, Hasseldine, Lignier, Smulders and Vaillancourt (2014:473) elaborate that SMEs in the United Kingdom (UK), Canada, Australia and South Africa reported that costs incurred in order to remain tax compliant are severely regressive concerning a taxpayer's income; hence their impact is felt more by SMEs and does not seem to be decreasing over time.

A study done in Kenya also indicated that tax compliance costs are regressive by showing that where tax compliance costs increased, tax compliance decreased (Abdul & Wang'ombe 2018:12). Thiga and Muturi (2015:11) earlier postulated that for Kenya, tax rates and tax compliance costs are the deterrents of tax compliance but added that the understanding of tax, fines, and penalties, also influenced tax compliance levels significantly. In Uganda, the high tax compliance costs are partly driven by the complexity of the system and it is argued that a simplified tax system would result in lower tax compliance costs and thus increase tax compliance (Musimenta 2020:16). In addition, the regressive and high tax compliance costs negatively influence compliance among SMEs in Nigeria and South Africa (Eragbhe & Modugu 2014:84). Various researchers across the African continent concur with the view that the complexity of the tax system impacts compliance levels among SMEs (Daniel, Akowe & Awaje 2016:69; Vincent 2021:20).

As noted in Table 2.1, SMEs are required to comply with several taxes subject to the structure and nature of their operations. The TA Act places the administrative burden of tax compliance on SMEs. While governments are aware of the heavy taxation burden due to the sheer volume of legislation the SMEs are required to comply with, this volume remains and results in complexity, which ultimately breeds tax non-compliance (Evans et al. 2014:454). Bett (2020:52) argues that lack of tax knowledge, fines and penalties, and high tax rates influence the tax compliance decisions of SMEs. The owners of SMEs may find it challenging to acquire the knowledge necessary in all these legislations to remain tax compliant by themselves, yet the high tax compliance costs mentioned above are another stumbling block towards voluntary tax compliance.

Additionally, the perceived unfairness of the taxation system and a lack of transparency are said to decrease the taxpayers' confidence or trust in the system, resulting in a negative impact on the compliance levels among SMEs (Daniel et al. 2016:69; Kiow et al., 2017:38). Another challenge noted is that where taxpayers perceive revenue authorities as corrupt, the result is that they appear to be strongly influenced to under-report their income (Rosid, Evans & Tran-Nam 2016:417). All the above-mentioned challenges pose a stumbling block toward voluntary compliance. Yet despite these stumbling blocks, Jimezen and Iyer (2016:17) emphasise that voluntary tax compliance is critical for governments globally as they attempt to continuously control their budget shortfalls. Every country has a desire to include SMEs in their tax base since they hold a major portion of the economy by their numbers and income (Malik & Younus 2020:906).

2.8 CONCLUSION

In this chapter, the researcher outlined the tax environment of South Africa and tax compliance as a field in South Africa. Further, this chapter outlined the definition of a SME as it pertains to the study and why that definition was considered appropriate. Finally, this chapter outlined the legislative environment of SMEs, including the tax compliance challenges of SMEs, to highlight the regulations that SMEs are encouraged to voluntarily comply with.

Chapter 3 discusses trust as a determinant of voluntary tax compliance, how trust is built, the barriers to trust building, the qualities of trust, and the attributes of trust in tax authorities.

CHAPTER 3: TRUST IN TAX AUTHORITIES

3.1 INTRODUCTION

In Chapter 2, an overview of taxes, tax compliance, the tax environment and tax compliance in South Africa was presented. Chapter 2 further included an analysis of the SME tax compliance and legislative environment as well as the South African tax revenue collection environment. In the next section, trust as a determinant of voluntary tax compliance, how trust is built, the barriers to trust building, the qualities of trust, and the attributes of trust in tax authorities will be discussed.

3.2 TRUST AS A DETERMINANT OF VOLUNTARY TAX COMPLIANCE

Trust in tax authorities influences voluntary tax compliance such that when the trust in tax authorities increases, voluntary tax compliance mimics this behaviour and increases as well (Kirchler et al. 2008:210; Torgler 2004:7). The tax authorities trust taxpayers, the taxpayers reciprocate that trust by being compliant voluntarily (Mardhiah et al. 2019:5). Another finding concurred with the above by showing that when the taxpayers are not trusted by the tax authority to voluntarily comply, such taxpayers may reciprocate by not trusting the tax authority, resulting in a negative effect on their voluntary tax compliance status (Oluka et al. 2021:457). This shared trust between the tax authorities and taxpayers is called the 'psychological tax contract' or 'relational tax contract' (Feld & Frey 2007:104; Torgler 2004:7). This psychological tax contract can be sustained when both parties continue with positive activities based on trust (Torgler 2004:7). Scholars agree that trust in tax authorities as motivated by tax authorities trusting the taxpayers is an imperative and key factor in motivating taxpayers' cooperation and voluntary compliance, even for SMEs (Djajanti et al. 2019:81; Malik & Younus 2020:911; Mei Tan & Liu 2016:552).

Despite trust being identified as an important determinant of voluntary compliance, the 2017 Afrobarometer (a non-profit company that conducts public attitudes surveys on democracy, governance, the economy and society) report showed that many African citizens do not trust the tax authorities and perceive tax officials as corrupt (Isbell 2017:18). A few years later, the public trust survey compiled by ACCA highlighted that

trust in tax authorities is an imperative area to be developed, more especially in emerging countries (ACCA 2021:17).

Djajanti et al. (2019:73) noted that the majority of emerging countries' revenue is generated from taxes, and South Africa is not an exception. SARS currently collects more than 90% of the government's revenue (Nyamapfeni 2021:50). The investigation into the attributes of trust in relation to tax compliance has gained much importance in the late 1990s and continues to grow (Bornman 2015:774). This importance of identifying attributes of trust which could lead to improved voluntary tax compliance is even more important in the context of SMEs because SMEs constitute a significant part of businesses in most emerging countries (Dom et al. 2022:113). Studies have concluded that trust relates positively to voluntary tax compliance and that climates of high trust report higher voluntary tax compliance (Bornman 2015:786). In the next section, a brief background of trust research within the social sciences field and the importance of trust are discussed.

3.3 TRUST RESEARCH IN SOCIAL SCIENCES AND THE IMPORTANCE OF TRUST

'Trust' is said to be an important underlying concept that makes the very fabric of society (Dwyer & Beauvais 2006:10). As a result, trust has been studied widely in many different disciplines and used in diverse contexts as a basis for making decisions (Cho, Chan & Adali 2015:28). Even among the various avenues of social scientists, trust research has gained momentum over the years (Van Witteloostuijn 2003:53). While social scientists conceptualise trust in different ways, the different social sciences fields agree that trust is crucial (Murphy 2006:431). An economist postulated that all transactions conducted, especially those conducted over some time, contain an element of trust (Arrow 1972:357). In Sociology, trust is seen as a way of coping with the freedom of others because for trust to be relevant, there has to be a possibility of one party exiting, acts of betrayal or defection (Gambetta 1990:219). In computing and networking, it is said that whenever parties interact, an agent decides to trust based on lessons learnt from past experiences to maximise its interest and minimise risk (Cho et al. 2015:28:5). Within the field of commerce, trust is often seen as a valuable facilitator of economic transactions and an effective method for regulating

trade, and mutual trust has the ability to reduce monitoring costs (Rao & Lee 2016:76). Within tax, specifically tax compliance, first-hand evidence has proven that trust in tax authorities correlates with tax payments (Kirchler et al. 2012:131). With this importance drawn about trust, it is worth noting that trust is a means to an end for businesses and tax authorities alike, which is profits and higher tax compliance; it is not the end itself, and therefore, it is only pursued to the extent that the tax authorities deem it important for the profitability of their entity (Rao & Lee 2016:76).

When trust is present, an environment of communication and mutual understanding is created, and therefore, it paves the way for mutually beneficial solutions and reduced prospects of losses for both parties (Ayres & Braithwaite 1992:85). Trust promotes cooperation and ease of social interaction irrespective of what goals are at stake (Robbins 2016:973). A concurring postulation states that trust allows for social interactions to continue on a simple and confident basis, whereas when trust is absent, the complexities of contingent futures will paralyse any further action (Möllering 2014:410). Trust brings vulnerability and yet is empowering because modern society, with its intricacies and uncertainties, is controlled by parties who want to be powerful, and therefore getting trust to work for you is the most economical and somehow the essential path to such power (Ayres & Braithwaite 1992:85). Trust is a critical factor that can surmount the relationship disasters and complications between the tax authorities and taxpayers, as trust is required to build long-term relationships (Putong, Laksmama & Made Narsa 2017:16). As clearly shown, trust is significant for social connections, group dynamics, civic engagement, and the whole society (Robbins 2016:972). While the importance of trust is clearly articulated, it is said that it is a difficult notion to define (Hakkinen 2012:29). The various definitions below attest to the difficulty in defining trust.

3.4 DEFINITION OF TRUST

Trust has been studied in a vast number of academic disciplines, resulting in many different definitions (Six 2013:5). It is said that trust is both a state of mind, a social attitude and a relation (Castelfranchi & Falcone 2010:58). As such, it is noted that trust is an individual choice and has separate connotations and beliefs; it is based on individual beliefs and experiences (Tsikas 2020:156). The Latin translation of the word

trust is “Fiducia”, and it can be translated to assurance, confidence, security, faith and reliance (Augustine, Ayodele & Babatunde 2022:311). A simple definition of trust is a state where one has a positive expectation concerning other people’s acts and intents (Möllering 2014:404). It should be noted that when the tax authority expresses trust in the taxpayers, this signals positive intentions or goodwill (Six 2013:8). Trust can similarly be defined as the expectation that another party will not take advantage of one’s vulnerability (Blackburn, Carey & Tanewski 2018:5; Bornman 2015:774; Tsikas 2020:156). A concurring view adds that it is a belief about another’s trustworthiness concerning a particular matter at hand under conditions that have unknown outcomes (Robbins 2016:973). These definitions, however, only refer to one dimension of trust, which is predictability, and leave out the dimension of competence (Castelfranchi & Falcone 2010:59).

Competence is an important aspect to be taken into account when defining trust, as it is postulated that when tax authorities do their job well, taxpayers then surmise that they are entitled to be obeyed (Murphy 2005:567). The Commissioner of the Italian Tax Authority wrote that “the officials’ competence must be such that the taxpayers’ respect and trust can be easily earned by the institution”; affirming the importance of competence in order to gain trust (De Rosa 2014:115). The elements that are required for trust to develop are benevolence, reliability, competence, honesty and openness (Hoy & Tschannen-Moran 1999:204). Another definition of trust suggests that when individuals express trust in someone or belief that someone is trustworthy, they imply that the probability that the said person will perform an action that is beneficial to such individuals is high enough that they consider cooperating with them in their engagements (Gambetta 1990:217). All the above definitions highlight one’s expectation of another’s competence, care and conduct (thus the actions of the one that is trusted will not exploit the vulnerability of the one who is trusting) (Blomqvist & Stahle 2011:4). Figure 3.1 demonstrates the development of trust through the layers of trustworthiness.

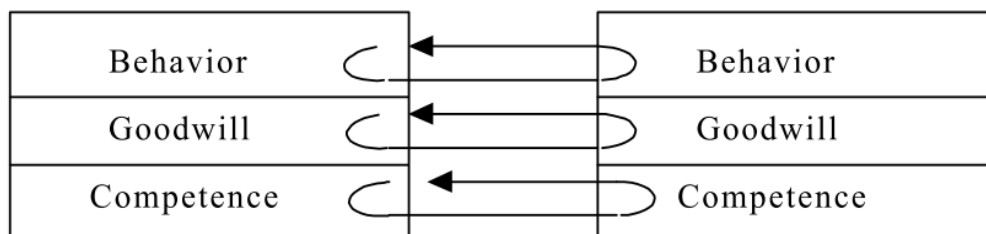


Figure 3.1 How trust develops through the layers of trustworthiness

Source: Blomqvist and Stahle (2011:4)

Figure 3.1 illustrates the three layers of trustworthiness that are required in the trust-building process. This shows a continuous process where competence, goodwill and behaviour continuously interact. Interestingly, the tax authority's competence is improved whenever the taxpayers are supported by such a tax authority in their ability "to understand and/or grasp the meaning or rationale behind the regulation and an ability to enact it" (Six 2013:8). With the many different definitions of trust, for the purposes of this study the researcher adopted the definition of trust proffered by Cho et al. (2015:28:5) in which trust is defined as the inclination of the taxpayer to take a risk based on a subjective belief that the tax authority will show dependable behaviour to extend the taxpayer's interest under uncertain circumstances based on the rational evaluation of past experience with the tax authority. How trust is built will be discussed and expanded on in the next section.

3.5 TRUST BUILDING AND THE RELEVANCE OF THE RRT

Trust is considered a precursor for cooperation and leads to beneficial and cooperative behaviour that is imperative for long-term interactions (Blomqvist & Stahle 2011:4). Building public trust to improve voluntary tax compliance is highlighted as one of the strategic areas that SARS is focusing on in terms of strategic objective 8 and 9 of the SARS Annual Performance Plan 2020 (SARS 2020:11). These strategic objectives are:

- "8. Work together with and through STAKEHOLDERS to improve the TAX ECOSYSTEM.
- 9. Build PUBLIC TRUST and CONFIDENCE in the tax administration system" (SARS 2020:11).

SARS and the Italian Tax Office have shown their understanding of the fact that trust cannot be extracted by force; trust must be earned (De Rosa 2014:115; SARS 2023a:14). Literature is also clear that trust cannot be demanded; it is earned or built (Dwyer & Beauvais 2006:4). They further postulate that the process of earning trust is neither simplistic nor short, but rather an incremental process (Dwyer & Beauvais 2006:4). Yet when trust is violated, relationships (whether personal or business) can be terminated, or such relationships can continue but become degraded relationships (Rao & Lee 2016:76). With a degraded relationship, there are potential costs incurred by both parties, for example, monitoring costs (Rao & Lee 2016:76). Where trust exists, there might be no need for monitoring and therefore no monitoring costs will be incurred, as opposed to the case of a degraded relationship (Rao & Lee 2016:76; Gambetta 1990:217).

While the study at hand is from the perspective of the taxpayer, it has been considered necessary to review the RRT despite it being from the tax authority's perspective, because trust has been said to be reciprocal and the behaviour of the taxpayer responds to that of the tax authority (Six 2013:4; Murphy 2002:18). The tax authority should be familiar with the different motivations to respond appropriately to the different postures, also known as the RRT (Ayres & Braithwaite 1992:4). The different motivational postures exhibited by taxpayers indicate the social distance the taxpayer place between themselves and the tax authority (Tan & Braithwaite 2018:222). As such, the RRT states that at their core, tax authorities should be equipped with the competence to respond to every type of taxpayer – from the best to the worst (Braithwaite 2007:4; Braithwaite & Makkai 1994:9). The RRT, therefore, does not suggest one particular regulating strategy; however, it directs the tax authority to develop and employ the best strategies based on the context, the regulatory culture and history (Ayres & Braithwaite 1992:5).

Supporting this notion, it is postulated that it is grossly misleading to present taxpayers within a tax system as though they behave in some average or typical way because the reality is that in most systems, there is a myriad of individual behaviours (Alm & Torgler 2011:648). Thus, the RRT depicts a strategy that allows the tax authority to first respond with trust, then go up the pyramid and engage various regulatory or enforcement strategies should abuse of trust occur and/or persist (Braithwaite &

Makkai 1994:9). In other words, these responses within the pyramid depict different combinations of direct and indirect measures of control available for use by the tax authority to attain tax compliance, sequenced from the least invasive at the bottom to the most invasive at the top (Hauptman, Gürarda & Korez-Vide 2015:654). Trust is strongly emphasised in the RRT (Six 2013:4). This is because the RRT is a process that assertively and frankly engrosses the taxpayers to ruminate about their tax responsibilities, thereby bringing such taxpayers to accept the responsibility to self-regulate in a manner that is consistent with the law (Braithwaite 2007:6). Figure 3.2 illustrates the RRT model that shows the various taxpayer postures and the appropriate response from the tax authority.

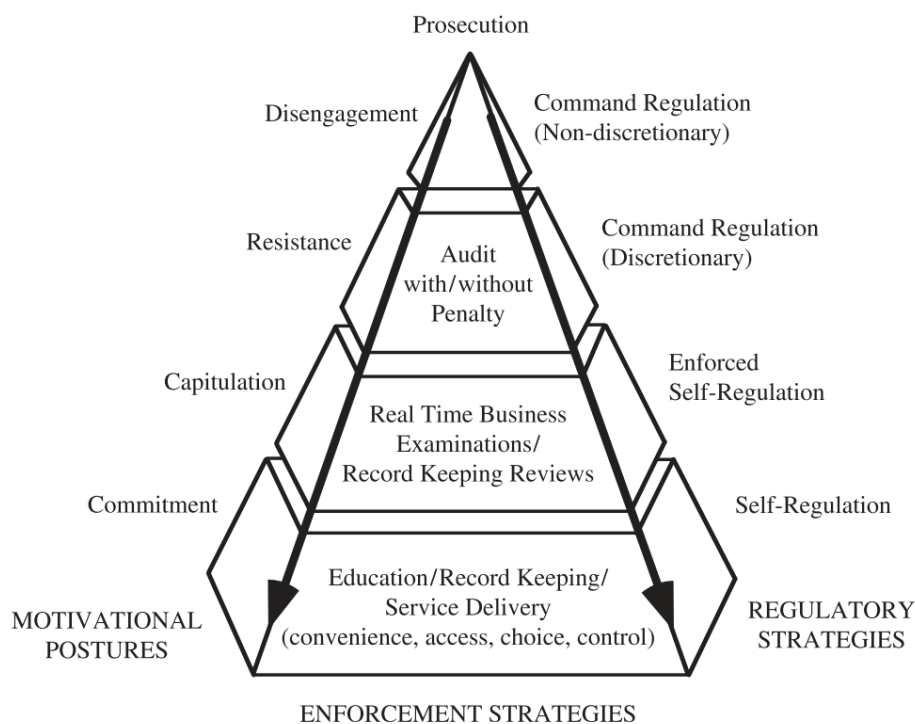


Figure 3.2 Example of Responsive Regulatory Theory

Source: Braithwaite (2003a:3)

Figure 3.2 shows how a tax authority can use their understanding of the taxpayer's motivation, respond appropriately and thus win the trust and compliance of such a taxpayer (Braithwaite 2007:4). This strategy hypothesises that the taxpayer copies the tax authority; that is if the tax authority starts with cooperation, the taxpayer will cooperate, thereby forming a cooperative exchange; whereas if the tax authority responds with defection, then the taxpayer will respond similarly (Six 2013:4).

Educating the taxpayer is one of the initial steps shown at the bottom of the pyramid as one of the least intrusive responses to the taxpayers' posture (Braithwaite 2003a:3). Trust is said to be responsive, therefore the tax authority may be able to use this responsiveness of trust to encourage the taxpayers to enter into cooperative relationships with it, thereby resulting in greater tax compliance (Murphy 2002:18). The SARS' strategy leans on the principles of RRT as shown in Table 3.1.

Table 3.1 SARS strategic objectives and how they relate to the motivational postures

SARS strategic objective	How it relates to RRT	Motivational posture per RRT
<ol style="list-style-type: none"> 1. "Provide clarity and certainty for taxpayers and traders of their obligations" (SARS 2022f:8, 2023a:13). 2. "Make it easy for taxpayers and traders to comply with their objectives" (SARS 2022f:8, 2023a:13). 4. "Develop a high performing, diverse, agile, engaged and evolved workforce" (SARS 2022f:8, 2023a:13). 6. "Modernise our systems to provide digital and streamlined online services" (SARS 2022f:8, 2023a:14). 8. "Work with and through stakeholders to improve the tax ecosystem" (SARS 2022f:8, 2023a:14). 9. "Build public trust and confidence in the tax administration" (SARS 2022f:8, 2023a:14). 	<p>The bottom of the pyramid (Figure 3.2) shows that the regulatory strategy to be effected is to educate, keep records and provide service delivery, which gives the taxpayer convenience, access, choice and control (Braithwaite 2003a:3).</p>	<p>Commitment</p>

SARS strategic objective	How it relates to RRT	Motivational posture per RRT
3. "Detect taxpayers and traders who do not comply, making non-compliance hard and costly" (SARS 2022f:8, 2023a:13).	The middle to the top of the pyramid (Figure 3.2) shows the enforced self-regulation together with command regulation responses where real-time business examinations, reviews of taxpayers' and traders' recordkeeping, and audits with or without penalties are appropriate responses (Braithwaite 2003a:3).	Capitulation, Resistance and Disengagement
5. "Increase and expand the use of DATA within a comprehensive knowledge management framework to ensure integrity, derive insight and improve outcomes" (SARS 2022f:8, 2023a:13).	No relevance to RRT	
7. "Demonstrate effective resource stewardship to ensure efficiency and effectiveness in delivering quality outcomes and performance excellence"(SARS 2022f:8, 2023a:14).	No relevance to RRT	

Source: Own compilation based on Braithwaite (2003a:3) and SARS (2023a:13 -14, 2022f:8)

Table 3.1 highlights the fact that the SARS strategic objectives, pertaining to their responses to taxpayers as per the RRT, lean towards the bottom of the RRT pyramid (see Figure 3.2) which entails allowing taxpayers to self-regulate, and therefore indicates that SARS prefers voluntary tax compliance (Braithwaite 2003a:3; SARS 2023a:13-14; SARS 2022f:8). Voluntary tax compliance increases when there is high trust in the tax authority (Kirchler et al. 2008:210). Moreover, when taxpayers trust the tax authorities and perceive such tax authorities as fair, the taxpayers reduce the

social distance they place between them and the tax authorities (Tan & Braithwaite 2018:245). The stance by SARS seems geared towards trust building since the trust-building process is an iterative and cyclical process where the attributes of trust are constantly being evaluated iteratively and at both a static and dynamic state (Blomqvist & Stahle 2011:14). As such, Figure 3.3 seeks to illustrate a simplified cyclical conceptualisation of what is discussed above, paying particular attention to the interpretation or motivational posture of a taxpayer, and how the response of the tax authority to a taxpayer's posturing will impact trust and ultimately impact tax compliance.

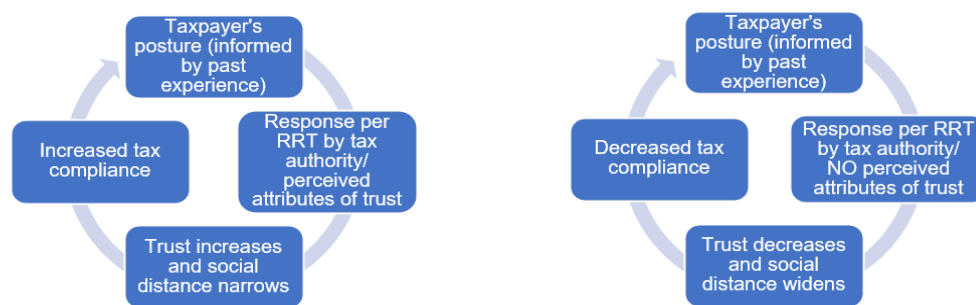


Figure 3.3 Interaction of taxpayer posture, the RRT and the impact of correct and incorrect response by the tax authority on taxpayer trust

Source: Own illustration based on discussions of Cho et al. (2015:28:6)

Figure 3.3 illustrates the importance of the tax authorities' awareness of the motivational postures and the equal importance of responding appropriately. The importance of this study is illustrated once again because it is a study within an emerging country and in the African continent, where more than one-third of the citizens believe that all or some of the individuals working for the domestic tax authorities are corrupt (Dom et al. 2022:13). In the next section, the mental process in trust building will be discussed briefly.

3.6 THE MENTAL PROCESS OF BUILDING TRUST – TAXPAYER’S PERSPECTIVE

Möllering (2014:412) conceptualises trust as a mental process that has three elements, namely: expectation, interpretation and suspension. The expectation is the result and is foreshadowed by both interpretation and suspension, while interpretation relates to the current reality, which gives rational grounds to believe in a favourable outcome (Möllering 2014:404). This interpretation can also be described as posturing, which in the context of taxation relates to how the taxpayers perceive themselves in relation to the tax system and the tax authority, paying particular attention to the amount of social distance the said taxpayers wish to place between themselves and the tax authority (Murphy 2007:15). In Section 2.5.3 the motivational postures are mentioned and they are: commitment, capitulation, resistance, disengagement and game-playing (Braithwaite 2003b:18). It is worth noting that the motivational posture of commitment reflects that taxpayers trust the tax authority and they thus have the moral willingness to pay their share for the betterment of the collective (da Silva et al. 2019:156).

Trustworthiness is trust that is validated through the available evidence and therefore the assessment of trust is because an earlier belief creates a conclusion that is fed back as an input to update trust, which impacts the following decisions to be taken (Cho et al. 2015:28:6). Möllering (2014:412) earlier visualised trust as a mental process. Figure 3.4 illustrates this mental process that is reoccurring and continuously updated.

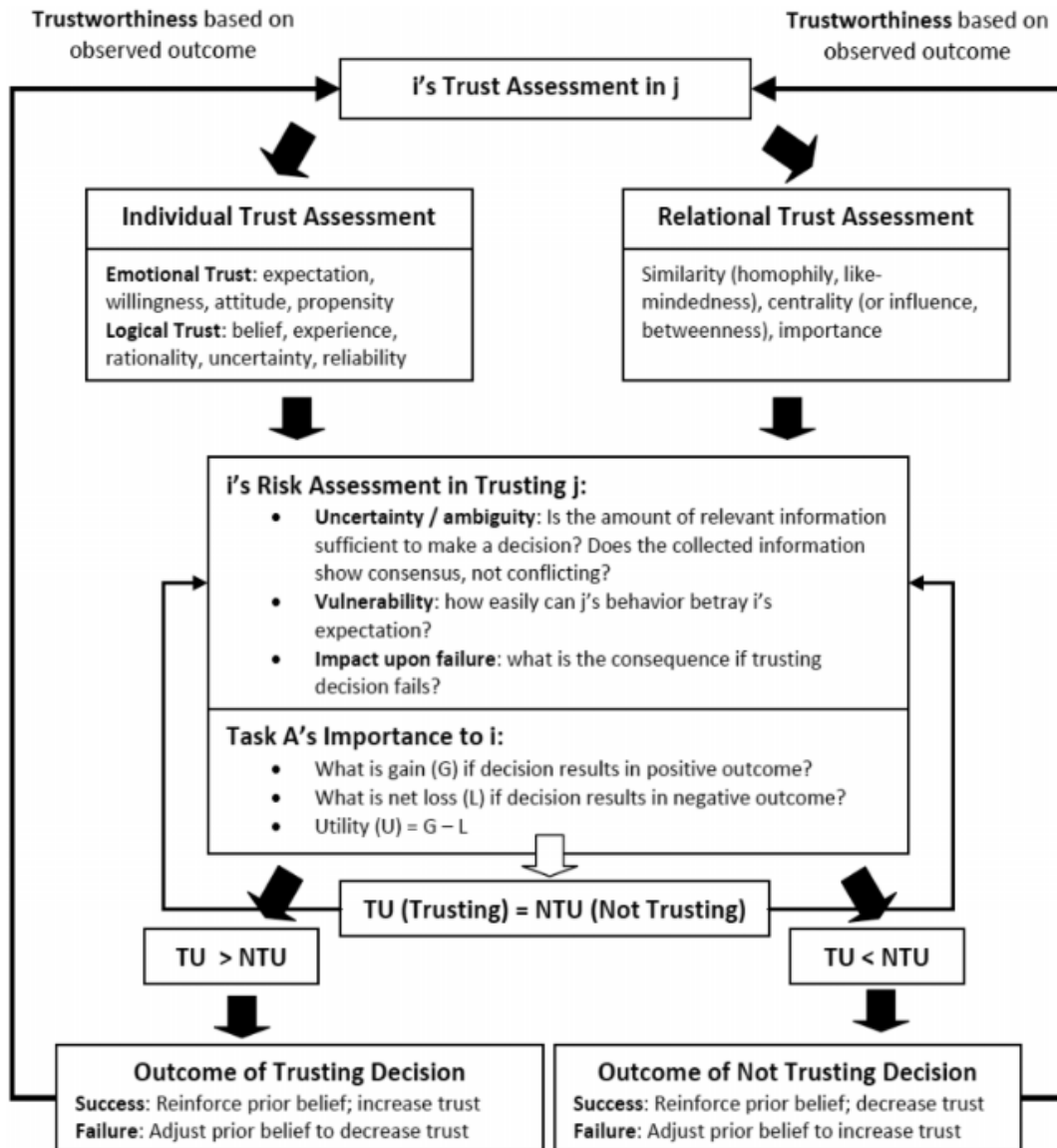


Figure 3.4 Analysis of the trust assessment process

Source: Cho et al. (2015:28:6)

Figure 3.4 shows the stages of the process of trust assessment as it would occur in any relationship, including that of the taxpayer assessing the trustworthiness of the tax authority. It has already been postulated that trust and trust assessment is a procedure that can repeat itself indefinitely (Cho et al. 2015:28:6). The SSF suggests that a tax climate is created by the tax authority's attitudes towards the taxpayer and taxpayer's orientation and perception of the tax authority (Bornman 2015:786). The understanding of the taxpayers' mental process of building trust has been detailed. In the next section, some barriers to the trust-building process will be outlined.

3.7 BARRIERS TO TRUST-BUILDING

The obstacles to the process of building trust include perceived unfairness and inequality, as well as the perception of inadequate accountability and inadequate reciprocity (Dom et al. 2022:209-210). Additionally, deteriorated infrastructure, lack of accountability, lack of transparency, bad governance, corruption, poor quality of services and insecurity are also problems associated with trust that have been reported (Augustine et al. 2022:316). Among others, building trust depends on these three distinctive paths; namely, expanding governmental support, building tax morale and strengthening the social contract (Dom et al. 2022:209). Additionally, a broader distrust of the fairness and equity of tax systems often reinforces the citizens' distrust of the government's service delivery (Dom et al. 2022:209-210). Many scholars agree that it is not only the perceived conduct of the government that influences the taxpayers, but also that of the tax authority because the taxpayers are likely to respond to the service of the government and of the tax authority if they believe that the tax authority is honest, and if they believe that other taxpayers share similar beliefs (Sitepu 2021:82). A majority of taxpayers perceive the tax authorities as corrupt and not deserving of trust, with many taxpayers being harassed and abused by the tax authorities, while wealthy taxpayers can escape paying the taxes they owe (Dom et al. 2022:209). In the next section, the qualities of trust, specifically the eSSF, will be discussed.

3.8 QUALITIES OF TRUST

According to the SSF, trust is a determinant of voluntary tax compliance (Stark 2020:3). With the introduction of the eSSF, trust was further broken down into two qualities because this allows for the ability to clarify the psychological processes that are responsible for tax compliance (Hofmann, Gangl, Kirchler & Stark 2014:294). These two independent qualities of trust are reason-based trust and implicit trust (Gangl, Hofmann et al. 2020:100; Gangl, van Dijk et al. 2020:2; Kirchler et al. 2012:140). These two qualities of trust might have similar as well as successive relationships, yet they may also operate independently (Gangl et al. 2015:17). In the long run, implicit trust develops with increasing reason-based trust that ultimately becomes implicit trust (Gangl et al. 2015:17).

Reason-based trust is illustrated when taxpayers voluntarily place their trust in the tax authorities on whom they are reliant because the tax authorities carry out a crucial purpose, are considered determined, competent, and munificent and the external conditions allow them to be proficient (Gangl et al. 2020:2). Implicit trust, on the other hand, is involuntary and is a response that is based on learned behaviour, such as mutual identity, welcoming faces or official papers (Gangl et al. 2020:2). The eSSF indicates the power of the authority and trust in the tax authority and the different climates that result from it. These climates then result in either enforced compliance, or voluntary or committed cooperation as per Figure 3.5 (Gangl et al. 2015:19).

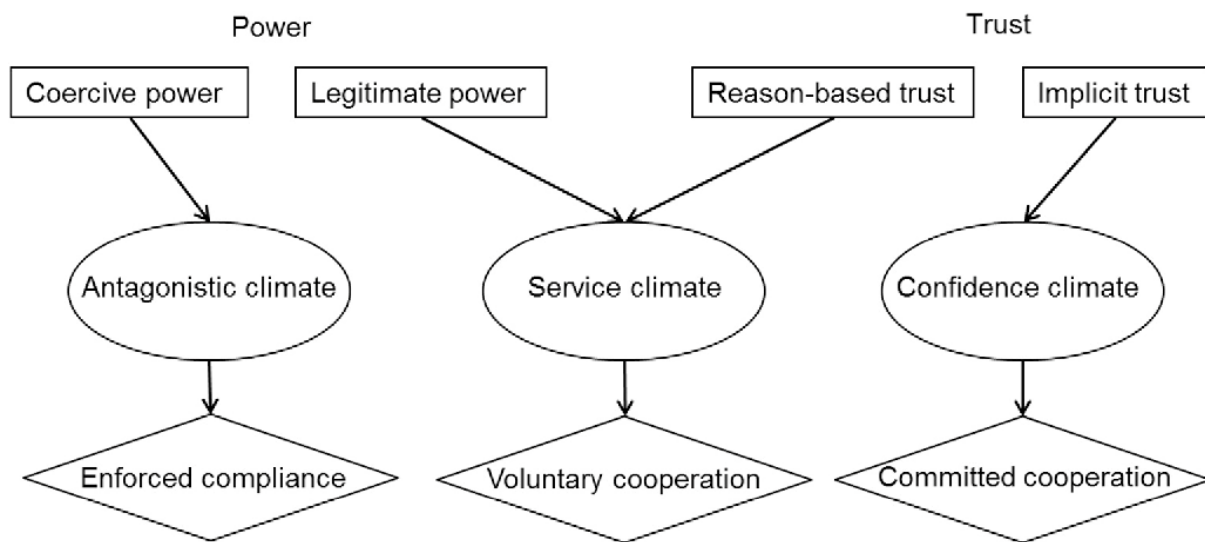


Figure 3.5 Dynamics between power and trust affecting climates of cooperation and motivations to comply

Source: Gangl et al. (2015:19)

Figure 3.5 illustrates an assertion by Gangl et al. (2015:19) through the eSFF that reason-based trust leads to voluntary cooperation, while implicit trust leads to committed cooperation. The climates within which these qualities of trust operate are a service climate and a confidence climate, respectively. It should be noted that these two qualities of trust might have relationships that are analogous as well as in sequence and in the long term, implicit trust develops with increasing reason-based trust (Gangl et al. 2015:17). In the next section, each of the qualities of trust will be discussed together with a discussion of the RRT.

3.8.1 The qualities of trust and the RRT

Figure 3.4 presents an illustration based on Cho et al. (2015:28:6) of how a response from the tax authority could lead to the following:

- The taxpayer's posture is changed by the tax authority's appropriate or inappropriate response or positive and negative experiences.
- This response increases or decreases the taxpayer's reason-based trust because this is rational and calculated trust that is based on evidence (must be well-motivated) (Gangl et al. 2015:21).
- Lastly, over time, should the tax authority's responses continue to be appropriate for the circumstances (in other words, should the taxpayer enjoy positive experiences repeatedly), this reason-based trust decreases while implicit trust increases (Gangl et al. 2015:21).

One of the objectives of this study is to identify what attributes of trust in tax authorities may create better strategies for voluntary tax behaviour. In the next section, reason-based trust will be discussed.

3.8.1.1 Reason-based trust and the service climate

Reason-based trust is calculative, reasonable and based on well-motivated proof and sound judgements (Castelfranchi & Falcone 2010:85; Gangl et al. 2015:16). A concurring opinion postulates that reason-based trust is, therefore, rational decision-making which goes through a cognitive process and occurs when taxpayers conclude that they can trust the tax authorities (Rashid et al. 2021a:138). Reason-based trust allows and requires the authorities to be powerful so that they can influence the behaviour of the taxpayers (Gangl et al. 2015:18). The legitimate power of the tax authority, signified by expertise and communication of important standards and information, leads to reason-based trust, which ultimately leads to voluntary cooperation (Gangl, Muehlbacher, Groot, Goslinga, Hofmann, Kogler, Antonides, Kirchler 2013:491). Reason-based trust, therefore, partially results in a service climate which is characterised by a "client and service attitude" where taxpayers and tax authorities cooperate based on well-defined laws and values (Gangl et al. 2015:19).

In this climate, the most imperative stance of the tax authority is to treat the taxpayer as a client as opposed to a likely criminal (Alm & Torgler 2011:647). The service-based climate is directly wedged between the antagonism-based and confidence-based climates (Gangl, van Dijk et al. 2020:3). Another way to look at the climates is to consider them as paradigms. The antagonism-based climate is the equivalent of the enforcement paradigm, while the service-based and confidence-based climates are considered the service paradigm and the trust paradigm, respectively (Alm & Torgler 2011:636). Some of the actions that can be taken by the tax authority to promote the service-based climate or the service paradigm are the following:

- Promoting taxpayer education,
- Providing services to assist taxpayers in filing returns and paying taxes,
- Improving telephonic advice services,
- Improving the tax authority website,
- Simplifying the taxes,
- Simplifying the payment of taxes and
- Simplifying the tax forms (Alm & Torgler 2011:647).

The importance of tax authorities promoting a service climate by launching professional and understandable tax processes, or internet and telephone services so they can be perceived as driven, capable and compassionate is highlighted as important, agreeing with the above recommendations (Gangl et al. 2015:21). Exploring the recommendations above, it is worth noting that within the RRT, these fall at the bottom of the pyramid (refer Figure 3.2), in the space of the least intrusive interventions (Braithwaite 2003a:3). A service-based climate leads to voluntary cooperation (Gangl et al. 2015:16; Hofmann et al. 2014:293). Cooperation, whether committed or voluntary, is cheaper for the tax authority (Tan & Braithwaite 2018:244). When juxtaposing the recommendations by Alm and Torgler (2011:647) above, it seems there are aligned steps, and there are some that are missing; specifically in the areas of simplifying the taxes, simplifying the payments of taxes, simplifying the tax forms and the promotion of taxpayer education. It is encouraging to note that SARS is aware of the need to create a service-based climate in its quest to improve voluntary compliance (SARS 2022f:34). The tax authority needs to be aware that its decisions and actions can jeopardise the taxpayer's ethics, and thus trust in the tax authorities

(Alm & Torgler 2011:636). SARS aspires to offer world-class service and to achieve this goal, SARS has drafted the following actions, some already being undertaken and others still to be undertaken:

- Entrenching a philosophy in the employees of being obsessed with providing excellent service as SARS pursues voluntary compliance,
- Continuously invest and develop their staff,
- Eliminate the need for multiple service interventions and/or objections,
- Better quality and regularity of communications,
- Organise more self-service stations in and further than the existing footprint,
- Interactions that are driven by artificial intelligence through “interactive voice responses, chatbots, taxpayer callback”,
- Enabling more interfaces via “non-smart” phones,
- The six million previous branch interactions are to be migrated to digital service offerings, and
- Modernise the administrative systems across the whole value chain of SARS (SARS 2022f:34).

In the next section, the researcher highlights how these qualities of trust may progress from reason-based trust to implicit trust when the tax authority exhibits the attributes of trust by responding appropriately to the taxpayers' postures in their regulation.

3.8.1.2 Implicit trust and the confidence climate

Implicit trust is also referred to as connection-based trust, habitus trust, shared trust and sentimental trust (Gangl et al. 2015:16). As proposed in the eSFF, implicit and reason-based trust leads to different variations of voluntary compliance. As illustrated in Figure 3.5, implicit trust results in a confidence climate where the taxpayers and the tax authority trust each other, share similar values, and their perception of each other is that of partnership, which enhances cooperation and is a critical pillar for functioning democracies (Gangl, van Dijk et al. 2020:1). The service-based climate is transformed into a confidence climate over time due to positive experiences of the legitimate power of the tax authority (Gangl, van Dijk et al. 2020:3). In other words, while trust was initially reason-based characterised by more deliberate considerations, it transforms

into an implicit trust which is characterised by automatic and associative learning processes (Gangl, van Dijk et al. 2020:3).

Some of the actions that can be taken by the tax authority to advance their steps towards a confidence-based climate, or the trust paradigm, are the following:

- “Use the mass media to reinforce tax compliance as the ethical form of behaviour and publicise cheaters,
 - Emphasise the link between the payment of taxes and the receipt of government services,
 - Target certain groups (e.g., new firms or employees) to introduce from the start the notion that paying taxes is “the right thing to do”,
 - Enlist other organizations to promote compliance, so that it is seen (again) that paying taxes is the accepted and ethical pattern of behaviour,
 - Avoid leading individuals to think cheating is “okay” – a tax amnesty is a classic example of sending the wrong signal, and
 - Address perceived inequities in the ways people feel that they are treated”
- (Alm & Torgler 2011:647).

The actions above, when juxtaposed with the RRT, are located at the bottom of the pyramid (refer to Figure 3.2) where there is less intrusiveness and taxpayers are considered self-regulating (Braithwaite 2003a:3). The RRT postulates that the tax authorities must in their regulating activities respond to the motivational postures exhibited by the taxpayers (Braithwaite 2003a:3). The tax authority’s actions can impact the taxpayer’s perceptions and therefore the taxpayer’s trust in the tax authority because trust is responsive (Murphy 2002:18). Consequently, trust in the tax authority can also be explained by the perception of the taxpayer of the tax authority’s fairness or justice (Prihandini 2018:364). Ensuring fairness by the tax authority is critical, especially for SMEs, even more so for those in the informal sector who might be more vulnerable to the enforcement of abusive practices (Dom et al. 2022:128). In the next section, some of the attributes of trust in tax authorities, as identified in the literature, will be discussed.

3.9 ATTRIBUTES OF TRUST IN TAX AUTHORITIES

Taxpayers have a right to expect justice in public policy, including in the area of taxation; as such, tax authorities that are not considered fair or just tend to be resisted by taxpayers (Elmi, Tirimba & Evans 2015:383). One such area of justice is procedural justice, which is discussed next.

3.9.1 Procedural justice

Procedural justice is defined as the perception that taxpayers have that there is fairness in the decision-making procedures of the tax authority (Mei Tan & Liu 2016:538; Rachmawan et al. 2020:208). Procedural justice relates to the just and even-handedness that the tax authority exhibits in processing tax returns and/or resolving disputes with taxpayers (Farrar et al. 2022:187). This procedural justice at individual and societal levels of interaction is critical for building trust (Mei Tan & Liu 2016:539). Kornhauser (2022:149) concurs that procedural justice builds trust, loyalty, identification and commitment that can overcome occasional interactions with the tax authority. Trust in the tax authority is best built through promoting procedural justice (Kornhauser 2022:150). When taxpayers perceive that the treatment they receive from the tax authority is procedurally just, the taxpayers will more likely feel respected by the tax authority and therefore more likely to perceive that the tax authority trusts them (Six 2013:9). Consequently, if the taxpayer's behaviour mimics that of the tax authority, as postulated earlier, when taxpayers feel they are trusted by the tax authority because they are treated in a procedurally just manner, they will mimic this perceived trust and their trust towards the tax authority will increase (Six 2013:4). In the next section, another aspect of justice, namely fairness, will be discussed.

3.9.2 Distributive fairness

Distributive justice explains the fairness of results experienced by individual taxpayers when compared with others (Farrar et al. 2022:187; Mei Tan & Liu 2016:538). This justice is where the taxpayer compares the perceived tax burden borne against the performance achieved, such that if the tax burden is greater than that of another taxpayer with the same level of income, the level of compliance will be reduced

(Prihandini 2018:366). Another definition of distributive justice found in literature describes the degree to which the results of a process that distributes incentives and obligations are perceived as corresponding inherent norms that require individuals to receive benefits in direct proportion to their contribution (Benk & Budak 2012:1501; van Dijke, Gobena & Verboon 2019:2). For the purposes of this study, the researcher adopted the definition of distributive justice proposed by Prihandini (2018:366) due to the relevance of delineation to the conduct of the tax authority (which is what the study is about). The next section looks at another driver of trust, namely identification with the nation.

3.9.3 Identification with the nation

Identification with the nation is defined as the belief citizens have in a shared ethnicity, history, traditions, symbols, affinity, language, religion, territory, founding moments and destiny (Gobena & Van Dijke 2017:4; Guibernau 2004:134). This identification with the nation is sentimental, and because of the strength of these emotions, the taxpayers will likely feel obliged to contribute to a higher aim and purpose of preserving and enhancing the nation, which in turn increases the person's self-esteem (Guibernau 2004:136). A love of one's country, in other words, patriotism, is believed to prevent people from moving to other countries and to have a positive impact towards tax compliance (Alshira'h, Al-Shatnawi, Al-Okaily, Lutfi & Alshirah 2021:436). Identification with a nation or a group allows the individual to forego immediate self-interest for the sake of the general good because that taxpayer is collectively oriented (Kornhauser 2022:148). Trust in the tax authority is best built through promoting the taxpayer's identification with the nation (Kornhauser 2022:150). When citizens are aware of the progress a country is making, this improves their patriotism and finally improves reason-based trust and, ultimately, tax compliance (Gangl, Torgler & Kirchler 2016:878). In the next section, legitimacy will be discussed as one of the attributes of trust in tax authorities.

3.9.4 Legitimacy

Trust in the tax authority is best built through promoting state legitimacy (Kornhauser 2022:150). There is a gap between what SMEs pay in taxes compared to what they

ought to pay, and this can be explained in part by the SMEs' perception of the government's lack of legitimacy through their lack of service delivery and failure to adequately serve the citizens with the taxes collected from the SMEs (Ababio & Manguye 2021:868). While the belief in the legitimacy of the tax authority is directly linked to the perception of the legitimacy of the government, which is supported through the taxes, the taxpayers' direct interactions with the tax authority influence their perception of the legitimacy of that tax authority (Kornhauser 2022:149). Thus, legitimacy for the purposes of this study means that the citizens feel obliged to conform to the rules of the collective and the decisions of the tax authority, and encompasses the extent to which the tax authority receives good reviews or evaluation from the taxpayer (Farrar et al. 2022:188). This legitimacy means that the tax authority has captured the beliefs of the taxpayers, and this boosts enthusiastic and voluntary compliance (Murphy 2005:567; Otadi, Mojibi, Ashrafi & Sobhkhiz 2019:42). When taxpayers believe that the tax authorities are competent in their jobs, they are more likely to be obedient towards them (Murphy 2005:567). Transparency, fairness, and participation of the tax authority are some of the factors that influence legitimacy (Hofmann et al. 2014:291). Personal norms and their impact on trust will be discussed in the next section.

3.9.5 Personal Norms

Personal norms are defined as the moral values that each individual holds through observing and internalising social norms (Khafidhoh & Suryarini 2017:61). These personal norms are morals that are internalised, and they bring about a stable personality factor, and taxpayers who have high personal norms of honest taxpaying tend to be more compliant than other taxpayers (Kirchler et al. 2012:131). Social norms are therefore important because individuals have an innate desire to feel part of and to be accepted by the social groups they reside among, and as such will adopt the values and principles of their social groups (Six 2013:7). Social norms are defined as the moral values that are held by a social or collective group (Khafidhoh & Suryarini 2017:61). These are a pattern of behaviours that are judged similarly by a group of people and therefore are sustained partly by the approval or disapproval of such a group (Alm & Torgler 2011:638). Those taxpayers who believe that evading tax is frowned upon in their social environment tend to be more compliant than those who

believe that tax evasion is acceptable in their social circles (Frey & Torgler 2007:153; Kirchler et al. 2012:132). Taxpayers who implicitly trust their tax authority base their automatic trust on social norms, signalled values and habits (Gangl et al. 2015:17). In the next section, accountability, another driver of trust, will be discussed.

3.9.6 Accountability

Accountability is a relationship between an organisation and a society where the organisation is required to explain and justify its conduct, and the society is then allowed to pose questions and pass judgements, and the organisation faces consequences (Otadi et al. 2019:41). In other words, accountability involves the obligation of the tax authority to explain their actions and the enforcement of consequences by the relevant parties should the tax authorities violate their public duties (Sobhkhiz et al. 2020:168). When the tax authorities take active steps towards more transparency and accountability, it will result in a broader buy-in and, thus, improved trust (Alasfour 2019:248). This promotion of transparency in the public sector is known as public accountability (Rulashe & Ijeoma 2022:2). It is worth noting that accountability is not one-sided, with citizens being held accountable by the authorities, but also the authorities being held accountable by the citizens (Bovens 2006:6).

The following accountability mechanisms are applicable to tax officials and tax managers: legal accountability, managerial accountability and social accountability (Sobhkhiz et al. 2020:176). Legal accountability refers to a formal obligation to account to administrative and/or judicial courts in respect of the observing and enforcing of laws (Otadi et al. 2019:43). Managerial accountability refers to a formal obligation for staff and managers to account for the performance of their duties to their superiors. Lastly, social accountability refers to the accountability of tax authorities to the general public, taxpayers, interest groups, associations of the taxpayer and the media (Otadi et al. 2019:43).

3.10 CONCEPTUAL FRAMEWORK

The various attributes of trust, as articulated in literature, will now be brought together through a conceptual framework that explains how the attributes of trust, when

perceived by taxpayers, lead to an increase in reason-based trust. When taxpayers have continued positive experiences with tax authorities, that is, taxpayers continuously perceive the attributes of trust, this leads them beyond reason-based trust to implicit trust (Gangl et al. 2015:21). As illustrated in Figure 3.5, reason-based trust operates in a service climate which leads to voluntary cooperation, while implicit trust operates in a service climate which ultimately leads to committed cooperation (Gangl et al. 2015:19). Both voluntary cooperation and committed cooperation are aspects of voluntary tax compliance. Figure 3.6 conceptualises the attributes of trust and how they affect the climates of cooperation and motivation to comply.

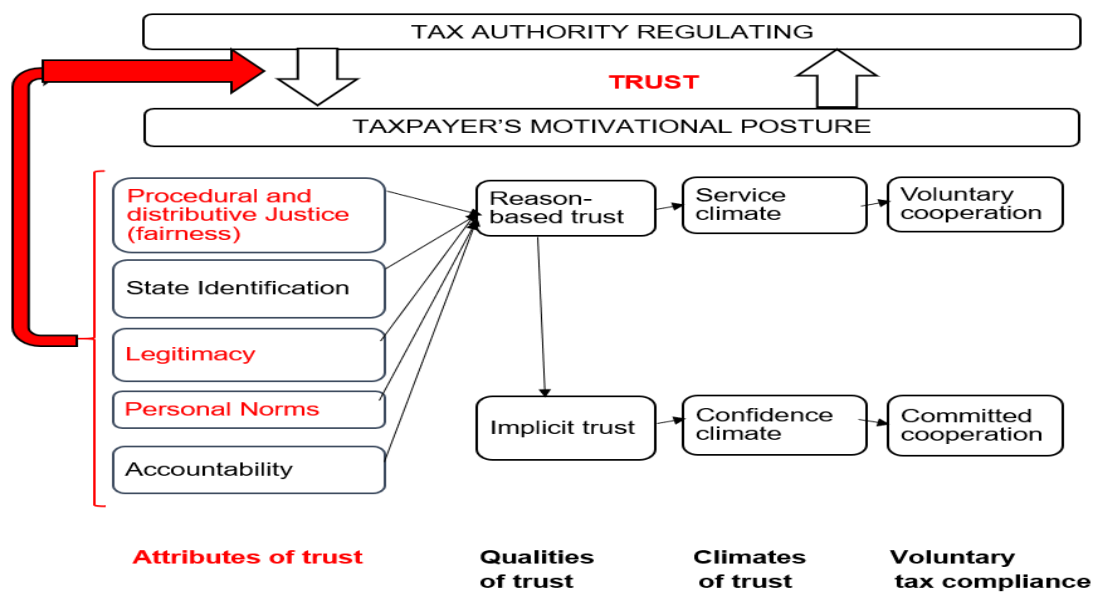


Figure 3.6 Attributes of trust in the tax authority

Source: Own illustration

Figure 3.6 summarises the literature review, which shows the attributes of trust (which are the responses of the tax authority and areas that the tax authority has influence over), and their impact on the qualities of trust, in the climate they create and ultimately the response from the taxpayer. The next section brings in the element of SMEs, which is the focus of the study and explores the attributes of trust pertaining to these entities.

3.11 ATTRIBUTES OF TRUST – RELEVANCE TO SMES

South African SMEs account for approximately 91% of registered entities, contribute between 52% and 57% to the nation’s GDP and contribute 61% to employment

opportunities (Naicker & Rajaram 2018:96). However, SMEs have a reputation of not being tax compliant (Musimenta et al. 2017:150; Timothy & Abbas 2021:169). People are more likely to cooperate with the tax authorities if they trust such tax authorities because they have confidence that the tax authorities will not abuse their rights and interests (Mei Tan & Liu 2016:529). Similarly, trust is important for SMEs and is a critical factor in their motivation towards voluntary tax compliance (Timothy & Abbas 2021:176; Malik & Younus 2020:911; Mei Tan & Liu 2016:552). This perceived trust in tax authorities by SMEs leads to voluntary tax compliance (Mutanga, Ncube, Mbuyisa & Magodhini 2021:97). The SMEs' perception of justice, accountability, and personal norms are some of the attributes postulated to influence SMEs' trust in tax authorities (Vincent 2021:20). Further, where SMEs had heightened feelings of identifying with the nation, it was found that tax compliance to sales tax was increased (Alshira'h et al. 2021:446). When SMEs do not perceive tax authorities as fair and legitimate, the result is an increased likelihood of tax non-compliance (Newman 2018:11). Through the study, the researcher sought to add to the body of literature on the attributes of trust in the tax authority among SMEs.

3.12 CONCLUSION

In this chapter, trust as a determinant of voluntary tax compliance has been examined. The qualities of trust have also been discussed, including the climates in which these qualities of trust operate. Finally, the attributes of trust in tax authorities were discussed.

In Chapter 4, the research methodology that was considered appropriate to meet the research aim and objectives is outlined.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 INTRODUCTION

Chapter 3 included a discussion of trust as a determinant of voluntary tax compliance, how trust is built, the barriers to trust building, the qualities of trust, and the attributes of trust in tax authorities. The main objective of this study is to identify and explore attributes of trust in tax authorities that lead to voluntary tax compliance and then recommend strategies that may enhance voluntary tax compliance among SMEs in South Africa. The research methodology used to achieve the aim of this study is outlined. Included in this chapter are the research philosophy and paradigm, research approach, research design and the research methodology.

4.2 RESEARCH PHILOSOPHIES AND PARADIGMS

The research philosophies and paradigms highlight the methodological assumptions regarding the study. The interpretivist paradigm believes that people are separate from objects because people create meanings which are different under different circumstances and at different times due to different backgrounds, thereby allowing different people to create and experience different social realities (Saunders et al. 2019:149). Accordingly, interpretivists study these specific meanings (Saunders et al. 2019:148). The study is undertaken within the interpretivist paradigm because, in this paradigm, researchers want to gain an in-depth understanding of human behaviour (du Plooy-Cilliers, Davis & Bezuidenhout 2021:35). With this understanding, the ontological assumption is that the reality or facts that are experienced by people are complex, valuable and different depending on their societal circumstances (Saunders et al. 2019:145). The axiological assumptions are that the research is value-bound, that the researcher is part of what is being researched and that how the researcher interprets the data forms part of the key contributions of the study (Saunders et al. 2019:145). As such, the researcher engaged in active reflexivity throughout the research process (Carcary 2009:13). The epistemological assumption is that knowledge is interconnected, recursive and changes at different times, places, contexts and with different participants (Williamson 2018:144). In line with these

research philosophies and paradigms adopted in this study, the researcher chose to use a qualitative research approach. The qualitative research approach is necessary to discover and grasp the meaning of a phenomenon (Creswell 2014:32). Qualitative research is a space that allows for an inductive approach to reasoning because it allows the researcher to embark on a multi-layered and socially driven research process (Williamson 2018:141). Inductive reasoning is the logical method of forming a general statement based on the observation of specific facts (Kupangwa 2021:167). Consequently, the study at hand has been undertaken inductively, thus allowing the facts from the interview data to inform the theory (Saunders et al. 2019:155). The inductive reasoning used is also in line with exploratory studies which are used when there are minimal facts known about a phenomenon and the researcher seeks to discover new ideas and patterns about this unknown phenomenon (Kupangwa 2021:166). As such both the exploratory nature of the study and the inductive approach were considered applicable and appropriate. Due to the exploratory nature of this study, interviews were conducted with taxpayers to find out about attributes of trust in the tax authority. In the next section, the research approach and its rationale will be tabled.

4.3 RESEARCH APPROACH

A qualitative research approach was considered appropriate for this study because qualitative research is a quest to better understand complicated circumstances (Leedy & Ormrod 2021:258). This method is deemed the most appropriate because it allows for the discovering and grasping of the meaning persons or groups attribute to a shared social dilemma (Creswell 2014:32). Another advantage of a qualitative inquiry is that it allows for the participants to raise matters that are the most important to them (Choy 2014:102). Additionally, qualitative research allows for thorough investigative studies of human conduct in the subjects' ordinary surroundings (Biggam 2021:142). The next section details the research design and its rationale.

4.4 RESEARCH DESIGN

The sequence of choices made by the researcher, including an explanation of how the research will be conducted, is shown in the research design section (Trafford &

Leshem 2008:90). The main objective of the study was to identify and explore attributes related to trust-based voluntary tax compliance, and as such a case study was considered appropriate to explore these attributes because case studies are utilised to explain, depict or explore experiences or events in the day-to-day contexts where they occur (Greenwood 1993:4). Moreover, case studies are used to understand real-life situations and people in great profundity (Greenwood 1993:1).

To meet the objective of a case study, which is to gain insight into people or circumstances, data was collected through the qualitative research method using interviews. To achieve construct validity when using a case study as a research design, the use of multiple sources of data is an appropriate technique to employ (Yin 2003:34). The source of data was the interviews, which were considered ideal because they provide a deeper understanding of problems or occurrences (Islam & Aldaihani 2022:5). Yin (2003:89) postulates that interviews are one of the most important methods to gather information in a case study. SME owners and/or managers were interviewed through semi-structured interviews to meet the objectives of this study. The rationale for the semi-structured interviews is that they offer flexibility to the interviewer to be able to follow up on the individual interviewees' responses while allowing the interviewer to include key questions that relate to the study at hand (Islam & Aldaihani 2022:6). Consequently, semi-structured interviews were conducted with SME owners and/or managers who are older than 18 years old and whose enterprises employ between 11 and 251 employees. While the definition of SME as it pertains to the study states that the SME owners and/or managers must be older than 16 years old, the researcher decided to only interview SME owners over the age of 18 in order to simplify the research process. This is because participants younger than the age of 18 cannot give informed consent; as such, the parents of the minors would be required to provide consent for their child to participate in the study. The decision to interview SME owners will be discussed in depth in the sampling section below. The section that follows outlines the research methodology as well as its rationale.

4.5 RESEARCH METHODOLOGY

This section delves into the research methodology used by the researcher to meet the research objectives outlined in Chapter 1.

4.5.1 Interviews

As noted in section 4.4, interviews were chosen as the most appropriate data-gathering instrument. The research instrument design is discussed in the next section.

4.5.1.1 Research instrument design

Qualitative research requires significant preparation and planning (Leedy & Ormrod 2021:259). Due to this need for thorough preparation and planning, an interview schedule was designed by adopting Brinkmann and Kvale's (2018:41) seven stages of an interview inquiry, as shown in Figure 4.1, to use as a research instrument.

Stages

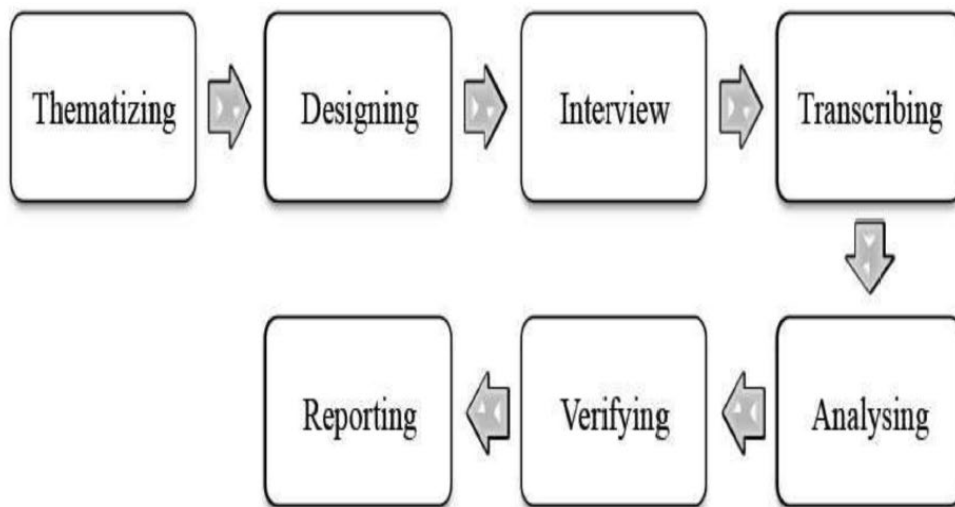


Figure 4.1 Stages of a research instrument design

Source: Brinkmann and Kvale (2018:40)

Figure 4.1 illustrates the seven stages of an interview inquiry that were followed in designing the interview schedule to meet the objectives of this study. These seven steps and their descriptions are stated in Table 4.1 below.

Table 4. 1 The seven steps of an interview inquiry applied to this study

Step	What it means
<ul style="list-style-type: none"> Thematising 	<ul style="list-style-type: none"> Involves clarifying the theme of the study and developing a theoretical and conceptual knowledge of what is being investigated, which leads to an understanding of the gap in research (Brinkmann & Kvale 2018:43). This takes place before the interviews themselves because, to pose significant questions, the researcher must be familiar with the themes and the subject area in which they are investigating (Brinkmann & Kvale 2018:41, 43).
<ul style="list-style-type: none"> Designing 	<ul style="list-style-type: none"> This stage requires that the researcher plan the study design, considering all seven stages of the investigation (Brinkmann & Kvale 2018:41). This means that the researcher must be cognisant of designing the study to obtain the required knowledge while taking into account the ethical implications of the study (Brinkmann & Kvale 2018:41).
<ul style="list-style-type: none"> Interview 	<ul style="list-style-type: none"> At this stage, the researcher conducts the interviews following an interview schedule while reflectively considering the required knowledge and the interpersonal relationships within the interview scenarios (Brinkmann & Kvale 2018:41).
<ul style="list-style-type: none"> Transcribing 	<ul style="list-style-type: none"> This requires that the researcher prepares the interview information for analysis, which might necessitate converting the recordings to written documents study (Brinkmann & Kvale 2018:41).
<ul style="list-style-type: none"> Analysing 	<ul style="list-style-type: none"> Based on the aim of the research and the interview data available, the researcher makes critical decisions regarding the modes of analysis that are appropriate to respond to the interview aim (Brinkmann & Kvale 2018:41).
<ul style="list-style-type: none"> Verifying 	<ul style="list-style-type: none"> At this stage, the researcher determines the interview findings' validity, reliability and generalisability (Brinkmann & Kvale 2018:41).
<ul style="list-style-type: none"> Reporting 	<ul style="list-style-type: none"> Finally, the researcher produces a readable product of the research inquiry, which communicates the research findings and the methods applied in a way that elucidates the scientific methods used and the ethical considerations taken into account (Brinkmann & Kvale 2018:41).

Source: Brinkmann and Kvale (2018:40)

Table 4.1 outlines the process of the interview inquiry and how the researcher conducted this process. An interview schedule was therefore prepared to take into

account the seven steps of an interview inquiry (Brinkmann & Kvale 2018:40). The interview schedule was used to conduct the semi-structured interviews with SME owners and/or managers who met the qualifying demographics criteria. In the next section, the structure of the interviews is discussed.

4.5.1.2 Structure of the interview schedule

Semi-structured interviews were deemed appropriate because the study is of an exploratory nature. Saunders et al. (2019:444) state that interviews in an exploratory study are likely to be semi-structured and allow the researcher to probe further should an explanation of a response to the previous answer be required. Additionally, since semi-structured interviews allow additional probing of participants' responses, it is in line with the interpretivist paradigm that is concerned with understanding the meanings that participants ascribe to phenomena (Saunders et al. 2019:445).

The design of semi-structured interviews could leave room for the questions and responses to be susceptible to some bias from the interviewer (Saunders et al. 2019:447). Consequently, the research instrument was mindfully designed to avoid asking leading questions and to allow the researcher to seek clarity on the responses from the participants, probing meanings and exploring responses from different perspectives to avoid any misrepresentations (Saunders et al. 2019:451).

In the next section, the sampling procedures are outlined.

4.6 SAMPLING

The next section discusses the target population and the sampling process undertaken by the researcher, which was considered appropriate for addressing the research objective of this study. The research objective is to identify and explore attributes of trust in tax authorities that lead to voluntary tax compliance and then recommend strategies that may enhance voluntary tax compliance among SMEs in South Africa.

4.6.1 Defining the target population

Since the research objective is to recommend strategies that may enhance voluntary tax compliance among SME owners in the Nelson Mandela Bay Municipality, South Africa, it was determined that the target population is SME owners and/or managers and, where applicable, accountants of SMEs. These individuals were selected because they take part in the day-to-day operations of their SMEs, and due to their responsibilities, it is assumed that they are familiar with the tax compliance dealings of their enterprises.

Formally registered SMEs in the Nelson Mandela Bay Municipality were the specific target population. As of Quarter 3 of 2020, it was estimated that there were 6967 formal SMEs (or SMMEs as referred to in the study) in the Nelson Mandela Bay Municipality (Nelson Mandela BayGrow 2020:4). Of this total population, it is further estimated that there are 2233 formal SMEs who employ between 11 and 250 employees (Nelson Mandela BayGrow 2020:4). The Nelson Mandela Bay Business Chamber (NMBBC) has indicated in their newsletter that they have 114 business members listed (NMBBC 2023:20-23). From this list, the websites of the entities were scrutinised for an indication of the number of employees and 16 SMEs were determined to have 11 or more employees based on their websites. Some of the SMEs on the list did not have websites, and therefore, the researcher determined not to email them as some of them had Gmail addresses. Most of the businesses on the NMBBC's list have their email addresses included in this list, and as such the 16 identified were emailed in August 2023 prior to commencing preliminary exploration interviews. This was done to manage time and not have long waiting periods once the preliminary exploration interviews and the coding and modifications were undertaken. The email sought confirmation of the number of employees and, if the business meets the criteria, then requested the recipient to participate in the study. Of the 16 emails sent out, only one recipient responded, stating that the number of employees was eight. While this presented a challenge, it did not hamper the success of the study, as the sampling method allows for purposive sampling. How the researcher overcame the lack of responses from emailed participants, as well as the sampling techniques, will be further discussed in the next section.

4.6.2 Selecting a sampling technique

Two different non-probability sampling techniques were considered appropriate for meeting the main objective of this study, namely: purposive and convenience sampling methods.

4.6.2.1 Purposive sampling

Purposive sampling is considered an appropriate sampling method for the first set of participants, including the participants for the preliminary exploration interviews, because it enables the researcher to select participants that will provide rich information to answer the research questions (Flick 2018:88). Purposive sampling, also referred to as judgmental or purposeful sampling, is used where participants are chosen based on the researcher's judgement concerning their relevance to answering the research questions (Saunders & Townsend 2018:487). For the preliminary exploration interviews, the researcher approached contacts in her social circle who run SMEs that meet the demographics. Further to this, a few more participants were approached to form part of the main sample. Additionally, accountants were approached to request information about their clients whom they could refer to the researcher. After obtaining permission from the clients, the researcher received a list and was able to contact them to participate in the study. At the end of each of these preliminary exploration interviews and the main interviews, the participants were requested to mention another individual whose demographics meet that of their enterprise that the researcher can approach for the interview. This is in line with the snowball sampling technique, which allows the researcher to make use of the networks of the participants that the researcher already has contact with to find more participants (Maponopono 2021:63; Saunders & Townsend 2018:487). Some participants did not know any SMEs adhering to the criteria required by the researcher, and the number of employees was mostly either too few or too many. Only two of the participants could provide SMEs who met the study's criteria. On contacting these two potential participants, they declined to participate in the study. By the fifth participant, it was clear that snowball sampling would not be a successful sampling method for this study. Consequently, the researcher decided to explore convenience sampling through the researcher's networks, which is discussed in the following section.

4.6.2.2 Convenience sampling

Most participants were not able to provide information on possible participants. Since the response for snowballing was not successful, the researcher decided to use convenience sampling. Convenience sampling is where data is collected from participants that the researcher can easily access (Palinkas, Horwitz, Green, Wisdom, Duan, & Hoagwood 2015:536). As a result, the researcher made use of her own networks to select participants. In the next section, the adequacy of the sample size and the issues concerning sampling error and sampling bias will be addressed.

4.6.3 Addressing issues of sampling error and sampling bias

To generate valid results, the researcher carefully considered the sample size to minimise sampling error (Oppong 2013:204). Sample size can only be considered adequate if the sampling error that results from such a sample can be minimised so that it does not nullify the conclusions drawn by the researcher from the research process (Oppong 2013:204). As such, the participant size is expanded until data saturation is attained, and the two sample selection methods are therefore deemed appropriate (Saunders & Townsend 2018:487). The sampling in this study was guided by the essential parallels and differences required by emerging theory, which resulted in the researcher combining the sampling, data collection and data analysis (Saunders, Sim, Kingstone, Baker, Waterfield, Bartlam, Burroughs & Jinks 2018:1895). This view of combining these three steps namely, sampling, data collection and data analysis, is supported in the literature (Saldaña 2013:8). Data collection, data analysis and report writing are interrelated, and therefore, the researcher might not always be aware of the stage they are in (Creswell 2007:43). Islam and Aldaihani (2022:9) suggest that every researcher transcribe each interview immediately so that the data can be coded and themes developed as this will enable the researcher to identify once the saturation point is reached. Saturation is considered to be an imperative aspect of thoroughness (Morse 2015:587).

The saturation point refers to the point where no new information is uncovered in the interviews during the research process (Guba & Lincoln 1981:103; Islam & Aldaihani

2022:9). Data saturation is reached when enough data has been collected to draw the necessary conclusions such that any further data collection will not produce any new insights (Morse 2015:587). Another aspect of noting saturation is when, through coding, the researcher finds that they are not generating any new codes, and the information in the current interviews supports the same codes (Saunders et al. 2018:1895). The process undertaken and the rationale for the preliminary explorations are explained in the next section.

4.7 PRELIMINARY EXPLORATION OF INTERVIEW QUESTIONS

Preliminary exploration interviews were undertaken once the interview schedule was finalised and the ethics committee had granted final approval for the commencement of interviews. These preliminary explorations can be used to try out the questions and address any potential issues that may arise (Majid, Othman, Mohamad, Lim & Yusof 2017:1074). Additionally, preliminary exploration interviews were conducted to assess whether the research instrument was adequate and had useable results (Shakir & Rahman 2022:1621). Another reason for conducting the preliminary exploration interviews is to allow the researcher to gain some experience in conducting semi-structured interviews (Majid et al. 2017:1076). Figure 4.2 outlines the steps that were undertaken in this study as part of the preliminary exploration.

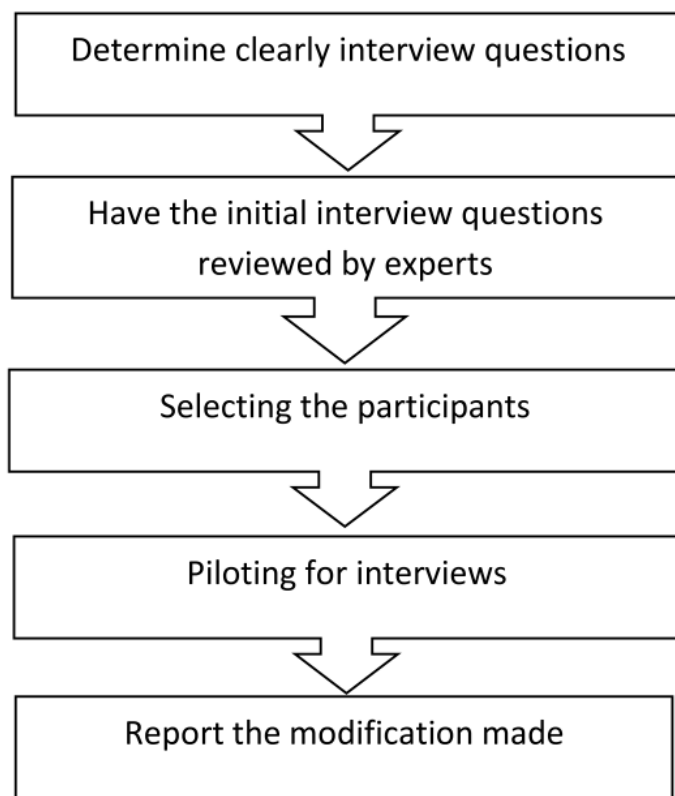


Figure 4.2 Steps in conducting the preliminary exploration (pilot study)

Source: Majid et al. (2017:1075)

Figure 4.2 highlights the significance of conducting preliminary exploration interviews and outlines the steps that should be undertaken in conducting preliminary exploration effectively. The next section describes how the interviews were conducted.

4.8 CONDUCTING INTERVIEWS

The steps followed in conducting the preliminary exploration and the interviews were as follows:

- The interview questions were clearly defined to ensure that they met the research objectives (Majid et al. 2017:1075).
- The preliminary research instrument was reviewed by the researcher's supervisors and the College of Accounting Sciences' qualitative research expert. This review is imperative as the supervisory committee reviews the instrument for appropriate language use, question relevance and correct or appropriate wording (Majid et al.

2017:1075). The research instrument was also reviewed by the College of Accounting Science's Ethics Committee to ensure that it meets and does not violate any ethical requirements. The preliminary exploration interviews were commenced when ethical clearance was received.

- The two preliminary exploration participants were selected from the researcher's circle of friends, who met the criteria of running their own SME which is formally registered, are over the age of 18 years, consider themselves to be running a business for profit purposes and have between 11 and 250 employees. This shows that the participants for the preliminary exploration had similar criteria to the participants of the study at large and that as per the sampling method, non-probability purposive sampling was used (Majid et al. 2017:1076).
- The preliminary exploration interviews were conducted in August 2023 at the premises of the participants as this is what the participants were comfortable with. The letter of consent was sent to each participant via email together with the participant information sheet. Before commencing the interview, the letter of consent was signed, and the participant was informed that the study was confidential and voluntary. Moreover, the participant was requested for permission to record the interviews. On receiving this permission, the interviews were recorded using digital recorders. The preliminary exploration interviews ranged between 1 hour and twenty-nine minutes and 1 hour forty-three minutes. It should be noted that including the introduction and the time spent before starting the recording, the time spent with the participant did not exceed the 2-hour time frame that the researcher had stated in the participant information sheet. At the end of each interview, the participants were asked to identify any SME owners who meet the criteria for the research and whether they can give the researcher those details so that the researcher can contact them.
- After the two preliminary exploration interviews were conducted, the researcher transcribed them verbatim and managed and coded the data. During transcription, the names of the participants were removed and the participants were given pseudonyms in order to protect the confidentiality of the participants (Heaton 2022:123). The transcripts were sent to an independent co-coder for coding.
- The preliminary exploration allowed the researcher to gain knowledge of transcribing, coding and identifying themes (Majid et al. 2017:1077). There was

one question that had to be modified after the preliminary explorations to eliminate repetition. Once the error was identified, the supervisory team was informed, and they agreed with the modification. The error identified was a repetition of part of a question which then had to be removed. This error and its correction did not materially affect the responses of the participants. The preliminary exploration thus enabled the researcher to improve the interview schedule (Majid et al. 2017:1077).

- Six interviews were conducted after the preliminary explorations. Of these six, three were face-to-face, and three were online at the preference of the participants due to the convenience that this offers. Participants who requested online interviews were requested to find a space that had minimal distractions so that the interviews occurred smoothly. Consent for video recording was obtained in advance. Both online and face-to-face interviews have varying advantages and disadvantages (Brown 2022:35). Historically, qualitative research interviews were conducted on a face-to-face basis which is preferred by traditionalists (de Villiers, Farooq & Molinari 2022:1; Keen, Lomeli-Rodriguez & Joffe 2022:7). As such, the researcher had to consider the advantages and disadvantages of the online interviews as an additional element of methodological rigour as shown in Figure 4.3.

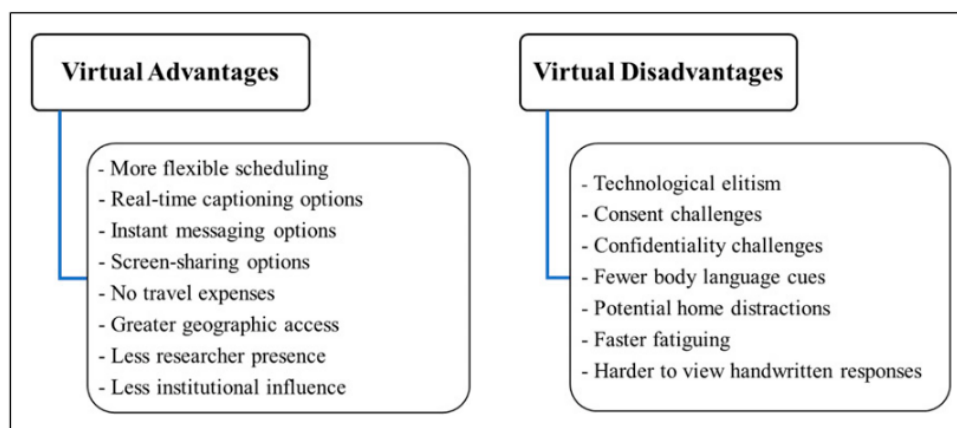


Figure 4.3 Advantages and disadvantages of virtual interviews

Source: Keen, Lomeli-Rodriguez and Joffe (2022:6)

- As per Figure 4.3, there were some disadvantages to overcome when conducting the interviews in a virtual space. The researcher undertook steps to overcome the disadvantages such as ensuring that the participants emailed

their informed consent before the interviews and to ask in the interviews whether the participant has understood and completed the informed consent. Microsoft Teams was chosen as a platform because both the researcher and participants were experienced and confident in using this platform. This was important considering the in-depth nature of conversations held in qualitative interviews (de Villiers et al. 2022:5). In order to overcome the fewer body language cues, the participants were requested to have their video settings switched on throughout the interview process so that both verbal and facial signals could be captured (Keen et al. 2022:7). Additionally, the researcher ensured that rapport was built with the participants in email communication and before the interview to ensure that the participants were comfortable (Keen et al. 2022:7). This rapport is necessary to facilitate better understanding as well as encourage participants to share ideas and respond freely (de Villiers et al. 2022:11).

- Regarding confidentiality challenges due to video containing identifiable information such as the face and name of the participant, the videos were downloaded and deleted from the cloud storage of the researcher's institution into a personal folder that is password protected. This step was taken by the researcher to ensure the protection of the participants' confidentiality (de Villiers et al. 2022:11).

In the next section, the data analysis undertaken for this study is presented.

4.9 DATA ANALYSIS

Otter.ai was used to record the interviews, as well as a digital recorder. The dual recordings served as a backup if one recording was not clear. The online interviews were conducted through Microsoft Teams, which has a recording function. The advantage of both Otter.ai and Microsoft Teams is that they have a transcribing function. While this transcribing function was helpful, the researcher checked the transcripts against the original audio recordings for accuracy (Kiger & Varpio 2020:5). Once transcription was completed, the transcript was password-protected and sent to the participant to check for accuracy. The password was sent to the participant in a separate email. The participants were given a deadline to respond, and they were

informed that if they did not respond, that would be accepted as an indication that they deemed the data to be accurate.

Thematic data analysis was considered suitable for the study because it is a compelling technique when seeking to understand a collection of experiences, opinions, or mannerisms throughout a data set (Kiger & Varpio 2020:2). Thematic analysis is defined as a process of recognising, analysing, and finally the interpretation of patterns of meaning within qualitative data (Clarke & Braun 2017:297). Figure 4.4 illustrates the process a qualitative researcher undertakes from gathering the raw data until the final assertions made at the end of the research process.

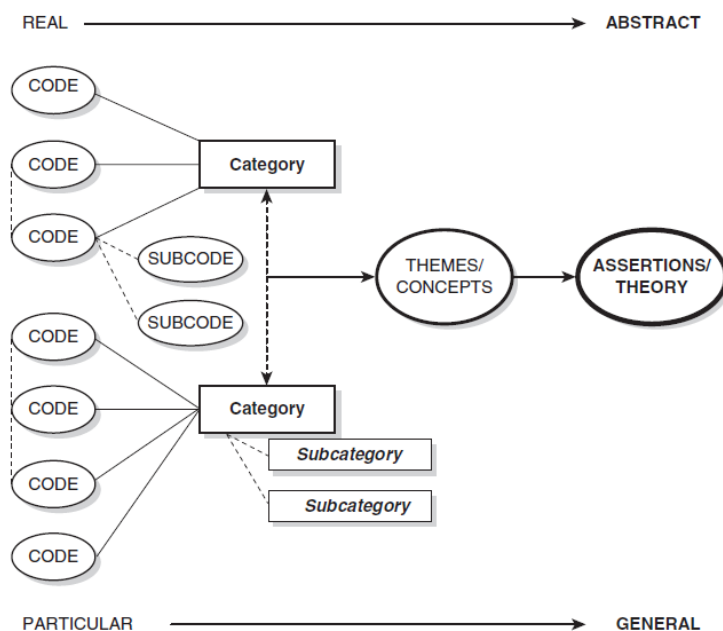


Figure 4.4 A streamlined codes-to-theory model for qualitative inquiry

Source: Saldaña (2013:13)

Figure 4.4 shows the process undertaken by the researcher to code the data until it was reduced to themes which could be reported for this study. Coding is the first step of rigorous and evocative analysis and interpretation of data (Saldaña 2013:8). In qualitative research, a code “is most often a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data” (Saldaña 2013:3). Coding allows the researcher to reduce and simplify the data, which results in new connections between the concepts and the transformation of data into meaningful information which then

enables the researcher to determine how well the data supports or contradicts their theoretical underpinnings (DeCuir-Gunby, Marshall & McCulloch 2011:138). The next step is to put the codes into categories (Saldaña 2013:9). Saldaña (2013:12) asserts that using categories is how the researcher moves from the diverse data set to forming and seeing what the data represents. After categorising, the researcher then searched for themes (Braun & Clarke 2012:63; Kiger & Varpio 2020:5). A theme is a result of coding, categorising, or reflecting analytically (Saldaña 2013:14).

As part of ensuring coding reliability, it is recommended in qualitative research that multiple coders work independently during the coding process (Braun & Clarke 2021:39). The data analysis was commenced by both the researcher and the coder independently after each interview transcript was reviewed by the participant. This is recommended because it allows the researcher to identify the codes and ultimately be able to determine when saturation has been reached (Islam & Aldaihani 2022:9). Each transcript was read for meaning and in order to be immersed fully in the data and familiarise oneself with the data (Friese et al. 2018:12; Nowell, Norris, White & Moules 2017:5). Saldaña (2013:60) postulates that the coding choices made are influenced by the nature of the research, the questions asked in the research undertaken as well as the answers sought. As such, the researcher carefully selected the coding methods in line with the type of research undertaken. The process of coding assisted the researcher in making sense of the data, gaining an understanding and providing a thorough foundation for the data analysis (Terry, Hayfield, Clarke, & Braun 2017:82). The coding process followed by both the researcher and the co-coder independently was undertaken in three different cycles as shown in Table 4.2.

Table 4. 2 The coding cycles followed in this study

Coding cycle	Description of cycle	Coding methods used
First cycle	<ul style="list-style-type: none"> • Initial coding (also referred to as “open coding”) involves breaking down the data and sifting for similarities and differences in the words of the participants (Saldaña 2013:100; Williams & Moser 2019:48). • Initial coding can thus utilise in vivo coding or Process coding (Saldaña 2013:100). For the 	<ul style="list-style-type: none"> • Initial • In vivo

Coding cycle	Description of cycle	Coding methods used
	<p>purposes of the research at hand, the former was considered appropriate.</p> <ul style="list-style-type: none"> • Due to the inductive nature of the study, in vivo coding was considered appropriate because it focuses on honouring and giving priority to the participants' words as codes instead of using words generated from the conceptual framework and the literature review (Kupangwa 2023:218; Saldaña 2013:91). 	
Second cycle	<ul style="list-style-type: none"> • After Initial coding and in vivo coding, some of the recommended coding methods to further analyse codes developed are Focused Coding and Axial Coding (Saldaña 2013:104,213). • Focused coding was considered appropriate because it applies to all types of qualitative studies (Saldaña 2013:213). • In Focused Coding, the codes developed in the previous coding cycle were assessed for comparability and transferability across the other participants' data and were categorised (Saldaña 2013:217). • In line with inductive coding, the emerging categories while undertaking Focused coding, were allowed to be driven by the data and the categories were not selected according to categories that existed from the conceptual framework (Saldaña 2013:217). • Axial coding was used by the researcher to perceive relationships across the categories developed using focused coding (Kupangwa 2021:224). 	<ul style="list-style-type: none"> • Axial Coding • Focused Coding
Third cycle	<ul style="list-style-type: none"> • In this cycle, codes were combined, put together and collapsed into greater and more meaningful patterns (Terry et al. 2017:83). • The researcher sought to ensure that the themes developed allowed the narration of a story regarding the attributes of trust in the tax authority as it pertains to the research aim because the research aim acts as a guideline of what is relevant or not as the themes are developed (Terry et al. 2017:83). 	<ul style="list-style-type: none"> • Theme development

Coding cycle	Description of cycle	Coding methods used
Assertions to theory	<ul style="list-style-type: none"> This step entails making meaning of the themes and ensuring that assertions are developed into theory. 	<ul style="list-style-type: none"> Code weaving (theory development)

Source: Own compilation based on Kupangwa (2021), Saldaña (2013), Terry et al. (2017), and Williams and Moser (2019).

Table 4.2 shows the details of the coding cycle followed by both the researcher and the co-coder. Both the researcher and the co-coder were supported by ATLAS.ti, a CAQDAS to perform the data analysis. The CAQDAS programs are used widely to analyse the rich data generated in qualitative research (Islam & Aldaihani 2022:8). One advantage of Atlas.ti is that it permits the information to be managed and stored in a centralised platform (Creswell 2014:245; Friese et al. 2018:12). The research project required more than one interview, thus the CAQDAS was a vital and indispensable tool for the researcher (Saldaña 2013:26). The data analysis is heavily reliant on the systematic and consolidative skills of the researcher combined with the knowledge the researcher has about the societal context where the data is collected and this might lead to personal bias (Islam & Aldaihani 2022:8). Atlas.ti thus increases both the transparency of the analysis and methodological rigour, thus minimising this personal bias (Saunders et al. 2018:692).

Within the research process, from the inception of the research through to data analysis and reporting, there are ethical considerations to be taken into account, and these will be detailed in the next section.

4.10 ETHICAL CONSIDERATIONS

The researcher was cognisant of the requirement to conduct the research process in an ethical manner. The section below details the steps taken to ensure trustworthiness and rigour as well as the research ethics taken into account in the research process.

4.10.1 Trustworthiness and rigour

The constructs of reliability and validity are usually used to describe the quality of data in quantitative research (Swart 2019:100). Qualitative researchers usually use validity and reliability as is used in quantitative research to assess the quality of the research (Kupangwa 2021:227). This can often be deemed theoretically and technically inappropriate because qualitative research is based on the interpretivist assumptions “where reality is regarded as being socially constructed and multifaceted” (Saunders et al. 2019:216). Thus, for the interpretivist paradigm, the constructs of validity and reliability are replaced with the constructs of credibility and trustworthiness (Saldaña 2011:134–135). Trustworthiness has four attributes, namely credibility, transferability, dependability and confirmability (Leedy & Ormrod 2021:269; Lincoln & Guba 2013: 104-105; Swart 2019:100). Table 4.3 shows the application of the attributes of trustworthiness in this qualitative study.

Table 4.3 Application of trustworthiness in this qualitative study

Trustworthiness attributes	Meaning of attribute	Explanation of how the attributes of trustworthiness were addressed
Credibility	Truth-value	<ul style="list-style-type: none"> • Member checks • Triangulation of sources • Independent observer analysis through second coding of transcriptions of interviews
Transferability	Generalisability or applicability	<ul style="list-style-type: none"> • Rich descriptions of the findings • Confirmed the context of the study with the co-coder
Dependability	Consistency or replicability	<ul style="list-style-type: none"> • Recording of interviews • Transcribing interview data verbatim • Showing a detailed discussion of coding process undertaken • The use of a co-coder who coded independently, and subsequent comparison of themes through reflecting of both coder and researcher resulting in consensus regarding findings

Trustworthiness attributes	Meaning of attribute	Explanation of how the attributes of trustworthiness were addressed
Confirmability	Neutrality	<ul style="list-style-type: none"> • Using the participants' direct quotations in the discussion of the findings • Keeping an audit trail through the recordings and transcripts as proof of the interviews conducted • the rationale for the decisions made for the research process has been documented

Source: Adapted from Guba and Lincoln (1981:186), Kupangwa (2021:231), Lincoln and Guba (2013) and Swart (2019:101)

Table 4.3 shows the application of the attributes of trustworthiness to ensure methodological rigour of the qualitative research performed. For this current study, considering the issues relating to the quality of research was important because all researchers who want their research to be accepted as credible must take into account such (Saunders et al. 2019:216). The importance of ensuring the trustworthiness and rigour of the current study has been discussed. In the next section the research ethics taken into account are discussed.

4.10.2 Research ethics

Research ethics is a term used to describe an ethical code of conduct when the focus of empirical research is human participants (Biggam 2021:28). Throughout the research process, a researcher must be cognisant of these research ethics especially as they involve human participants who have volunteered their time to participate in the study and reveal details about their lives (Creswell 2007:44). As such, the University of South Africa's College of Accounting Sciences' Ethics committee was requested to approve that the research meets their ethical standards before data collection commenced since the research involved human participants. The researcher, therefore, did not commence data collection until approval to conduct the proposed study was obtained.

Additionally, the core ethical principles to be upheld at every stage of the research

process by the researcher are transparency, confidentiality, impartiality, voluntary and do not harm (Biggam 2021:28-29). The researcher adhered to these ethical principles and the university's requirement that the participants of a study should be safeguarded from any prospective adverse consequences that could occur as an outcome of taking part in the research. All participants were briefed fully about the study's purpose, how the research would be conducted, and how the research findings would be used. They were notified that their involvement was voluntary and were granted an opportunity to decline their involvement. At no time during the study were the participants exposed to any harm. The participants were assured that their confidentiality was of paramount importance and the data collected would be stored in a way that upholds this confidentiality. This was done by ensuring that the raw data was kept in a password-protected laptop. The researcher declared that there was no connection to the participants that could result in the integrity of the study being compromised.

4.11 CONCLUSION

Chapter 4 detailed various elements of the research process such as the research philosophies, paradigms, design and methodology that were considered appropriate to meet the research aim and objectives. Additionally, the data collection, data analysis and ethical considerations were discussed in detail.

In Chapter 5 the researcher will present the data and the data interpretation.

CHAPTER 5: DATA PRESENTATION AND INTERPRETATION

5.1 INTRODUCTION

Chapter 4 detailed the research methodology that was used to achieve the research aim. Additionally, Chapter 4 dealt with the research philosophy and paradigm, research approach and the research design. Chapter 5 now presents the interpretation of the data that was gathered and analysed.

5.2 RECAPPING RESEARCH AIM

The research aim and the research objectives are included below before they are addressed in the sections that follow.

5.2.1 Research aim and objectives

The research aim of the study is as follows:

to identify and explore attributes related to trust-based voluntary tax compliance and then recommend strategies that may enhance trust-based voluntary tax compliance of SMEs in Nelson Mandela Bay in South Africa.

The research objectives that were formulated based on the research aim are:

1. To identify and explore the perceptions of trust in tax authorities among SMEs in the Nelson Mandela Bay Municipality, South Africa.
2. To identify whether SMEs in the Nelson Mandela Bay Municipality practice voluntary tax compliance or not, and if so how.
3. To identify what attributes of trust in tax authorities may create better strategies for voluntary tax behaviour.

5.2.2 Research Gap

Tax non-compliance continues to be a challenge worldwide, especially among SMEs. Voluntary tax compliance is desirable because it is more cost-effective for the revenue

authorities. Trust in the tax authority and the government precedes voluntary tax compliance. The researcher identified a gap in the literature which resulted in this study seeking to explore the attributes of trust in tax authorities that would boost the taxpayers' trust in the tax authorities and consequently enhance voluntary compliance among SMEs in South Africa.

5.3 DEMOGRAPHIC INFORMATION

The informed consent, together with the information sheet, requested the prospective participants to confirm that their entities are registered with the Companies and Intellectual Property Commission (CIPC) and employ between 11 and 250 employees, in line with the definition of SME for the purposes of this study. All interviewed participants confirmed the required information, thus enabling the interviews to proceed. Additionally, the participants were requested to mark the taxes that they were registered for on the demographic information. This section highlights the participant demographic information of the interviewees (individual participants) and the SME demographic information. The participant demographics and SME information are shown in Table 5.1 below.

Table 5.1 Participants and SME demographics

Name (anonymised)	Age	Occupation	Number of years with SME	Nature of the SME	Industry of the SME
Participant 1	36 – 60	Senior staff member	8 years	Retail	Fuel and gas
Participant 2	18 – 35	Director, shareholder	Just over 8 years	Consulting	Training and Development
Participant 3	36 – 60	Director, shareholder	Almost 6 years	Private School	Education
Participant 4	36 – 60	Director, shareholder, senior staff member	10 years	Emergency medical services	Healthcare
Participant 5	36 – 60	Director	1 and a half years	Marketing communications agency	Media and Communication
Participant 6	36 – 60	Owner, Director	20 years	Creative communications	Media and Communication

Name (anonymised)	Age	Occupation	Number of years with SME	Nature of the SME	Industry of the SME
Participant 7	36 – 60	Owner	22 and a half years	Insurance	Financial Planning
Participant 8	18 – 35	Senior staff member	Just over 4 months	Plastic thermoforming	Manufacturing

Source: Own Compilation

Table 5.1 shows the various positions that the interviewees held in their respective SMEs and additionally shows the diverse nature and industries in which the SMEs operated. It is worth noting that of the three original age categories, only the 18 – 35 and 36 – 60 age categories were represented in the study. Thus, there were no retirees represented. The split of the age groups was to bring richness into the study by showing the participants’ demographics represented as either youth (18 – 35), retirees (61 and above) or middle-aged (36 – 60). The participants also indicated the tax types they were registered for, and Figure 5.1 shows the variations of these taxes and levies.

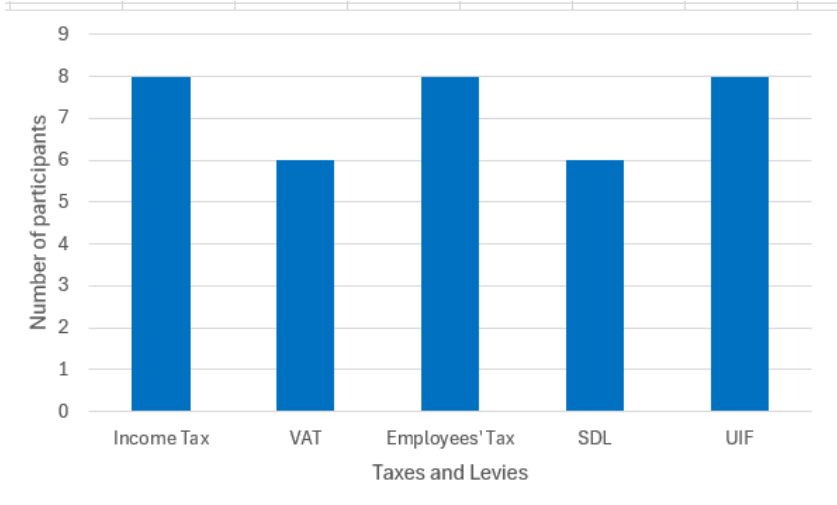


Figure 5.1 Tax and levies participants registered for

Source: Own compilation

Figure 5.1 illustrates that all participants were registered for income tax, PAYE, and UIF, while all but one were registered for SDL. All but two were registered for VAT. Interestingly, of the two participants, one offers the supply of exempt services that are

excluded from the definition of an enterprise in the VAT Act, meaning that this participant is unable to register for the said tax type. The following section explains in detail how the findings of the study addressed each of the three research objectives.

5.4 ADDRESSING RESEARCH OBJECTIVES AND AIMS

The data is presented in three sections based on the research objectives that are presented in section 5.2.1. Included in the data interpretation are the coded and themed interviews as they relate to the said research objectives.

5.4.1 Findings relating to Research Objective One

To identify and explore the perceptions of trust in tax authorities among SMEs in the Nelson Mandela Bay Municipality, South Africa

The findings presented below relate to questions that were under Section C of the interview schedule (refer to Annexure 1). The questions were developed to understand how the SMEs conduct their engagements with the tax authority, to establish the participants' perception of the tax authority, and finally, to determine whether the participants trust the tax authority and the reasons thereof. This discussion is under the following headings: engagements with SARS, reliance on professionals, perceptions of SARS as a tax authority and trust in SARS.

5.4.1.1 Engagements with SARS

This section presents the findings from questions C1 and C2 of the interview schedule, which asked, "What have been your engagements with SARS in handling the tax affairs of your enterprise?" and "How does your enterprise handle its tax affairs, e.g. submission of tax returns and payments of taxes due?" respectively. The themes that were developed, namely outsourcing and third-party involvement, compliance and reporting, and audit and dispute resolution, are shown in Figure 5.2.

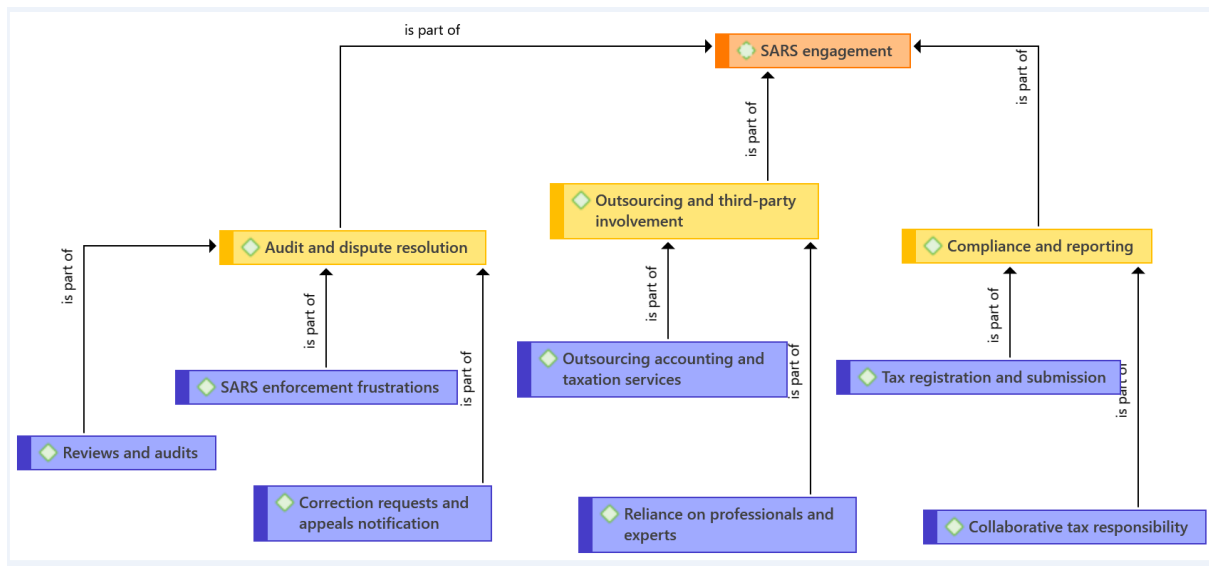


Figure 5.2 Themes and categories under SARS engagement

Source: Own compilation

Figure 5.2 highlights the three themes that were developed through reflexive data analysis as they pertain to the engagements the participants have with SARS, which inform the perceptions of trust in the tax authority that the participants hold. The categories shown are discussed under each theme. The first theme, which is outsourcing and third-party involvement, is discussed in the next section.

5.4.1.1.1 Outsourcing and third-party involvement

The findings indicated that utilising the services of an accounting and/or tax expert is one of the ways that SMEs engage with the tax authority. Participant 2 stated, “*I use a tax practitioner. So, my company has an accountant that handles our accounting and tax-related issues*”. Participant 6 and Participant 3 echoed similar sentiments about having outsourced these services to a professional from the early stages of their respective businesses, such that the participants do not deal directly with SARS. While most SMEs completely outsource their engagements with SARS, others employ an expert as part of their staff complement, while some have a strategy for both insourced and outsourced engagements with SARS. The latter is shown when Participant 7 explains: “*We go via a tax practitioner for the yearly stuff, and then I handle the VAT submissions and payments, and Pay-as-you-earn, UIF via eFiling*”. Participant 5 also explained that their SME has an in-sourced bookkeeper and accountants who are

outsourced. The only SME that completely insourced their SARS engagements was Participant 4, who stated: *“I am a Chartered Accountant, I have been with our group of companies for the last ten years, [...] I do oversee all our tax compliance and all our statutory returns and then any objections”*. The SMEs place great trust in the professionals they rely on, as stated by Participant 5, who indicated that he has knowledge of the tax landscape of the business and broader tax landscape and said, *“I am aware of the broad strokes but entrust the detail to the accountants and auditors”*. Similarly, responding to the question of whether she trusts SARS and why, Participant 3 responded that she cannot say whether she trusts an entity, that is, the tax authority, but she trusts the accounting firm and the accountants she has outsourced these services to. Factors that highlight the nature of the relationship between the SMEs and the outsourced professionals will be discussed in section 5.4.1.2. The next section explains the compliance and reporting engagement activities.

5.4.1.1.2 Compliance and reporting

The types of engagements that the SMEs have with SARS are varied and mostly centre around compliance and reporting. Participant 4 mentioned that: *“It’ll just be submission of returns and then responding to request for corrections, notice of objections and the notices of appeals”*. Another example of these compliance and reporting engagements was given by Participant 8 when she stated, *“Our external accountants handle the VAT, income tax, provisional tax and the customs duty which forms part of the normal VAT return”*. Within compliance activities, Participant 6 explained that *“We make sure that we claim VAT on things we are allowed to claim on and that we don’t claim on things we not allowed to. [...] It’s illegal to not pay your taxes”*. The legalities and complexity of tax laws while undertaking the compliance and reporting activities were highlighted by Participant 7, who said, *“I can’t answer for the man on the street as far as that goes because our stuff is so complicated, so we go through an accounting firm”*. Due to the legalities surrounding tax compliance, the compliance and reporting engagements were not at the forefront of the participants’ minds, as SARS audit engagements were mentioned most, which are discussed in the next section.

5.4.1.1.3 Audit and dispute resolution

The compliance and reporting procedures tend to overlap into dispute resolutions and audit engagements, which most of the SMEs in the study have engaged in. Participant 6 comments that: “SARS knows things. They will audit you”. The SARS audits raised trepidation in the participants, particularly when they mentioned being audited every year for the last five years despite successfully passing the audits every single time, which results in a “love/hate relationship” with the tax authority (Participant 8). Similar concerns were expressed regarding audit case selection, seemingly targeting those who try to be and to remain tax compliant and how it impacts the SMEs.

I think sometimes their enforcement is a bit misguided. They go after the people who are already compliant and are working to be compliant who must end up giving all the proof. Which is fine because it's there and they're compliant. But that takes time and manpower which should be given to your business; instead of going after those blatantly non-compliant (Participant 7).

The frustration was noted not only in audit case selection procedures but also in the audit processes as well. “They have to find a way to work with people [...] It's like SARS comes in as bullies”, expressed Participant 1, who further referenced the conduct of the auditors, who she felt treated her and her accountant as if they had already been found guilty of wrongdoing. The next section explores the SMEs' reliance on professionals.

5.4.1.2 Reliance on professionals

As shown in section 5.4.1.1.1, the participants rely on professionals such as tax practitioners and/or accountants when engaging with SARS. These relationships are shaped by several factors which greatly impact the SMEs that the participants represent. These factors are shown in Figure 5.3, which highlights the categories that led to the themes that influence the SMEs' reliance on professionals, namely, transparent sharing of information and education, professional competency, integrity and financial considerations.

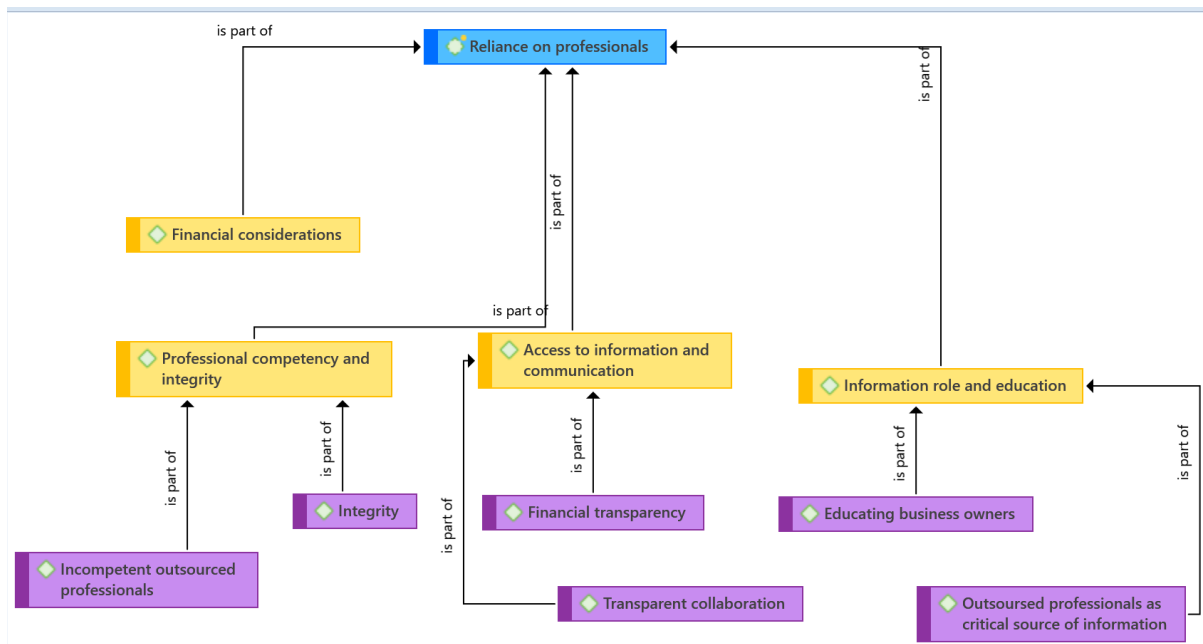


Figure 5.3 Themes under reliance on professionals

Source: Own compilation

Figure 5.3 highlights the dynamics of the relationship between the SMEs and the professional accountants they rely on. It is worth noting that these professionals are, in most instances, the middlemen between the SMEs and the tax authority, making their role an important one, and the findings of this study emphasized this. Due to the importance of the role played by the said professionals, the dynamics that affect the relationships with the SME showed the need for mutually beneficial interactions. The first theme was that of transparency in sharing information between the parties, which is discussed in the next section.

5.4.1.2.1 Transparent sharing of information

The participants clearly expressed the immense reliance placed on the professionals they work with who have ensured there are processes in place to share their accounting information with the professionals, thus ensuring transparent collaboration. Participant 2's explanation of the transparency in these processes was as follows, *"They [accountants] have access to our eFiling system as well as access to the company's bank statements for the financials for submission to SARS". "The submission of returns and making of the payments due is always a collaborative process between the internal finance manager and the outsourced tax practitioner with*

the amount payable being deducted directly from the bank account” (Participant 6). This collaborative process requires trust as shown in 5.4.1.1.1 due to the heavy reliance placed by the participants on the professionals. Participant 3 stated, *“I’ve always had an accounting firm who does our payroll, our tax and auditing and then I simply pay whatever they say I must pay”*. This information sharing is not one-sided, though, as the participants explained that they rely on professionals to be transparent, especially when educating them on tax matters. The next section deals with the need for education and how participants perceived the role played by the professionals they rely on in this.

5.4.1.2.2 Education and financial considerations

Participant 3 and Participant 2 highlighted that professionals are perceived as critical sources of credible information. *“If I had known the importance of having an accountant who is invested in educating me, I would have chosen this accounting firm I have now initially because a lot of things didn’t go right with the first accountant”*, explained Participant 2. While credible information is vital to SMEs, a participant postulated that not all SMEs have access to the required information and education.

Given what we said earlier, the disparities of either the left or the right of the bell curve in terms of do I have unfair, for a lack of a better word, access to information? Yes, relative to most SMEs, and I can use that to know more to make sure that we can be on the forefront of any new changes, any compliance that needs to happen as opposed to someone who doesn’t know gets a penalty and has a barrier to reach SARS, which I suspect would be the norm in sort of the threshold issue of businesses that you’re talking to (Participant 4).

The left and the right of the bell curve mentioned by Participant 4 relate to the resources available to the SME because reliance on professionals requires financial resources. The lack of or insufficient financial resources, therefore, poses some challenges for SMEs, with the main challenge being the costs related to these professionals. Participant 4 postulated, *“I don’t think we’re very representative of the broader SME market who effectively can’t employ someone who’s a CA and/or tax practitioner to do it because you’re then contacting an accountant, [...] and you’re*

paying per hour". Participant 2 mentioned the value-added service of educating the SME as a way of justifying the professionals' costs, *"There's a greater understanding of what we are paying for on a monthly basis because he knows I want to be informed, I need to understand why we have these particular services that we are paying for"*. The much-required tax knowledge, the role of tax education, its need, and the responsibility of who this education lies on will be discussed further in section 5.4.3.1.3(ii) Since the professionals are seen as such a critical source of information, the issue of their competence soon emerged from the participants, and this will be discussed in the next section.

5.4.1.2.3 Professional competence and integrity

The competence of the professional relied upon was highlighted by Participant 5, stating that, *"We work with people who are accredited accountants and bookkeepers and who know what to do"*. Elaborating, Participant 2, who has had the experience of both what she terms a "bad accountant" and a "good accountant", expressed that the competence or lack thereof in the professional relied upon could *"make or break a small business' relationship and understanding of SARS"*. These sentiments highlight that the reliance on professionals impacts the relationship of the SME with SARS, thus the SMEs' perceptions of SARS as a tax authority. Linked to the professionals' competence was the element of integrity, as stated by Participant 2 and Participant 8, respectively, *"my new accountant is very honourable and says let's do things the right way in order to be transparent and exercise integrity as a business"* and *"I have a professional obligation to make sure that the company is compliant. It's an integrity thing"*. The integrity or the moral responsibility of the SME also emerged strongly, and this will be discussed in section 5.4.2.4. In the next section, the perceptions of trust will be discussed.

5.4.1.3 Perceptions of trust in SARS as a tax authority

This section presents the findings from question 3 (C3) of the interview schedule (see Annexure 1). This question asked participants, based on their engagements with SARS and what they know of revenue authorities, what their main perception of SARS

is as the tax authority in South Africa. Figure 5.4 indicates the categories and themes that were developed through the reflective data analysis undertaken by the researcher.

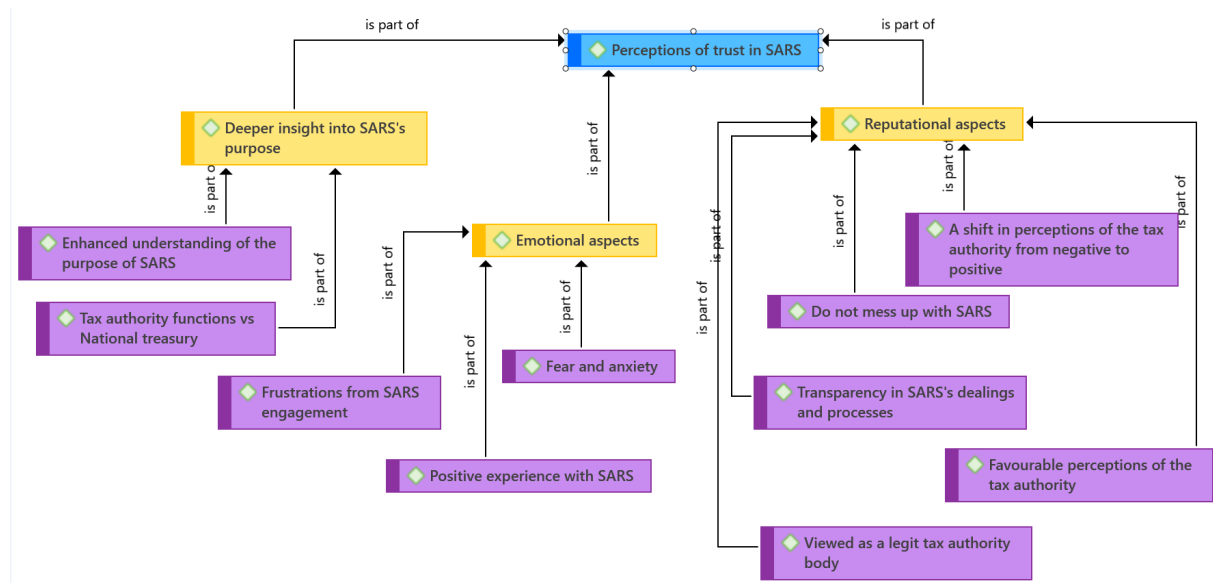


Figure 5.4 Themes under perceptions of trust in the tax authority

Source: Own compilation

As shown in Figure 5.4, the themes that were developed were emotional aspects and perception shifts, as well as deeper insight into SARS's purpose and reputational aspects. The next section discusses emotional aspects and perception shifts.

5.4.1.3.1 Emotional aspects and perception shifts

The responses indicated that the participants navigated the taxation sphere with a sense of fear toward SARS and were anxious in their engagements with the tax authority. Participant 6 stated, *“You don’t mess with them. They are the most effectively ran government department. They’re the one entity that can shut your business down”*. Similarly, other participants also expressed this notion that *“you don’t mess with SARS”* (Participant 3) and that *“there is a lot of fear around SARS coming after you and penalties and interest”* (Participant 8). The emotions evoked by thoughts of engaging with the tax authority were expressed, *“It’s not a good feeling. When SARS sends me an email stating there’s an audit, I start shaking”* (Participant 1). Further negative emotions were caused by the perception that SARS continuously goes after

those who are submitting their tax returns instead of spending resources *“going after the people that are fleecing you from your money”* (Participant 7). The amount of time spent waiting in the telephone queues, being transferred to incorrect departments, and the competence of the call centre agents were other areas of contention that resulted in negative emotions regarding the tax authority. *“They don't actually know how to help you. So, if you don't know how to help me, what do you know? Where is the competency?”* (Participant 8) While the engagements for some participants resulted in negative perceptions, other participants displayed a shift from negative to positive perceptions due to the engagements with the tax authority. It is an interesting contrast. *“Initially, when I started, I was so scared of SARS and now being able to speak like this, but it's a process. The more knowledgeable you are, the more at ease and comfortable you are”* (Participant 2).

With a taxpayer's natural inclination to fear SARS, the principal 'tax authority' was a common discussion area of the participants, but engaging with SARS and finding them *“...quite approachable, highly professional, highly efficient and actually quite pleasant”*, eased this fear and shifted the perception to a positive one (Participant 5). Participant 6 recalled an SDL audit conducted by SARS in the early stages of their business. He reflected that the auditing official clearly could see that they did not know anything about SDL and were thus not intentionally evading paying this tax. He responded in a manner that was informative and encouraged them to register and be compliant with this tax. He says of this interaction, *“...that was another incident where it actually affected my perception of SARS in a very positive way”* (Participant 6). A reflection of a well-run branch consultation office with clear direction and guidelines led to this response from one of the participants, *“Instantaneously your first view of SARS is OK, wait, this is not a scary office”*. The emotional aspects that affect the perceptions of trust in SARS further opened room for participants to discuss their understanding of the mandate of SARS, which is discussed in the next section.

5.4.1.3.2 Deeper insight into SARS' purpose and service delivery

The understanding of the mandate of SARS was one of the defining markers of the perceptions of trust in the tax authority. *“My perception of them is that they are a regulatory body who collect specific funds for public services”* (Participant 2). Showing

a similar understanding, Participant 4 explained, “...they have the unfortunate job of just collecting the revenue and don't make the call on the distributions. That's why I think they get an unfair rep. This understanding of the mandate of SARS and the limitations of who SARS is brought about a positive perception in the tax authority. Participants shared a belief that in terms of collection of government revenue through taxes, SARS has done “a pretty good job with what they have” (Participant 4), and “if we look at SARS as an entity, they play their part” (Participant 2). While participants expressed positive sentiments about SARS and how they execute their mandate, the issue of service delivery or government performance came to the fore. “The money that SARS collected, they've disclosed it and brought it forward for public service, and it's our public servants who do not fulfil their mandate” (Participant 2). “...there's less and less trust that your tax money will be used to provide education, enhance infrastructure, create an enabling environment for economic growth, but that's got nothing to do with SARS. Yet it puts them in a dimmer light” (Participant 6).

The impact of service delivery or lack thereof on the perception of SARS was frequently cited by the participants despite various participants expressing that they are aware that service delivery is not “necessarily the problem of SARS” (Participant 8). Yet SARS is seen as “the hand of the government that reaches into your pocket” (Participant 7) and the “body that is used to collect the tax” (Participant 8). While the budget speech offers transparency into how the funds will be disbursed, there is a continued disconnect in that services remain undelivered despite there being funds allocated (Participant 7). The impact of service delivery on the perception of SARS is a rich topic of discussion that is closely linked to the attributes of trust in the tax authority, and further discussion on this will be undertaken in section 5.4.2.5.2. In the next section, the reputational aspects that highlighted the participant's perceptions of trust in SARS are explained.

5.4.1.3.3 Reputational aspects

The positive perception shown was not only due to experiences with SARS, but there were also reputational aspects of SARS that earned them this positive perception. Participant 5 explained that “great leadership or great organizational management has built that trust and reputation”. Participant 2 elucidated that she perceives SARS as

credible because they educate taxpayers, are very thorough in how they approach their mandate and are *“caught up in multiple scandals where we hear that SARS has certain people they don't tax”*. Echoing similar sentiments, Participant 6 stated that SARS is *“seen as not being corrupt”*, which is one of the reasons for the positive perception held of the tax authority. Another aspect of SARS' reputation that is earning them a positive perception from taxpayers is their *“good online interfaces”* (Participant 5), which shows that they have planned for this modern digital world. Additionally, not only do the online interfaces work well but *“there's also the assurance that if you don't come right, you can make an appointment and see someone to discuss it”* (Participant 5). These reputational aspects overlap with the legitimacy of the tax authority and will be discussed further in section 5.4.3.1.1. The next section then outlines the perceptions of trust in SARS as articulated by the participants.

5.4.1.4 Trust in SARS

Addressed in this section was question C4, which asked the participants if they trusted SARS and the reasons thereof. The responses varied, and participants were on either side of the trust bell curve. Some participants, however, were neutral, stating, *“It's difficult to say that you trust an entity that you don't know well. So, it's neutral for me if I could put it that way”* (Participant 3) and *“It's hard to say yes, I trust them. No, I don't trust them”* (Participant 7). The reasons for these responses will be discussed in section 5.4.3. The findings pertaining to research objective one are discussed in the next section.

5.4.1.5 Discussion of findings: Research Objective One

To identify and explore the perceptions of trust in tax authorities among SMEs in the Nelson Mandela Bay Municipality, South Africa

The study found that there were varying perceptions of trust in the tax authority, with half of the participants being firm in that they trust SARS as the tax authority of South Africa. Some participants were neutral in their perception of trust in the tax authority. The perceptions held by SMEs of the tax authority are formed through engaging with the tax authority, either directly or through a third-party professional to whom the SME

outsources these services. The engagements varied from compliance and reporting to audit and dispute resolutions. The latter type of engagement filled SMEs with trepidation and fuelled a negative perception towards the tax authority, thus having an impact on the levels of trust towards the tax authority. Some SMEs believed that the audit selection procedures were not fair, and the tax authority showed a tendency to audit the same persons despite receiving clean audit results in previous years, yet those who are blatantly non-compliant are not audited. Additionally, as a result of the audit processes, the tax authority was being viewed as bullies in the way the auditors conducted themselves in some instances. This further fuelled the negative perception towards the tax authority, thus impeding the development or nurturing of a perception of trust in the tax authority. These are similar to findings cited in the literature, where taxpayers perceived the tax authorities as corrupt and not deserving of trust, with many taxpayers being harassed and abused by the tax authorities, while wealthy taxpayers can escape paying the taxes they owe (Dom et al. 2022:209). These views confirm Tsikas' (2020:149) findings that measures taken by the tax authority to deter tax non-compliance, such as audit and trust, depended on and influenced each other. This means that an increase in deterrence measures, such as audits, reduces the positive influence of trust in the tax authority on tax compliance (Tsikas 2020:149). It was thus unsurprising to find that where SMEs believed that they were trusted by the tax authority and even perceived respect being given by the tax authority, they responded positively to the tax authority and viewed themselves as trusting of the tax authority, with the opposite view found to be true as well. This is in line with the RRT, which states that trust is reciprocal and, therefore, the behaviour of the taxpayer responds to that of the tax authority, highlighting the importance of the tax authority's need to be familiar with the taxpayers' motivational posture and responding appropriately (Ayres & Braithwaite 1992:4; Murphy 2002:18; Six 2013:4).

The participants who held neutral views explained that while they were neutral in their perception of trust towards the tax authority, they trusted the professionals with whom they outsourced the services. Trust is critical in the relationship between SMEs and their accountants, with external accountants being the most trusted by their clients (Blackburn, Carey & Tanewski 2010:28). It is mostly through the accountants and tax experts that the participants engaged with SARS, with a few exceptions of participants who engage with SARS themselves. This is in line with earlier findings, which showed

that SMEs have a combined approach to both outsourcing and insourcing accounting functions. The need for outsourcing is often attributed to a skills shortage in the SME, thus requiring external expertise (Banham & He 2014:209; Brijlal, Enow & Isaacs 2014:4; De Bruyckere, Frederik, Everaert, Sarens & Coppens 2017:50).

With this reliance on outsourced professionals, SMEs incur high financial costs in order to remain tax compliant, which tends to be much steeper for smaller SMEs than for bigger ones. Various studies have been conducted that have indicated that tax compliance costs are high and regressive in nature (Buthelezi 2023:26; Dixon 2022:97; Evans et al. 2014:474; Nieuwenhuizen 2019:671). The trade-off for the participants regarding these costs was the fact that they expected more than the traditional services that accountants and tax experts previously offered, with a particular mention of SMEs expecting the professionals to educate them about their tax obligations and tax compliance procedures. Earlier research has expressed the need for accountants to move beyond the traditional compliance services and offer business advisory services (De Bruyckere et al. 2017:53; Brijlal et al. 2014:4; Blackburn et al. 2010:30). A study found that there was a misunderstanding between accountants and SMEs regarding the accountants' intentionality in transferring financial literacy competency, where accountants believed they were intentionally transferring these skills and the SMEs did not agree (Viviers 2021:181). Realising the need for a varied service base offered by the professionals, the issue of ethical and competent accountants was another finding of the study.

Participants require that the accountants demonstrate professional competence and be ethical. One participant changed accountants because of a lack of professional competence on the accountant's part, which negatively impacted the participant's tax status. This is in line with presentations made in Figure 3.1 regarding how trust develops, which suggest that goodwill, competence and behaviour continuously interact and influence each other (Blomqvist & Stahle 2011:4). Additionally, the relationship between an accountant and their SME clients is built on competence, integrity, honesty, reliability, empathy and openness, with trust developing over time (Blackburn et al. 2010:26,30; Hoy & Tschannen-Moran 1999:204). The findings relating to objective one covered the participants' perceptions of trust in the tax authority and the various engagements and ways the participants engage with the tax

authority. In the next section, the findings relating to research objective two, how the SMEs in the Nelson Mandela Bay Municipality practise voluntary tax compliance, are discussed.

5.4.2 Findings relating to Research Objective Two

To identify whether SMEs in the Nelson Mandela Bay Municipality practise voluntary tax compliance or not, and if so how.

Presented in this section are findings relating to Section D of the research instrument (see Annexure 1). The purpose of this section was to explore the SMEs' knowledge of the taxes applicable to their enterprises and the wider tax landscape. The next step was to uncover how the SMEs engage with SARS (that is, the tools they use) to practise voluntary tax compliance. Finally, the SMEs' voluntary tax compliance practises were explored. This discussion is tabled through the following themes: tax knowledge, voluntary tax compliance practises and reasons for voluntary tax compliance. Figure 5.5 depicts these themes.

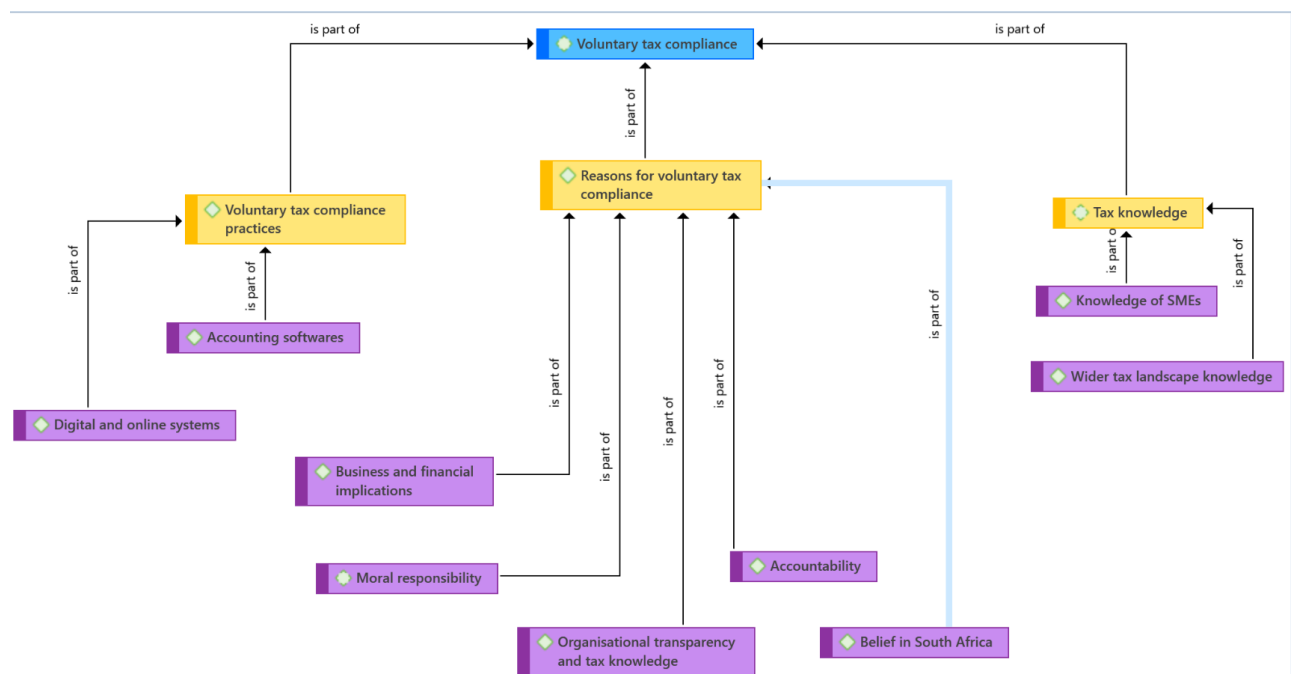


Figure 5.5 Themes under voluntary tax compliance

Source: Own compilation

In the next section, the tax knowledge of participants is discussed.

5.4.2.1 Tax knowledge

Question D1, regarding tax knowledge, was two-pronged in that it required a response about the participant's knowledge of taxes as they apply to their enterprise and their wider knowledge about the tax landscape. Of the former, what emerged and was most prominent was that the SME participants were aware of the taxes that applied to their enterprises and paid less attention to the knowledge of the wider tax landscape. On both the entity-specific tax knowledge and wider tax landscape knowledge, Participant 4, who is a Chartered Accountant, stated,

I stay up to date with tax happenings. I have various people who advise me, I get the Integritax, I attend the Tax in practice, the Tedtalks, I'm in regular consult with the tax department at SAICA, [...] I'd like to believe that I have at least a good working knowledge of most things and a thorough knowledge of pretty much the core tax matters.

The different sources of knowledge that Participant 4 accessed to gain tax knowledge are not as easily accessible to other SMEs. Consequently, the discourse around taxation being overwhelming and complicated was prevalent in the interviews. Participants addressed the fact that even the resources that are meant to assist them, such as the SARS website, do not always help. Reading the information on the SARS website is “*very confusing for a normal person to understand*” (Participant 3), and “*as a layperson who is doing their taxes, it can be a bit overwhelming*” (Participant 7). Apart from the complexity of the information, the information not being “*readily available and definitely not in a way that's for a normal person to understand*” was cited as a challenge. Participant 8 further explained that this impacted one's ability “*to make a good strategic decision that helps you to reduce your tax burden in a legal way*”. These challenges can be addressed “*if someone simply explains it [tax]*” (Participant 1). This shows a need for the simplification of the tax information available. Surprisingly, it was not only the technical knowledge that participants required but also the tax compliance processes and fiscal awareness. “*More opportunities should be availed to educate people with regards to tax compliance, what is expected and what*

happens to the taxes” (Participant 1). *“Awareness, knowledge not just you have to pay tax like it's a scary thing, but to take the fear out of tax. To answer the why you pay tax”* (Participant 5). Tax education emerged as a strong theme throughout the interviews; therefore, this theme and the expansion of the knowledge types required will further be discussed in section 5.4.3.1.3. The next section discusses the voluntary tax compliance practises of the SMEs.

5.4.2.2 Voluntary tax compliance practises

The questions addressed in this section are D2 and D3, together with an overlap from C2. The questions in section D related to the voluntary tax compliance practices of the entity and the technological tools used by the SMEs to practise voluntary tax compliance. Question C2, on the other hand, asked participants about how they handle their tax affairs, such as submission of returns and making of payments. Various accounting software packages such as Pastel, Pastel Evolution, Xero, SAGE, Simple Pay, and Monday.com are used by the participants for their financial records. The most common thread among the participants was the use of SARS eFiling as a technological tool to submit tax returns and make payments, thereby assisting in their voluntary tax compliance practises (Participant 1, Participant 5, Participant 7). The convenience of SARS eFiling was lauded because *“eFiling is a really, really solid platform”* (Participant 4), which gives SMEs *“instant digital access to our own tax compliance”* (Participant 2). On the positive note of SARS eFiling supporting participants towards their voluntary tax compliance endeavours, the next section details the reasons for voluntary tax compliance as shared by the participants.

5.4.2.3 Reasons for voluntary tax compliance

The questions addressed in this section are D4, D5 and E5. The questions in section E were about the attributes of trust in the tax authority, yet as the data analysis progressed, it was clear that the participants’ moral obligation (question posed in E5) was a reason that the participants chose to remain tax compliant. The following themes were developed, namely organisational transparency, business and financial implications, tax awareness, moral responsibility, belief in South Africa (patriotism) and accountability, as shown in Figure 5.6.

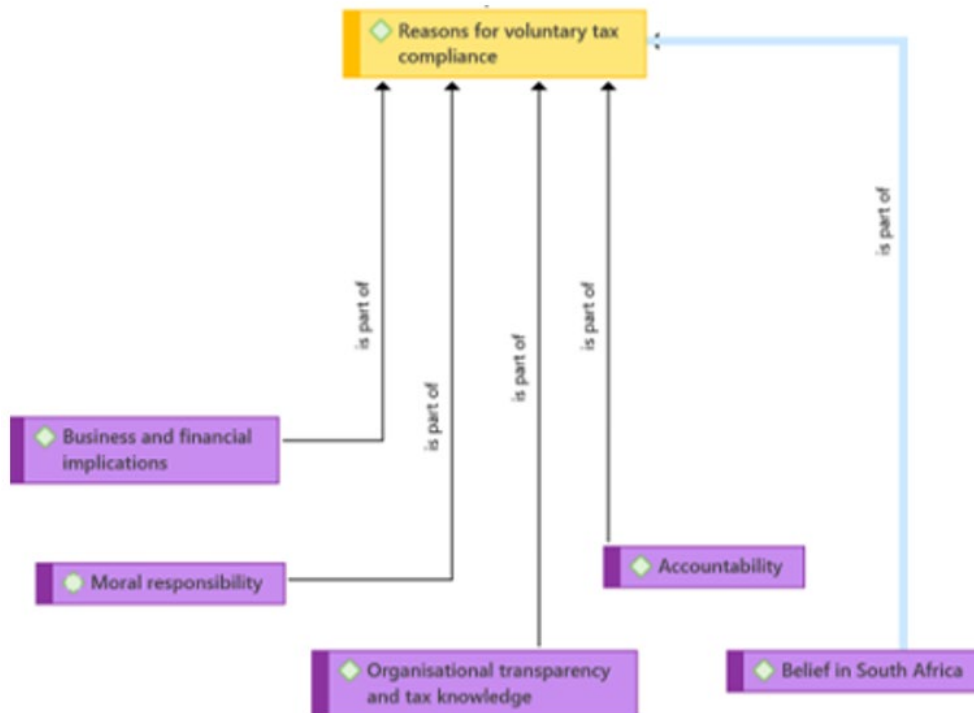


Figure 5.6 Themes developed from reasons for voluntary tax compliance

Source: Own compilation

In the next section, the business and financial implications will be discussed.

5.4.2.3.1 Business and financial implications

One participant stated that financial implications and business growth opportunities were the reasons for voluntary tax compliance.

The main reason to be would be to avoid penalties and interest. [...] I would also say that obviously needing to get a tax clearance certificate to be able to win business is also a big indicator and if the banks are requesting that information as part of extending financing facilities. Maybe those are bigger reasons than avoiding penalties and interest because that obviously can limit the extent to which you can continue operating (Participant 8).

The cashflow implications resulting from enforced compliance were a motivating factor towards voluntary tax compliance, with one participant stating that choosing voluntary tax compliance is *“easier than having a forced compliance”* (Participant 1). Additionally, voluntary tax compliance was motivated by the need to manage business risk (Participant 4). Participant 6, who had earlier mentioned that SARS can shut down your business, further explained that it is better to *“voluntarily submit your tax information than have SARS come after you and be audited”*. This fear of consequences through enforced compliance proved to be a motivator for voluntary tax compliance. *“It’s the thing you must do, or else you’re going to get in trouble”* (Participant 5). Participant 1 shared similar sentiments, *“If they could get away with it [being tax non-compliant], they would, but now that’s just the opposite of you going to jail for not paying your taxes”*. The business and financial implications for voluntary tax compliance have stemmed from SMEs who consider the tax implications on the growth of their businesses and their cashflows. The following section discusses tax awareness as a motivating factor for voluntary tax compliance among the participants.

5.4.2.3.2 Organisational transparency and tax awareness

Tax awareness was expressed by Participant 2 as what liberated her to be tax compliant and to maintain her voluntary tax compliant posture, *“I would say education is what has liberated me as an entrepreneur to voluntarily pay SARS”*. A similar view was that of a participant who receives information from various efficacy entities *“that gives me confidence in what SARS is doing and makes us want to deal with SARS in a voluntary compliant manner. Were it not for that and I wasn’t doing this, my answer would be very different”* (Participant 4). The efficacy entities that Participant 4 sources information from are not available to other SMEs, and thus they may not have similar access to information. *“There could be better communication from SARS, rather than just you’ve defaulted or whatever has happened which you don’t even realize half the time it’s going on. Those of us who are not accountants; we really don’t get it”* (Participant 3). Participant 8 agreed that *“the information is not easy to understand, which results in efforts to upskill oneself rendered ineffective”*. It is worth noting that Participant 8 reflected the understanding that *“there is a burden on us to make sure we upskill ourselves”*, as she talked about tax awareness and knowledge. Further discussions on tax knowledge are reported in 5.4.3.1.3, and they cover the

responsibility for tax awareness and the different types of knowledge required by SMEs. The next section discusses the moral responsibility of the participant as the reason they remain or want to be voluntary tax compliant.

5.4.2.3.3 Moral responsibility

The question of a strong moral responsibility was the most prominent reason why participants chose to be or to remain voluntarily tax compliant. *“If you’ve got a strong moral ability, it is a great influence. And that’ll make you want to be compliant even if there are no consequences”* (Participant 5). More participants mentioned this strong moral responsibility, integrity, and personal values as what drives their voluntary tax compliance decisions and practises (Participant 2, Participant 7, Participant 3). Another aspect highlighted by Participant 6 was seeing tax non-compliance or claiming personal expenditure as business expenditure as stealing. *“There are many ways to lower your moral standing, to do what’s not right and probably not get caught. But if you’re going to lower your compliance there, chances are, and you’ll be prepared to compromise in other areas”* (Participant 6). Similar to the previous participant, Participant 4 explained, *“...even though the business risk is low, but the integrity risk is forever. You can only lose your integrity once. And that’s a line we’re not willing to cross”* (Participant 4).

Apart from integrity, personal values, and strong moral responsibility, being a law-abiding citizen was another driver towards voluntary tax compliance. Participant 1 explained that she is *“a law-abiding citizen”*, which is the reason that drives the SME's choice towards voluntary tax compliance. *“Respect for the law of the land”* was an important factor in the decision towards voluntary tax compliance (Participant 3). Participants who saw themselves as law-abiding explained that they would comply even if they saw the tax authority as untrustworthy. *“If you’re a person who sticks to the law, regardless of whether they’re corrupt or not, you will still comply voluntarily because it’s the law”* (Participant 6). Another participant stated, *“I’m always going to be voluntary tax compliant, because of who I am. So, there’s nothing that they [SARS] can do or even don’t do that’s going to make me change that”* (Participant 7). This stance towards voluntary tax compliance, regardless of trust in the tax authority, had an added layer in that the participant said that even if the funds were not used for the

purposes for which they were collected, voluntary tax compliance would prevail in his choices due to his moral obligation (Participant 6). While the fear of consequences is a real motivation towards voluntary tax compliance, some participants were clear they would be compliant even in the absence of consequences. Referencing the continued voluntary annual payment of TV licences despite there being no consequences, Participant 5 stated that he would voluntarily comply because it is *“the right thing to do and I think for the minority being like me and people like me, we would pay anyway”*. The right thing to do was also seen to come from the participants’ religious beliefs.

Participant 7 explained the reason for complying voluntarily, *“because that’s what the Word of God tells us to do”*. These beliefs were shared when a participant recollected a Bible passage, *“we should pay to Caesar what is Caesar’s, so even the Bible gives us a directive that we should pay our taxes”*. The personal Christian beliefs of the participants extended into those of the company, as participants saw their SMEs as Christian businesses (Participant 3, Participant 4, Participant 5). Consequently, Christian values and beliefs were shared pervasively as a reason for voluntary tax compliance. *“I really want to try and to honour God and run my business on Godly principles to the best of my ability”* (Participant 3). Another participant saw voluntarily complying as a way to give back to the country, which would enable them to earn an income. *“We are in a position to earn income because of the country and so we give back to the country what it feels it needs to tax us on”* (Participant 4). The responses of the participants illustrate that the moral responsibility of the participants influences their voluntary tax compliance decisions. In the next section, the discussion centres around the belief in South Africa and how it affects the participants’ voluntary tax compliance.

5.4.2.3.4 Patriotism

In Question E3, participants were asked what makes them and their enterprise believe in South Africa, such that they want to be voluntarily tax compliant. The discussion below tables the meaning made by the researcher out of the participants’ responses. The themes that emerged are those of national pride, national responsibility, and government performance, as well as how these themes affect voluntary tax compliance.

(i) National pride

In seeking to understand whether a sense of national pride increases trust in the tax authority, the participants were asked about their belief in South Africa and whether it affects their tax compliance. Participants had varying degrees of national pride. *“When I was younger, I loved my country, but now I am starting to lose hope in South Africa”* (Participant 1). Being a citizen in post-apartheid South Africa, the legacy of unity between people of all races and cultures left by the honourable Nelson Mandela *“has been broken down by so many social issues and so much poverty, by so many things in our land because promises that have not been kept”* (Participant 3). Lack of service delivery coupled with the fact that the country had received a junk status rating (according to S&P Global credit rating) was highlighted, yet despite this, the love and hope for the country remained, which acted as a propellant towards voluntary tax compliance (Participant 3). An interview that occurred at the Rugby World Cup featuring the Springboks was infused with a lot of hope for South Africa. *“It’s a good thing you asked on Bok Friday. I think as South Africans, we love our country. Our greatest hope is to have hope [believe] in our country. I hate it when people leave”* (Participant 5). This love for South Africa was echoed by Participant 7, who said, *“People don’t know what they have here in South Africa. Let’s focus on getting this country to work”*, and Participant 3, who said, *“I want to be a participative member of society and contribute to our community. And to see the country working”*. This love of the country, or, in other words, a sense of national pride, was accompanied by a sense of national responsibility, which is discussed in the next section.

(ii) National responsibility

What struck the researcher was the fact that due to national pride, the participants were willing to put their money where their love is by voluntarily complying with tax.

We are afforded the opportunity to run a business in South Africa and with that comes a large chunk of fixed infrastructure and fixed systems; systems that wouldn’t allow us to operate if we were not in the Republic that we are in

and so we understand that that comes with, call it a maintenance fee for want of a better word, and that is tax (Participant 4).

You think about kids who can't go to school because of a meal and now our schools have the feeding schemes; girls who miss days of school monthly because of period poverty and now you've got the social development that is able to buy sanitary towels in bulk for them, so they stay in school. SARS becomes an incredible tool that we all need to voluntarily invest in to be able to support each other (Participant 2).

Participant 6 summed up the national pride leading to national responsibility discussion by explaining that he hopes that his *“tax money can benefit the poor and create a better future for the country and its people who are resilient with an ability to continue surprising themselves and surviving”*. On this high note of belief in South Africa, national responsibility, and the hope that the country will grow because citizens choose to be voluntary tax compliant, the next section centres around the performance of the government and how it impacts the voluntary tax compliance of participants.

(iii) Government performance

The government's performance impacted the participants' perception of and belief in the tax authority as well as their perceptions of and belief in the country. These perceptions, in turn, impacted their voluntary tax compliance decisions. Participant 2 expressed the importance of SARS and how her SME voluntarily complies with taxes with the hope that the taxes collected will be used for the purposes they were collected for. *“It [paying taxes] stings but we want our communities to be empowered. When the government is not fulfilling their mandate, it is something that grieves us as people who've already surrendered to the system”* (Participant 2). Paying taxes voluntarily is a way of investing in the country with the hope of getting a return on investment by, *“seeing the fruit that it promises. [...] And whether SARS is directly involved or not, they are linked to government”* (Participant 3). The fruit or the return on investment was repeated by Participant 1, who mentioned that the roads where repairs are not done properly or the lack of medication in government hospitals makes her question

why she pays her taxes every month. Explaining the phenomenon of the trust in SARS being impacted by the government's performance, Participant 4 explained, *“That’s where understanding of SARS as a collection agency and the division of revenue matters. Here is the let-down for SARS. SARS takes and gives to Treasury who divides in accordance with DORA. Then who is much expected of?”* The evidence of the use of funds is shown above to impact the voluntary tax compliance decisions of participants, and, as Participant 4 explained, it is not SARS that is responsible for the distribution and utilisation of such funds. Participants talked about the government's accountability for the use of the tax funds collected by SARS, which will be discussed in the next section.

5.4.2.3.5 Accountability

Question E6, which dealt with accountability, was asked as part of section E, which focused on the attributes of trust in the tax authority that may lead to voluntary tax compliance. It however emerged that government accountability is linked to voluntary tax compliance and is thus presented in this section. In the next section, the first half of the question details whether participants believe citizens should hold the government accountable and, if so, how.

(i) Citizens holding government accountable

Most participants unequivocally believed that governments should be held accountable by the citizens of their countries. Concurring with the earlier argument that taxes paid are an investment, it was also raised that these taxes are a sacrifice made by participants. Consequently, it is imperative to hold the government accountable for the use of such funds (Participant 2). Participant 5 took the argument further by suggesting the standards by which the government must be held accountable. *“Depending on where you are on the scale of first to third or fourth-world economies, an equitable or a comparable level of service compared to a country of similar stature”* (Participant 5). Table 5.2 shows the findings as proposed by the participants on how governments can be held accountable by citizens.

Table 5.2 How governments can be held accountable by citizens

Accountability mechanism	Participant quotation	Similar view
Voting	<i>"There are two key transactions between a government and its constituents. We vote a government in, then we pay them our taxes and we should demand a certain of quality of services for those"</i> (Participant 5).	Participant 6, Participant 7
Forums and public entities	<i>"I think in terms of us holding them accountable, being able to use forums, public entities to ask why public services are not being accomplished"</i> (Participant 2).	
Removal and imprisonment	<i>"People who are not playing their role in government must be excused from their roles and go to jail for committing crimes against the people because corruption a criminal activity"</i> (Participant 2).	Participant 3
Accountability of fruitless and wasteful expenditure	<i>"I think about the municipalities going through audits and you've got X amount of fruitless and wasteful expenditure, so you get an audit report that says you are non-compliant. What happens then? No one holds them to account"</i> (Participant 8).	
Protests, civil unrest, and revolts	<i>"Where citizens don't see the government as being accountable at all, you will see a breakdown of compliance, of accountability to answer to government. You see it all over where people don't respect government institutions anymore. And they'll defy"</i> (Participant 6).	Participant 7

Source: Own compilation

Various ideas were mentioned in Table 5.2 on how governments can be held accountable by their citizens. One participant, however, did not believe that citizens must hold governments accountable:

Followers must always be accountable to your leader in line with their authority, but the leader doesn't necessarily have to be accountable to their follower. Your leader needs to give the authority, be able to protect, and serve their follower and be the authority that if the follower is attacked or whatever their

circumstances are, to be their covering, and that's what government is there for (Participant 4).

Closing the accountability discussion, it was noted that *“the call for accountability is a symptom of non-delivery so that comes back down to the distribution mechanism again, is if things were distributed well then needs would be fulfilled, promises would have been met”* (Participant 4). It is worth noting that these accountability measures are retaliations from constituents after the service delivery failures have taken place. Thus the question is, “could satisfactory transparency and service delivery be sufficient to remove the call for governments to be held accountable by citizens?”. This accountability or transparency and government performance are some of the factors that encourage voluntary tax compliance among taxpayers. The next section discusses what emerged when participants were asked whether they believe government should hold citizens accountable and how this should be undertaken.

(ii) Government holding citizens accountable

Regarding whether citizens are to be held accountable by the government and how, the consensus was clear that citizens should and are being held accountable by the government. One clear accountability mechanism that the government uses for citizens is that of taxes and tax compliance (Participant 5, Participant 2, Participant 3). Additionally, *“there are criminal systems, justice systems”* (Participant 3). Even though the law can be played, resulting in a system that is not fair, there is accountability through this system. The government holding citizens accountable is important because, for those who will not voluntarily comply because it is the right thing to do, there is a need for *“a carrot and a stick; it's the moral conscience but plus the consequence. You can't just have one”* (Participant 5). While the government has the authority to hold citizens accountable, participants expressed the importance of government accountability because when they perceive that the government is accountable, they, in turn, are willing to be held accountable. Where there is a clear lack of government accountability, citizens can retaliate through revolts and protests (Participant 6, Participant 7). The service delivery in return for paying taxes and holding each other accountable is seen as *“a contract. And when the contract is broken, that's when the civil unrests occur and then the only way to mitigate that is to*

become an authoritarian state. And then you control people through force” (Participant 6). Accountability on both sides is critical for a stable country that is not ruled through force and where citizens voluntarily participate and comply as seen in the discussion above.

5.4.2.4 Discussion of findings: Research Objective Two

To identify whether SMEs in the Nelson Mandela Bay Municipality practice voluntary tax compliance or not, and if so how.

The findings for research objective two entailed the voluntary tax compliance practises of SMEs. This study found that the SMEs use various software and resources to maintain voluntary tax compliance. The SARS eFiling platform was frequently mentioned as a platform used to conduct the SMEs’ affairs with SARS. There were varying factors that were brought to the fore as reasons for voluntary tax compliance. These reasons motivated the participants towards voluntary tax compliance, whether they trusted the tax authority or not. These reasons were either related to the SMEs, SARS or the government. Table 5.3 breaks down these reasons for voluntary tax compliance for each of the categories.

Table 5.3 Categorisations of reasons for voluntary tax compliance

Taxpayer related	Tax authority related	Government related
Business and financial implications	Organisational transparency	Government performance (service delivery)
Tax awareness/ education	Tax awareness/ education	Government accountability
Moral responsibility	Communication	
Belief in South Africa		
Accountability		

Source: Own compilation

Table 5.3 categorises the reasons that were extracted from the data as the reasons why SMEs in the Nelson Mandela Bay Municipality practise voluntary tax compliance. While the study was delineated to only the tax authority, the government-related reasons were mentioned frequently throughout the interviews. These government-

related reasons were government accountability and government performance (service delivery). The study findings confirm previous literature regarding the call for accountability, stating that it is not only the authorities that hold their citizens accountable but also the citizens holding the authorities accountable (Bovens 2006:6). This is known as public accountability, which promotes transparency of the public sector (Rulashe & Ijeoma 2022:2). What is clear in the findings is that despite the best efforts by the tax authority, the performance and accountability of the government will always have an impact on the voluntary tax compliance of taxpayers. Citizens require public entities to account for the passing of a judgement, and the judgement passed by the citizens is the withholding of voluntary tax compliance (Bovens 2006:12). When citizens are not voluntarily tax compliant, the tax authority takes the route of enforcing tax compliance, especially for SMEs (Dom et al. 2022:113; Gobena & Van Dijke 2017:1). It is thus imperative that governments are accountable to citizens since this directly influences the voluntary tax compliance of SMEs. The SARS annual strategic plan of 2020 stated, "Research shows that taxpayers' attitude towards compliance and their willingness to comply are influenced by how they perceive taxes to be utilised by the government. Loss of public confidence as a result of corruption in the public sector and poor service delivery has the potential to undermine and make it difficult for SARS to increase voluntary compliance" (SARS 2020:12).

Another noteworthy consideration is the realisation that most of the factors that influenced the voluntary tax compliance of the SMEs were related to the SMEs themselves. Apart from business and financial implications as well as accountability, all the other reasons required minimal intervention from the tax authority, yet they were greatly influenced by either the tax authority or the government. Most of the reasons positively influence voluntary tax compliance, yet they also have the potential to negatively affect voluntary tax compliance. Where participants lacked national pride and national responsibility or lacked belief in South Africa, their motivation towards voluntary tax compliance was lower. National pride or identification with the nation occurs when citizens internalize the values and norms of the collective that they identify with and this national pride is a significant predictor of voluntary tax compliance (Macintyre, Chan, Schaffner & Torgler 2023:18; Gobena & Van Dijke 2017:11). While the study findings agree with the postulations that national pride allows citizens to forego their immediate self-interest in favour of the general good (Kornhauser

2022:148), the findings disagreed with the assertion that trust in the tax authority is best built through promoting state identification for the taxpayer (Kornhauser 2022:150). Participants who identified with the nation highlighted their national responsibility as what drove them to practise voluntary tax compliance.

With regard to moral responsibility, the most pertinent factors were that of religiosity and high moral fibre, which are internalised standards that the participants live by. Participants who considered themselves to have high morals asserted that they would choose to be and remain voluntarily tax compliant whether they trust the tax authority or not. Likewise, moral responsibility was one of the factors that stood out, even when participants lacked national pride or belief in South Africa. They would remain voluntarily tax compliant because their moral standards required that of them. This was even shown in the instance where participants felt that the tax authority was not fair in how they select taxpayers to audit, thus leading to tax authority distrust, yet the participants remained voluntarily tax compliant due to their moral standards. Finally, the reasons for voluntary tax compliance that were motivated by the tax authority's actions were that of accountability as well as business and financial implications. This mainly referred to the imposition of interest and penalties by the tax authority as well as the fear of being audited, which compelled the participants to be or to remain voluntarily tax compliant. This is in line with the SSF, which postulated that the components of tax compliance, namely, voluntary tax compliance and enforced tax compliance, interact with and moderate each other while also operating independently (Kirchler et al. 2008:211; Tsikas 2020:150). The fear of enforcement measures motivating the participants to comply voluntarily is a typical example of these two determinants working together towards the goal of tax compliance.

Another determinant of voluntary tax compliance was tax knowledge or education. Lack of tax awareness or education negatively impacted voluntary tax compliance decisions. When participants believed they were well informed regarding various elements of taxes, this greatly influenced their decision towards voluntary tax compliance. Various studies have supported the notion that tax awareness positively influences voluntary tax compliance (Albert & Fadjaranie 2022:1920; Khamis & Mastor 2023: 180; Manual & Xin 2016:65; Susyanti & Askandar 2019:192).

5.4.3 Findings relating to Research Objective Three

To identify what attributes of trust in tax authorities may create better strategies for voluntary tax behaviour

The findings presented in this section relate to Section E of the research instrument (see Annexure 1). The purpose of this section was to identify the attributes of trust in tax authorities that may create better strategies for voluntary tax behaviour. The themes that emerged are considered to be the attributes of trust in the tax authority and will be discussed in the following sections.

5.4.3.1 Attributes of trust in the tax authority

As stated in section 5.4.1.4, there were variations in whether participants trusted the tax authority or not. Where participants expressed distrust or neutrality in their perception of trust, the researcher adjusted the question slightly to ask the attributes a participant would want to perceive in SARS in order to trust the entity. Presented in Figure 5.7 are the findings on the attributes that lead to trust in the tax authority.

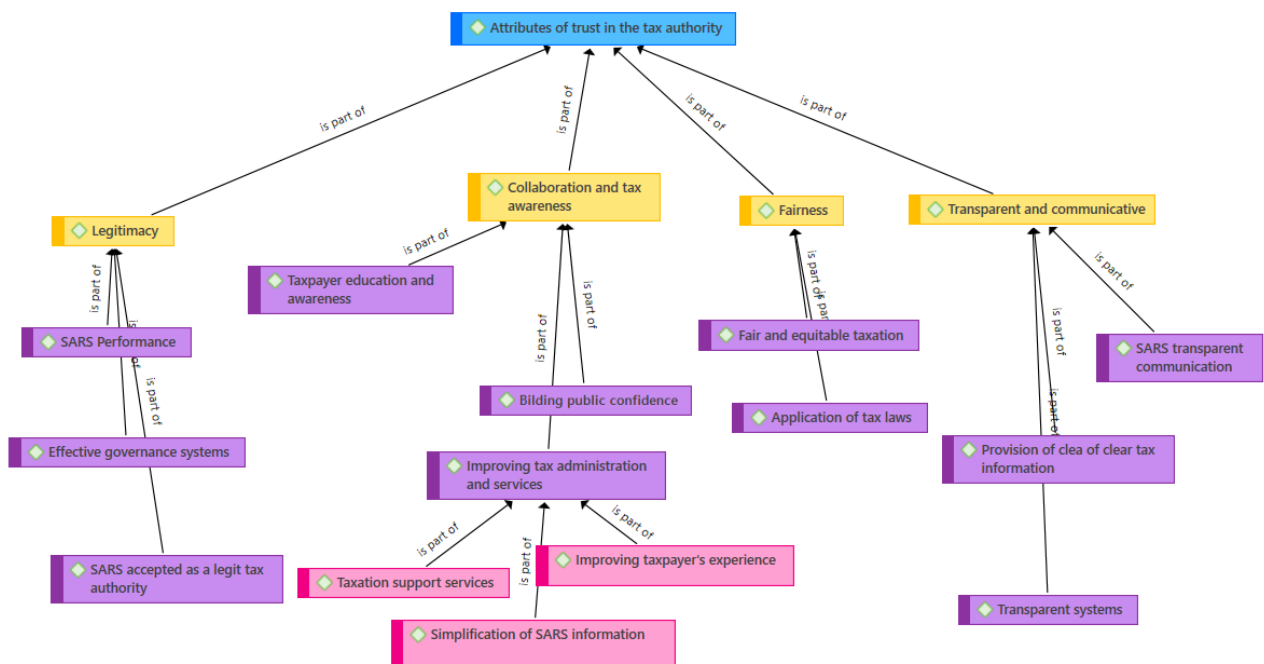


Figure 5.7 Themes under attributes of trust in the tax authority

Source: Own compilation

Figure 5.7 shows the attributes as follows: tax authority legitimacy, a tax authority that exhibits fairness, an educative and collaborative tax authority, as well as a transparent and communicative tax authority. In the next section, tax authority legitimacy is explained.

5.4.3.1.1 A tax authority that is viewed as legitimate

When participants were asked what makes them and their enterprise believe in SARS as the tax authority of South Africa such that they want to be voluntarily tax compliant, the theme of tax authority legitimacy emerged strongly. Participants mostly expressed positive views about SARS, while others had the opposite view.

If it felt like they were trying to help the taxpayer and give them the benefit of the doubt. That would go greatly assist people get to a point where they are voluntary tax compliance because you feel like you're supported and it's OK to have questions. And it's OK to not know (Participant 7).

This sense of the tax authority not being on “*the taxpayers’ side instead of the government’s*” (Participant 8) was echoed when the tax authority is seen to “*...overtax certain people. Who end trying to get away with things because they ask themselves why am I paying so much money to the government and the government is not doing anything?*” (Participant 7) The conduct of the tax authority and the government's performance were exposed as some of the reasons for the lack of institutional trust in SARS, the tax authority.

Relating to the reasons why they trust SARS and would thus be voluntarily tax compliant, there was a sense of being positive and complimentary due to the engagements with the tax authority (Participant 5). This positive perception permeated the interviews, with Participant 6 expressing that “*there's a positional authority that they [SARS] have, they are the tax collector, therefore you just have to [comply]*”. Additionally, the tax authority of South Africa, SARS, is perceived as a credible (Participant 5, Participant 2), very thorough organisation (Participant 2) that is not caught up in scandals and has no corruption cases against them (Participant 2,

Participant 6) and is consistently fulfilling their mandate (Participant 6). The credibility of SARS was even seen to extend itself to the credibility of the government, *“I think the credibility of government is built because of what SARS is doing, because of the good work that SARS is doing”* such that *“If you were to dissolve SARS and suddenly have Treasury as the portal for our taxpayer, I think they'd have to really measure up, but I think it would be a lot of trust lost”* (Participant 5). It is quite a positive commendation of the tax authority to note that some of the participants believe that the existence of SARS brings positive views about the government. This went further when Participant 8 expressed that *“maybe there's an element where they [SARS] need to be holding the government responsible for how things are being spent because they are collecting the money and the trust is being placed on them”*. In stating this, Participant 8 understood the limited powers of the tax authority but hoped that since organisations such as *“the Hawks and the Scorpions who have the power to investigate government, individuals and the government as a whole, so maybe there is a way in which they can be empowered [SARS] to do that”*. The participants' views of SARS show that they regard it as a legitimate tax authority that is trusted and whose existence extends their hope in the government. Discussed in the next section is the concept of a tax authority that exhibits fairness because participants stated that this affected their trust in the tax authority.

5.4.3.1.2 A tax authority that exhibits fairness

Question E4 on the interview schedule was about the treatment received from SARS that influences the participant's perception of and trust levels towards SARS. How the taxes are charged was one of the factors that led to a participant believing that SARS is fair. *“I cannot say that SARS has not been fair because if SARS says this if is the threshold in which you earn, then that's going to be the amount of taxes you pay, so there's fairness in it”* (Participant 2). Another area of fairness was the respect participants perceived as being given by SARS. Participant 6 stated, *“A little bit of respect is given and then respect expected. So strangely enough, I do actually trust the Revenue Service”*. Likewise, SARS's willingness to consult with, listen to, and understand taxpayers was another example of how they treat taxpayers fairly (Participant 5). *“I think if I do trust SARS. [...] I think they've got the right people in place and I feel like they treat you fairly and sensibly”* (Participant 5). This fair treatment

clearly plays a role in the perception and thus levels of trust towards the tax authority. Some participants did not believe that SARS treated them fairly, and this impacted their trust in the tax authority. *"We've been paying taxes and been in this industry for 23 years. We've been taxpayers for a couple of years more than that. If by now they [SARS] cannot see that we are voluntary tax compliant, then something's not right"* (Participant 7). This perceived unfairness was echoed by Participant 8, who mentioned, *"once you have been identified for review or audit, you are audited every year, and I don't think that's fair"*. Participant 7 further expressed a feeling of being treated unfairly when she stated, *"you are being made to feel sometimes like you are hiding something"*. This echoes the earlier sentiments of participants stating that they want to be given the benefit of the doubt by the tax authority.

The issue of unfair treatment did not only apply to each individual taxpayer but also in comparison to the whole taxpayer cohort. *"For the broader spectrum, I don't believe it's fair. I think you always feel like you're coming up to SARS as if there's an advocate that's somehow going to incriminate you. There are lots of stories that happen"* (Participant 4). Another aspect of this unfair treatment was what Participant 7 explained as the big names receiving preferential treatment from SARS. *"With all the corruption in the country, SARS should be stepping in and making an example of the big names, not just going after the little man. They're supposed to be apolitical even though they are a government institution"* (Participant 7). *"When people get away with not paying taxes, that erodes trust"*, explained Participant 6, whose thought was that SARS must *"go after higher net worth individuals and people who are politicians as well as business owners; people who are evading taxes"*. Whether participants believe that they, individually, are treated fairly and compared to other citizens, a perceived fair treatment from the tax authority does affect the perception of trust in such a tax authority. In the next section, the role of SARS in instilling trust in the tax authority is discussed.

5.4.3.1.3 A collaborative tax authority that creates tax awareness

Question E7 of the interview schedule asked the participants about the role of SARS as an entity of the South African government in instilling trust and confidence among citizens (and enterprises) when it comes to handling tax revenues. The themes that

were developed were as follows: building public confidence, taxpayer education and tax awareness, as shown in Figure 5.7 above. These themes are discussed in the next sections.

(i) Building public confidence through collaboration

The participants shared various ideas on how tax authorities can instil confidence and trust in citizens. *“It’s their role to instil trust and confidence, that’s for sure because they are the hand of the government that is reaching into your pocket”* (Participant 7). *“SARS could prevent a lot of the crisis if they were directly involved in SME development programs such as the Small Enterprise Development Agency (SEDA), National Youth Development Agency (NYDA), and the small business ministry where they could factor in their tax information or education”* (Participant 2). Additionally, working with stakeholders in a place other than SARS offices might prove less intimidating for taxpayers, and SARS would gain more traction with taxpayers because it is bringing the services to the people, according to Participant 4, who suggested, *“SARS to visit office parks and to be available for one-hour meetings once a month or through the Chamber of Commerce”*. Participant 8 brought an element of SARS collaborating with employers through technology for new employee inductions to bring tax awareness by suggesting that *“if SARS was able to provide even a 30-minute new employee induction video that all employers can show their new employees so that they understand what the process looks like”*. Similarly, a collaboration with the CIPC was mentioned where SARS could produce *“...two- or three-minute videos newly-registered SMEs with CIPC giving an overview of what their tax obligation is”* (Participant 6). Moreover, trust in SARS is instilled in participants by stakeholders such as accountants *“who you can tell are advocating for SARS-related obligations or responsibilities. Thus, the SARS-related information comes to us in the right packaging”* (Participant 2). When SARS information came up, it emerged that SARS educating taxpayers and holding tax awareness drives is another avenue that can instil trust. This avenue is discussed in the next section.

(ii) Taxpayer education and tax awareness

Tax awareness and the need for taxpayer education were topics that came up throughout the interview process, with participants articulating that they believed the tax authority, SARS, had a role to play in educating taxpayers. Participant 4 mentioned the deficiencies in SARS tax awareness creation this way, *“If retailers marketed themselves the same way SARS communicated, they would be a lot worse off”*. Agreeing, another participant stated, *“I think there is a radical opportunity to educate a population about tax compliance. And it will help build trust”* (Participant 5). The types of information that the participant raised the need for education on were not just the technical tax matters but *“different topics like an overview as an SME”* (Participant 6) and also why the taxes are paid (Participant 3, Participant 5).

Being mindful of the South African economy and the fact that not all taxpayers have access to computers, Participant 8 suggested that *“even a little video that you can share on WhatsApp”* would help in creating tax awareness if SARS created and availed such videos. The digital platforms, even those like WhatsApp, are not sufficient because *“as much as we're moving into the fourth industrial revolution, we're still a far cry away from achieving that as a country purely because of the infrastructure that we have”* (Participant 2). *“It is great that they use a lot of digital resources, but I feel they need to invest in going to the communities, going to schools, going to churches, going to community forums; using those platforms to educate about SARS”* (Participant 2). This view was supported by the idea of creating awareness through *“teaching the kids in life orientation at school”* (Participant 8) and through *“government education, part of which is tax in school and universities as well business-wise maybe”* (Participant 5). Another way SARS could create awareness regarding taxes was through public campaigns. Two participants mentioned old campaigns such as the Arrive Alive and *“Zap it in the Zibi can”* and explained that they believe campaigns of this nature would be effective in creating tax awareness (Participant 2, Participant 5). Participant 1 explained that some parents can create awareness about taxes for their children, while others cannot, and that creates a knowledge gap. More could be done from SARS's perspective because knowledge is power, and knowledge builds trust as well. *“If SARS is asking you to voluntarily comply, equally, there should be an abundance of help and information to help you understand taxes”* (Participant 6). With participants showing

that knowledge is important in building trust, SARS must be seen as transparent and communicative. In the next section, these attributes will be discussed.

5.4.3.1.4 A transparent and communicative tax authority

Another theme that emerged that was not driven by a question developed through guidance from the literature review was that of transparency. When asked what attributes of the tax authority encourage them to trust SARS, Participant 1 simply said, *“Maybe if they were a bit more transparent”*, and Participant 5, *“...transparency and consistency...”*. When the researcher requested that the participant elaborate on what this transparency means, Participant 1 expressed the need to know what happens to the taxes paid, explaining that the numbers on the budget speech are not enough. The budget speech came under fire a few more times about not being a source of real information because what is mentioned there does not match what they see in terms of service delivery.

They need to be transparent, although they do put up the budget once a year, they maybe need to also have a branch that shows physically this is what they did with that money. There's a bit of a disconnect, look at all the potholes in the road. But we know there's money because we were told in the budget (Participant 7).

Participant 8 also spoke about transparency in how the taxes are spent, *“transparency of how the funds are going to be utilized and knowing that what is committed to is how it will be spent”*. The issue of transparency from SARS, coupled with tax awareness, was a dividing factor among the participants. Participant 2 explained that she believes SARS is transparent, *“There's transparency, as a business my income tax is not going to be less than 15% of another business. There's a clear income tax percentage, and it remains the same”*. Another aspect of transparent communication from the tax authority highlighted was the language of communication, which is understandable because South Africa is a dynamic and diverse country. Participant 4 explained, *“I don't even know if all the budgetary documents are in all 12 official languages. I know they are in some of them. You perhaps can't do it in sign language, but you can try”*. Transparency was either linked to increased trust in the tax authority or, when it was

lacking, it was one of the factors that caused institutional mistrust. The next section discusses the findings of research objective three.

5.4.3.2 Discussion of findings: Research Objective Three

To identify what attributes of trust in tax authorities may create better strategies for voluntary tax behaviour

The final objective sought to identify the attributes of trust in the tax authority that may create better strategies for voluntary tax compliance. The participants expressed whether they trust the tax authority or not and the attributes that they perceive from the tax authority that lead them to trust or distrust such an authority. Most of the participants viewed the tax authority as legitimate and were complimentary about the tax authority and its systems, which was one of the attributes that led them to trust the tax authority. Earlier research had similar findings, which stated that trust in the tax authority is built when citizens believe that the tax authority is legitimate (Kornhauser 2022:250; Otadi, Mojibi, Ashrafi & Sobhkhiz 2019:42).

Another attribute that was linked to trust or distrust of the tax authority was that of fairness. The participants perceived fairness in a dual manner; namely, participants were treated fairly as individuals and participants were treated fairly when compared to other taxpayers. These two fairness perceptions are in line with literature where procedural and distributive justice (fairness) were seen to be some of the attributes of trust (Farrar et al. 2022:187; Mei Tan & Liu 2016:538).

An educative tax authority that collaborates with the necessary stakeholders was found to be one of the desirable attributes of the tax authority that may lead to trust and, thus, voluntary tax compliance. The areas of education that participants mentioned were technical knowledge, explanations, and simplifying of compliance procedures, as well as the need to educate taxpayers about the reason why taxes are paid. This is in line with the framework for understanding and analysing tax knowledge, in which three pillars were presented: legal, procedural, and general (Bornman & Ramutumbu 2019:832). Additionally, the SARS is aware of the need for taxpayer clarity and certainty as it pertains to voluntary tax compliance (SARS 2023a:10). Part

of the plans by the tax authority towards achieving this clarity and certainty in taxpayers is to create awareness campaigns that respond to the needs and behaviours of taxpayers based on observations and perceptions recognised from research, as well as collaborating with the Departments of Basic Education and Higher Education to provide tax education (SARS 2023a:10). These proposed actions by the tax authority are in line with the recommendations of the study through empirical evidence obtained.

Even though this assertion was raised by one participant, there is some merit in the language diversification idea because the educational attainment of SME owners in South Africa shows that for quarter 1 of 2022, only 21.6% of SMME owners had tertiary qualifications, with the rest having varying educational qualifications between no schooling and secondary education (Small-Enterprise-Development-Agency [SEDA] 2023:32). The same document indicates that the majority (74.3%) of SMME owners are Black (SEDA 2023:31). This suggests that the majority of SME owners probably do not have English as their first language. Studies have found that insufficient knowledge of the vocabulary in the language of teaching and learning (LOTL), which is English, is one of the reasons why South Africa's pass rate for Grade 12 certification is less than 30% for African learners (Vos & Fouché 2021:3). The OECD postulated that adults with lower literacy skills are more likely to perceive themselves as victims rather than contributors to the political process and are more likely to distrust others (OECD 2016:3). Based on the above discussion, it is the researcher's view that communication from the tax authority as well as budget documents being multilingual would further enhance trust in the tax authority as well as the government. Interestingly, tax education and awareness are pillars that are seen to influence both trust in the tax authority and voluntary tax compliance.

Finally, another attribute was transparency and communication with the tax authority. Participants required transparency from the tax authority regarding the utilisation of the funds paid to them. It was clear that while there is a budget speech every year, this does not suffice in that there is too much information given in a manner that is not meant for the layman; as such, some participants did not interact with the budget speech. Another element of transparency and communication was informing the taxpayers of their obligations and how the amounts are calculated in a manner that is

clear, consistent, and concise. The findings of the study as they pertain to each research objective have been discussed. The next section concludes this chapter.

5.5 CONCLUSION

In this chapter, the researcher presented the data, the data interpretation, and the research findings. The next chapter focuses on the theoretical contribution of the study, the concluding discussions, and the recommendations.

CHAPTER 6: THEORETICAL CONTRIBUTION, RECOMMENDATIONS AND CONCLUDING DISCUSSIONS

6.1 INTRODUCTION

In Chapter 5, the data presentation and analysis were discussed. In Chapter 6, the findings and conclusions of the study will be discussed. Areas for future research are also included in this chapter. The structure of this chapter is as follows: Section 6.2 highlights the summary of the study, and the findings are discussed in Section 6.3. Section 6.4 discusses the study's conceptual framework and contribution to the body of knowledge (theoretical contribution), respectively. Section 6.5 proposes recommendations to tax authorities that may enhance trust-based voluntary tax compliance among SMEs, as well as other general recommendations. In section 6.6, the recommendations for future research are provided. Finally, section 6.7 provides the limitations of this research and section 6.7 is the conclusion of the chapter.

6.2 STUDY SUMMARY

The aim of this study was achieved through three objectives. Semi-structured interviews were conducted, followed by thematic data analysis using the inductive approach. The interview schedule was broken down into three sections, with each section addressing one of the three research objectives to ultimately address the research aim.

The researcher of the study at hand thus observed a gap in the literature as it pertains to the attributes of trust in the tax authority. This gap was highlighted in the SARS strategic plan, which states that SARS, the tax authority of South Africa, has a strategic objective to build public trust (SARS 2023a:13-14, 2022f:8). Consequently, the research aim presented in Chapter 1 of the study was to “identify and explore attributes related to trust-based voluntary tax compliance, and then recommend strategies that may enhance trust-based voluntary tax compliance of SMEs in Nelson Mandela Bay in South Africa”. Three objectives were developed to achieve the research aim. The first objective was to identify and explore the perceptions of trust in tax authorities among SMEs in the Nelson Mandela Bay Municipality in South Africa. The second

objective was to identify whether SMEs in the Nelson Mandela Bay Municipality practice voluntary tax compliance or not. Finally, the third objective was to identify the attributes of trust in tax authorities that may create better strategies for voluntary tax compliance. To address the research aim and objectives, the theoretical underpinnings of the study were presented in Section 3.10 through the conceptual framework that showed the attributes of trust in the tax authority. The framework was compiled from the literature review that was conducted in Chapters 2 and 3. Figure 3.6 reflects the conceptual framework on which the main assumptions of the research were underpinned. The attributes of trust were identified as follows:

- Procedural and distributive justice
- State identification
- Legitimacy
- Personal norms
- Accountability

With the attributes of trust identified in the research, the researcher sought to address the above-mentioned research aim and objectives through a qualitative study.

The research aim was to “identify and explore attributes related to trust-based voluntary tax compliance, and then recommend strategies that may enhance trust-based voluntary tax compliance of SMEs in Nelson Mandela Bay in South Africa”. To achieve this research aim, the researcher made various choices and decisions based on the research philosophies and paradigm, research design, research methodology, and ethical considerations. These, as well as the data collection, data analysis and ethical considerations, are discussed in Chapter 4. The research findings that were derived through the empirical evidence were discussed in great detail in Chapter 5. The research found that the attributes of trust in the tax authority that may enhance trust-based voluntary tax compliance are as follows:

- Fairness (procedural and distributive)
- Legitimacy of the tax authority
- Tax awareness/ education
- Transparency and communication of the tax authority.

In the next section, the conceptual framework based on the data and research findings is outlined.

6.3 PRESENTATION OF CONCEPTUAL FRAMEWORK

The aim of this study was to identify the attributes related to trust-based voluntary tax compliance and then recommend strategies that may enhance trust-based voluntary tax compliance of SMEs in Nelson Mandela Bay in South Africa. The study uncovered attributes that lead taxpayers to trust the tax authority. The conceptual framework in Figure 3.6 showed that the attributes of trust in the tax authority were procedural and distributive justice, state identification, legitimacy, personal norms and accountability. The empirical evidence revealed slight differences. While the study sought only to identify attributes that relate to trust-based voluntary tax compliance, and this was accomplished, other factors that influence voluntary tax compliance were also uncovered. Both the factors that influence voluntary tax compliance and the attributes related to trust-based voluntary tax compliance are linked to the SSF. This is because one of the independent components of the SSF is voluntary tax compliance, which is said to be positively influenced by trust in the tax authority.

The attributes of trust in the tax authority were found to be the following: fairness (procedural and distributive) and legitimacy. Additionally, tax awareness/ education, transparency, and communication were additional attributes that the empirical data found led to trust in the tax authority. On the other hand, national pride, moral responsibility, government accountability, and service delivery were found to be factors that influenced voluntary tax compliance and did not have a link to trust in the tax authority. Tax education/ awareness was found to be a positive anomaly in that it was both an attribute of trust in the tax authority as well as a factor that influenced voluntary tax compliance. The factors that influence voluntary tax compliance in taxpayers were found to influence voluntary tax compliance, including whether trust in the tax authority is present or not. Figure 6.1 presents the conceptual framework based on the empirical data.

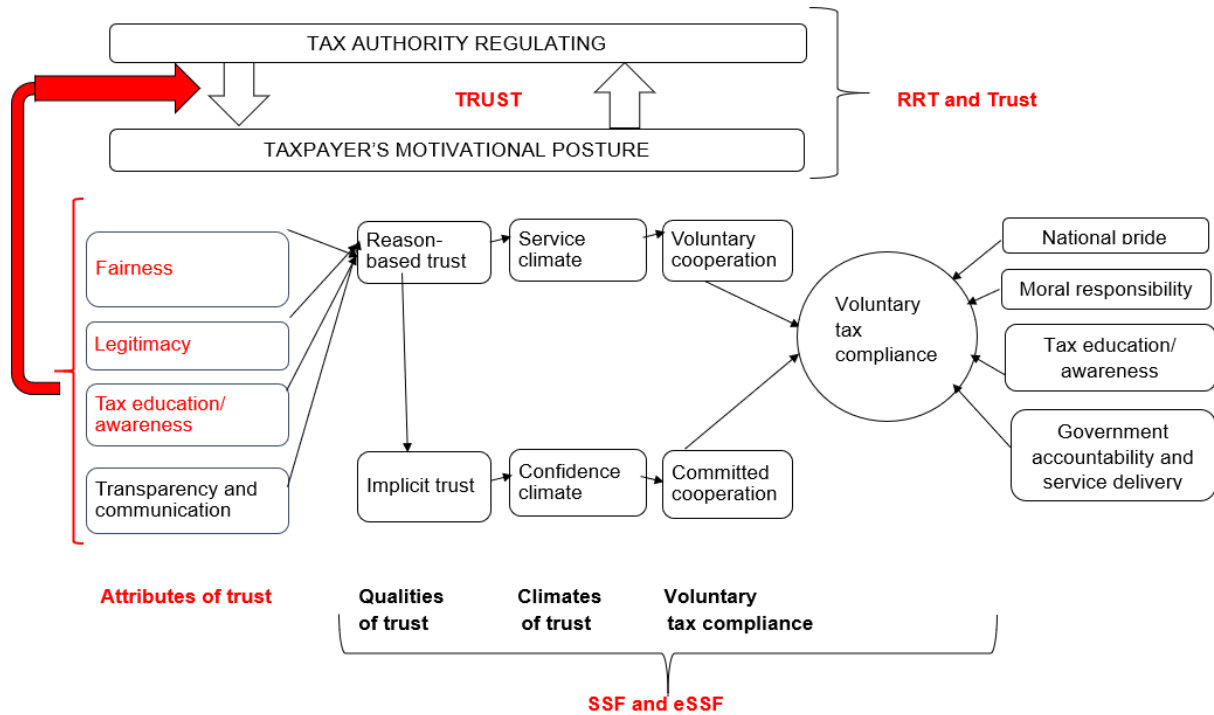


Figure 6.1 Conceptual framework based on empirical data

Source: Own illustration

Figure 6.1 shows that legitimacy, tax education, transparency, and communication of the tax authority were found to be attributes of trust in the tax authority. When present, these attributes lead to reason-based trust because taxpayers have reasons to trust tax authorities based on their perceptions. Reason-based trust leads to implicit trust, and both qualities of trust lead to enhanced voluntary tax compliance. These showed that when the tax authority responds to the motivational posture of the taxpayers with respect and shows trust in the taxpayer, the trust levels are high, and thus, the posture of the taxpayer moves towards voluntary tax compliance. It is worth noting that the taxpayer and tax authority engagements are at the core of these attributes because it is through these engagements that these perceptions of trust are formed. How the taxpayer regulates, whether in response to the taxpayer's posture or not, informs the behaviour of the taxpayer based on the perceived regulating by the tax authority as stated in the RRT. This study has found this to be true in that as the taxpayers ponder over the attributes of trust exhibited by the tax authorities, their posture shifts towards trust in the tax authority, which in turn leads to voluntary tax compliance.

Some attributes that were found to directly influence voluntary tax compliance were mainly dependent on taxpayers and were not impacted by the interactions with the tax authority. These were national pride, moral responsibility, tax education, government accountability, and service delivery. The findings indicated that the tax authority's regulations do not affect these elements as such trust in the tax authority is not impacted, yet their presence enhances voluntary tax compliance. The next section discusses the theoretical contribution of the study to the existing body of knowledge on trust in the tax authority and voluntary tax compliance.

6.4 THEORETICAL CONTRIBUTION

The study contributes to two distinct and important areas in tax research, namely:

- the literature on trust in the tax authority,
- the literature on voluntary tax compliance literature.

The attributes of trust in the tax authority have been scantily researched. This study has thus, through empirical data and evidence, contributed to the literature by researching the attributes of the tax authority, namely, fairness (procedural and distributive), legitimacy, and tax knowledge or awareness, as well as their impact on voluntary tax compliance. Additionally, according to the researcher's knowledge, this is the first study to develop a conceptual framework, not only on the attributes of trust in the tax authority but also on factors that influence voluntary tax compliance. This study thus validates the findings of the SSF, which postulated that trust in the tax authority leads to enhanced voluntary tax compliance, and goes on to provide some of the attributes that, when exhibited by the tax authority, lead to trust in the tax authority.

Additionally, the study at hand contributes by highlighting some of the factors that were thought to influence trust in the tax authority and showing them as factors that influence voluntary tax compliance. The clarity given by the empirical evidence suggested that these factors, namely, national pride, moral responsibility, tax education/ awareness, as well as government accountability and service delivery, affect voluntary tax compliance and the stance of the taxpayer is not shifted by the

taxpayers' trust in the tax authority. The next section encapsulates the researcher's recommendations to various stakeholders.

6.5 RECOMMENDATIONS

The findings of the study, as well as the conceptual framework, have been presented. In this section, the recommendations to various stakeholders are presented. The next section shows recommendations that could assist the tax authority in continuing to build trust among the taxpayers.

6.5.1 Recommendations to tax authorities

These recommendations to tax authorities are varied, and it is believed that these strategies could assist the tax authority in the quest to build public trust:

- The tax authority should offer training services to their auditors regarding taxpayer interactions during their auditing and enforcement endeavours, as the findings indicate that some taxpayers do not believe they were treated fairly by the tax authorities' auditors.
- Another aspect of the enforcement strategies is that taxpayers should be provided with an explanation as to why they are continuously audited by the tax authority to allay fears of being targeted by the tax authority and reduce the perception of the tax authority being seen as unfairly targeting certain taxpayers.
- It is recommended that the tax authority fosters collaborative relationships with stakeholders such as Business Chambers, finance training providers, the Department of Small Business Development (DSBD), small business development entities such as the SEDA, Small Enterprise Finance Agency (SEFA), and small business incubators to offer support services to SMEs through these entities. These stakeholders could be critical in the tax authority's endeavours to provide clarity and awareness by offering basic taxation training courses that relate to SMEs, including general, legal, and procedural tax knowledge.
- The tax authority can also collaborate with the Department of Home Affairs so that a simplified tax awareness guide can be provided when an Identity

Document is issued to a citizen for the first time, which will assist in creating awareness among young adults regarding taxes and their responsibilities.

- A further recommendation is to create taxpayer awareness campaigns that target all age groups, especially the youth, to explain the general understanding of what taxes are and why they are levied.
- Early tax education at schools to teach one of the pillars of tax knowledge, which is general knowledge, may be beneficial to tax authorities so that youths gain an understanding of the importance of tax compliance from an early age.
- Communication sent to taxpayers and tax education endeavours should be diversified in terms of language because South Africa is a dynamic country with eleven official languages. It is thus recommended that expanding the language coverage of information dispersed may assist in reaching various taxpayers and thus build trust in the tax authority through receiving information that is understandable to those taxpayers who may not be proficient in the English language.

These recommendations regarding the tax authority being a collaborative and educative tax authority are recommended because the findings of the study detailed that education and tax awareness are one of the attributes of trust in the tax authority. In the next section, additional recommendations that may have an impact on the voluntary tax compliance posture of the taxpayers are provided.

6.5.2 Other general recommendations

The findings of the study provided information regarding the factors that influence taxpayers' voluntary tax compliance. While some of these reasons were taxpayer and tax authority-related, other recommendations were government-related, as shown in Table 5.3. Discussed below are some of the recommendations that may have an impact on the voluntary tax compliance stance of taxpayers who are not linked to the tax authority:

- The study recommends prioritisation of service delivery by the public sector because this has a direct impact on the voluntary tax compliance posture of the taxpayers.

- The Department of National Treasury should provide simplified communication that is understandable to laymen regarding tax funds in the budget speech, and this should be multilingual to benefit those who are not proficient in the language of business in South Africa, which is English.
- Additionally, the introduction of a new national budget reconciliation to inform citizens regarding the national budget against actual spending is recommended. This could be an opportunity to openly table the national achievements from the budget speech, which could include photographs and other media forms to show the taxpayers what the country has achieved. Moreover, this could be an opportunity to explain measures to be taken where budget expenditure has not been met.
- Finally, it is recommended that accountability measures and procedures be implemented and communicated to citizens regarding preventing future fruitless and wasteful expenditures by local municipalities.

6.6 RECOMMENDATIONS FOR FUTURE RESEARCH

The recommendations for future research are as follows:

- Quantitative studies on the attributes of trust in the tax authorities that may lead to enhanced voluntary tax compliance are recommended because these types of studies consist of larger samples.
- It is also recommended that in-depth knowledge of tax as the driver of both voluntary tax compliance and an attribute of trust in the tax authority be investigated in depth.

In the next section, the limitations of this study are discussed.

6.7 LIMITATIONS

This study was conducted on SME owners/ managers/ senior staff members/ directors in the Nelson Mandela Bay Municipality in South Africa. The findings will not necessarily apply to other municipality areas in South Africa. Nevertheless, the strategies may be applied by tax authorities in every municipality since the findings suggest strategies that may enhance trust-based voluntary tax compliance. While the

findings bring in the government and local municipalities, the study was delineated only on the tax authority.

The focus of the study was on enterprises that are owned by individuals who are 18 years and older, who consider themselves to be conducting income-generating activities and are formally registered, employing between 11 and 250 employees only. A study of a similar nature on a different demographic of an SME will not necessarily have the same results. Similarly, trust is a personal decision based on personal beliefs; therefore it is worth noting that a similar study in a different demographic might not produce similar results. This study was conducted through qualitative research only, and as such, its findings cannot be extended with the same degree of certainty as quantitative research studies.

6.8 CONCLUSION

The significant impact of SMEs on the economic growth of their countries is recognised worldwide, yet many of them tend to be non-compliant. Due to their vast numbers, enforced tax compliance is almost impossible. It is thus imperative that SMEs are voluntarily tax compliant. Trust in the tax authority enhances voluntary tax compliance. By providing a conceptual framework that explains the attributes of trust in the tax authority that may enhance voluntary tax compliance, this study will hopefully contribute to the strategies of the tax authority as it is part of their strategic objectives to build public trust.

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ANNEXURE 1: INTERVIEW SCHEDULE

This study aims to identify and explore attributes related to trust-based voluntary tax compliance, and then recommend strategies that may enhance trust-based voluntary tax compliance of Small and Medium-sized Enterprises (SMEs) in the Nelson Mandela Bay Municipality in South Africa.

The schedule comprises Sections A - E and there are several questions per section.

SECTION A: BIOGRAPHICAL INFORMATION

A.1 Relating to the definition of a SME, please indicate in which age bracket (in years) you fall (this will indicate whether you comply with the definition of a youth, retiree or otherwise):

18 - 35	
36 - 60	
61 and above	

A.2 Please indicate your specific role in the enterprise (one or more):

Owner	
Director	
Shareholder	
Senior staff member	
Accountant	
Other (please provide details)	

A.3 How many years have you worked for the enterprise?

Years

A.4 Do you have a formal tertiary qualification? If yes, please state its name and the conferring institution.

	Name of tertiary qualification:	Conferring tertiary institution:
Yes		
No		

A.5 Please confirm your enterprise is registered with the Companies and Intellectual Property Commission (CIPC):

Yes	
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A.6 Please confirm that the total number of employees in the enterprise falls within this bracket:

11 – 250	
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A.7 Refer to the table below and kindly indicate the taxes that your enterprise is currently registered for to be compliant, or the liabilities that the enterprise incurs (one or more).

Tax type:	Registered	Liability incurred
Income Tax	8	
Value Added Tax (VAT)	4	
Pay-As-You-Earn (PAYE)	6	
Unemployment Insurance Fund (UIF)	8	
Skills Development Levy (SDL)	6	
Other (please provide details) - IOD		

SECTION B: THE SME IN GENERAL

B.1 What is the nature of the enterprise?

B.2 What is the type of the industry in which your enterprise operates?

SECTION C: PERCEPTIONS OF TRUST IN RELATION TO SARS

- C.1 What have been your engagements with SARS in handling the tax affairs of your enterprise?
- C.2 How does your enterprise handle its tax affairs e.g. submission of tax returns and payments of taxes due?
- C.3 In relation to your engagements with SARS and what you know of revenue authorities, what is your **main perception** of SARS as the tax authority in South Africa?
- C.4 Do you trust SARS and why?
- C.5 Are there any other aspects you would like to add regarding your perception of trust in relation to SARS?

SECTION D: THE PRACTICES OF SMES VOLUNTARY TAX COMPLIANCE

- D.1 How well do you know the taxes in your enterprise and the wider tax landscape?
- D.2 How does your enterprise then practice voluntary tax compliance?
(how does your enterprise submit its returns and make payments, manually or online?)
- D.3 What technological tools does your enterprise use to be voluntary tax compliant?
- D.4 What would be the **main reason** for your enterprise to be, or to remain, as voluntary tax compliant?
- D.5 Are there any other aspects you would like to add regarding your voluntary tax compliance practises?

SECTION E: ATTRIBUTES OF TRUST IN THE TAX AUTHORITY THAT LEAD TO VOLUNTARY TAX BEHAVIOURS

- E.1 What are the main attributes of SARS that encourage you to trust SARS and to therefore choose to be voluntary tax compliant?
- E.2 What makes you and your enterprise (owner/shareholders) believe in SARS as a tax authority as well as South Africa so that you really want to be voluntary tax compliant?
- E.3 What makes you and your enterprise (owner/shareholders) believe in South Africa so that you really want to be voluntary tax compliant?
- E.4 Is there any aspect of the treatment received from SARS that influences your perception of and trust levels towards?

- E.5 To what extent does your moral responsibility in doing the right thing impact your voluntary tax compliance behaviours?
- E.6 Many people believe that governments should be accountable to their citizens and that citizens also should be accountable to their governments.
Do you agree with these two ideas and how do you think each party should be accountable?
- E.7 What is the role of SARS, as an entity of the South African government, in instilling trust and confidence among citizens (and enterprises such as yours) when it comes to handling tax revenues?
- E.8 Are there any other aspects you would like to add regarding attributes of trust in the tax authority that may lead to voluntary tax compliance?

ANNEXURE 2: PARTICIPANT INFORMATION SHEET

Ethics clearance reference number: 1040

1 August 2023

Title: Strategies that may enhance trust-based voluntary tax compliance among Small and Medium-sized Enterprises in Nelson Mandela Bay Municipality, South Africa

Dear Prospective Participant

My name is Lindiwe Wezizwe Mangisa and I am doing research with Dr Odette Swart and Ms Maretha Pretorius, Senior Lecturers in the Department of Financial Intelligence towards a Masters in Accounting Sciences at the University of South Africa (Unisa). We have funding from the Unisa Masters and Doctorate bursary for the tuition and research essentials. We are inviting you to participate in a study entitled “Strategies that may enhance trust-based voluntary tax compliance among Small and Medium-sized Enterprises (SMEs) in Nelson Mandela Bay Municipality, South Africa”. Your contact details were retrieved from the Nelson Mandela Business Chamber’s newsletter.

WHAT IS THE PURPOSE OF THE STUDY?

This study is expected to collect important information that could identify and explore attributes related to trust-based voluntary tax compliance, and then recommend strategies that may enhance trust-based voluntary tax compliance of SMEs in Nelson Mandela Bay in South Africa.

WHY AM I BEING INVITED TO PARTICIPATE?

Owners and/ or managers, and where applicable accountants of SMEs were selected as participants because they take part in the day-to-day operations of their SMEs and

due to their responsibilities, it is assumed that they are familiar with the tax compliance dealings of their enterprises.

The Nelson Mandela Bay Business Chamber lists the names of its members in its quarterly newsletter and thus your enterprise's name was identified from there. From this list, the websites of the enterprises will be scrutinised for an indication of the number of employees, or alternatively, the entities will be contacted to find out the number of employees. Once the population of qualifying entities is finalised, the sample will be determined. Interviews will be conducted until the point where additional interviews do not bring anything new to the interviews (data saturation).

WHAT IS THE NATURE OF MY PARTICIPATION IN THIS STUDY?

Participants' opinions will be asked on various aspects relating to the perceptions of trust in tax authorities among SMEs in the Nelson Mandela Bay Municipality (NMBM), South Africa. Further understanding of how SMEs in the NMBM practice voluntary tax compliance or not and what attributes of trust in tax authorities may create better strategies for voluntary tax behaviour. This will be done through semi-structured interviews that will, with the permission of the participant be recorded. The expected duration of participation in the interviews will be approximately 120 minutes.

CAN I WITHDRAW FROM THIS STUDY EVEN AFTER HAVING AGREED TO PARTICIPATE?

Participation in this study is voluntary and you are under no obligation to consent. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw at any time and without giving a reason.

WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?

The study will assist South African revenue authorities to gain an understanding of the perception of trust in tax authorities of the taxpayers and thus be able to develop strategies that may be used to encourage trust-based voluntary compliance by SMEs.

The study will also identify the attributes of the tax authorities that enhance the trust of the taxpayers which will assist the internal revenue authorities to include in the policies and thus conduct themselves in a manner that will enhance this trust.

Lastly, by identifying the attributes of the tax authority, it may lead to improved trust in tax authorities, which will hopefully lead to the enhancement of voluntary tax compliance of SMEs in South Africa and other similar emerging countries.

ARE THERE ANY NEGATIVE CONSEQUENCES FOR ME IF I PARTICIPATE IN THE RESEARCH PROJECT?

This study will not result in any potential level of inconvenience and/or discomfort to the participant. Information will not be of a sensitive nature and all responses will be strictly confidential.

WILL THE INFORMATION THAT I CONVEY TO THE RESEARCHER AND MY IDENTITY BE KEPT CONFIDENTIAL?

You have the right to insist that your name will not be recorded anywhere and that no one, apart from the researcher and identified members of the research team, will know about your involvement in this research. Your answers will be given a code number or a pseudonym and you will be referred to in this way in the data, any publications, or other research reporting methods such as conference proceedings.

Apart from the primary researcher and supervisors, only the transcriber/external coder will have access to the data, but they will sign a confidentiality agreement to maintain confidentiality. Your answers (anonymous) may be reviewed by people responsible for making sure that the research is properly conducted, including the transcriber, external coder, and members of the Research Ethics Review Committee. Otherwise, records that identify you will be available only to people working on the study, unless you give permission for other people to see the records.

Anonymous data may be used for other purposes, such as research reports, journal articles and/or conference proceedings. Your privacy will, however, be protected in any publication of the information as no individual participants will be identified.

HOW WILL THE RESEARCHER(S) PROTECT THE SECURITY OF DATA?

Hard copies of your answers will be stored by the researcher for a period of fifteen years in a locked cupboard/filing cabinet at my personal residence for future research or academic purposes; electronic information will be stored on a password-protected computer. Future use of the stored data will be subject to further Research Ethics Review and approval, if applicable. Hard copies will be shredded and/or electronic copies will be permanently deleted from the hard drive of the computer through the use of a relevant software programme after fifteen years.

WILL I RECEIVE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THIS STUDY?

You will not receive any payments or incentives for participating in this study.

HAS THE STUDY RECEIVED ETHICS APPROVAL

This study has received written approval from the College of Accounting Sciences (CAS) Research Ethics Review Committee of Unisa. A copy of the approval letter can be obtained from the researcher if you so wish.

HOW WILL I BE INFORMED OF THE FINDINGS/RESULTS OF THE RESEARCH?

If you would like to be informed of the final research findings or require any further information or want to contact the researcher about any aspect of this study, please contact Lindiwe Mangisa at 0792201765 or email 41212614@mylife.unisa.ac.za. The findings will be accessible for five years.

Should you have concerns about how the research has been conducted, you may contact Dr Odette Swart at swarto@unisa.ac.za or 012 429 4382. Contact the

research ethics chairperson of the CAS Research Ethics Review Committee, Prof Lourens Erasmus at erasmlj1@unisa.ac.za or 012 429 4571 if you have any ethical concerns.

If you choose to participate, please complete the “consent to participate in this study” form attached.

Thank you for taking the time to read this information sheet and for participating in this study.

Thank you.

Lindiwe Wezizwe Mangisa

ANNEXURE 3: CONSENT TO PARTICIPATE IN THIS STUDY

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

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

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

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

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

I agree to the recording of the interview.

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

Participant Name & Surname..... (please print)

Participant signature.....Date.....

Researcher's Name & Surname.....(please print)

Researcher's signature.....Date.....

ANNEXURE 4: ETHICS CLEARANCE



College of Accounting Sciences_RERC

Date: 02/08/2023

Dear: Ms Lindiwe Mangisa

Ref #: 1040

Name: Ms Lindiwe Mangisa

Student #: 41212614

Decision: Ethics Approval from 5 July 2023 to 4 July 2026

Researcher: Ms Lindiwe Mangisa

2nd avenue campus, Nelson Mandela University

Gqeberha

41212614@mylife.unisa.ac.za 0792201765

Supervisor: Dr Odette Swart swarto@unisa.ac.za

Co-Supervisor: Mrs Maretha Pretorius pretomm@unisa.ac.za

Strategies that may enhance trust-based voluntary tax compliance among Small and Medium-sized Enterprises in Nelson Mandela Bay Municipality, South Africa

Qualification: MPhil Financial Intelligence

Thank you for the application for research ethics clearance by the College of Accounting Sciences_RERC for the above mentioned research study Ethics approval is granted for three years.

The **low risk application** was **reviewed** by College of Accounting Sciences_RERC on **5 July 2023** in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment.

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_RERC .
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 requires additional ethics clearance.
7. No field work activities may continue after the expiry date (4 July 2026). Submission of a completed research ethics progress report will constitute an application for renewal, for Ethics Research Committee approval.

Additional Conditions

1. Disclosure of data to third parties is prohibited without explicit consent from Unisa.
2. De-identified data must be safely stored on password protected PCs.
3. Care should be taken by the researcher when publishing the results to protect the confidentiality and privacy of the university.
4. Adherence to the National Statement on Ethical Research and Publication practices, principle 7 referring to Social awareness, must be ensured: "Researchers and institutions must be sensitive to the potential impact of their research on society, marginal groups or individuals, and must consider these when weighing the benefits of the research against any harmful effects, with a view to minimising or avoiding the latter where possible." Unisa will not be liable for any failure to comply with this principle.

Note

The reference number 1040 should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.

Kind regards,



Prof Lourens Erasmus
Chair of College of Accounting Sciences_RERC
E-mail: erasmjl1@unisa.ac.za



Dr Chisinga Chikutuma
Executive Dean / By delegation from the Executive Dean of College of Accounting Sciences_RERC
E-mail: chikucn@unisa.ac.za

ANNEXURE 5: INDEPENDENT CODER AGREEMENT

CONFIDENTIALITY AGREEMENT

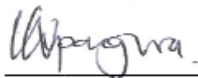
I, Welcome Kupanqwa the undersigned serves as the coder of interview data collected for the following study: *Strategies that may enhance voluntary tax compliance among Small and Medium-sized Enterprises in Nelson Mandela Bay Municipality, South Africa* undertaken by Lindiwe Wezizwe Mangisa.

I will, in the course of my duties as aforementioned, come into possession of certain confidential information.

This will certify that, in conducting the transcription:

1. I will treat all information contained in the audio recordings in the strictest of confidence and will not reveal that information to any third party without prior written consent of the researcher.

SIGNED AT Gqeberha on this 12th day of June 2023.



SIGNATURE