



MULTIPLE TAX AMNESTIES AND COMPLIANCE IN SOUTH AFRICA

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DECLARATION

I, Sachin Vir Junpath do declare that this dissertation is a representation of my own work in both conception and execution. This dissertation represents research work carried out by myself and it has not been submitted in any form for another degree at any university or higher learning institution. All information used from published or unpublished work of others has been acknowledged.

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DEDICATION

This dissertation is dedicated to my parents, who have endured this long process with me and have always been a constant source of inspiration throughout my life. Thank you for your love, unwavering support and encouragement during this remarkable journey.

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Firstly, I want to thank God who has sustained me throughout this challenge and for providing me with the wisdom and empowerment, and without whom this academic journey would not have been accomplished. This dissertation would have also remained a dream without the guidance and the help of the following individuals that have contributed and extended their valuable assistance in the preparation and completion of this study.

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ABSTRACT

South Africa has seen tremendous changes since 1994, from the introduction of a new government to structural changes in tax administration; one of the challenges the government faced in the new democracy, was the restructuring of the tax system. Multiple tax amnesty programs were thus introduced between 1995 and 2010 to provide immunity for limited periods to citizens and small businesses for past non-compliance without being subjected to additional tax, interest, penalties or prosecution. Although extensive research conducted abroad has illustrated the potential problems and complexities that could arise from multiple amnesties, very little research has been conducted in South Africa to evaluate the viability of offering repeated amnesties. The emphasis in this study was therefore on the Small Business Tax Amnesty of 2006, and its primary purpose was to explore the effects that multiple tax amnesties have on compliance and whether it is possible for tax compliance to improve if further tax amnesties are introduced.

This study used a quantitative research approach to gather data from 146 respondents from an Audit firm database containing information about taxpayers qualifying as small business who applied for amnesty and taxpayers that did not apply for amnesty between 1 August and 30 June 2007. Analysis of the data revealed that tax amnesties in South Africa should not be offered on a frequent basis to non-compliant taxpayers as it causes non-compliant taxpayers to anticipate further amnesties which could impact negatively on tax compliance as a whole. The findings also indicated that educating taxpayers about tax issues could result in better tax compliance thus contributing to the development of a fair and equitable society.

Based on the findings, this study makes recommendations to government, the tax authority and policy makers regarding the effects of multiple tax amnesties.

TABLE OF CONTENTS

Declaration	ii
Dedication	iii
Acknowledgement	iv
Abstract	v
List of Figures	x
 CHAPTER 1: INTRODUCTION	 1
1.0 Background to the study	1
1.1 Tax amnesty and compliance	2
1.2 Demarcation of the non-compliance problem	2
1.3 Purpose of the study	5
1.4 Research aims, objectives and design	6
1.5 Definition of key terms used in this study	8
1.6 Overview of this study	9
 CHAPTER 2 - LITERATURE REVIEW	 11
2.0 Introduction	11
2.1 The Katz Commission and the restructuring of the Revenue Service	13
2.2 Overview of the South African tax system	15
2.3 Tax compliance	16
2.4 Tax compliance by individuals and SMMEs	18
2.4.1 Small, medium and micro enterprises	18
2.4.2 Individuals	20
2.5 Tax avoidance and tax evasion	22
2.5.1 The tax gap	24
2.5.2 The tax incidence and the tax burden	26
2.6 Overview of the tax amnesty	27
2.7 History of tax amnesties in South Africa	29
2.7.1 Small business tax amnesty	31
2.8 Process of the small business tax amnesty of 2006	35
2.8.1 Categories of taxpayers who qualify to apply for tax amnesty	36
2.8.2 Period for applying for amnesty	37
2.8.3 Information required with application	37
2.8.4 The amnesty levy	38
2.8.5 Extent of tax relief granted in terms of the tax amnesty	38
2.8.6 Circumstances rendering the application for amnesty void	39

2.9	Previous tax amnesty research	40
2.10	Problems associated with tax amnesties	46
2.11	Summary	48

CHAPTER 3 - RESEARCH METHODOLOGY 50

3.0	Introduction	50
3.1	Research design	50
3.2	Research methodology	51
3.2.1	Mixed method research	52
3.3	The target population	54
3.4	Sampling	55
3.4.1	The sampling frame	56
3.5	Data collection instruments	57
3.5.1	Primary and secondary sources	57
3.5.2	Collecting primary data through questionnaires	58
3.5.3	Administration of the questionnaires	58
3.5.4	Layout of the questionnaire	59
3.5.5	Questionnaire design	59
3.5.5.1	Closed questions	60
3.5.5.2	Open-ended questions	61
3.6	The pilot study	61
3.7	Data analysis and interpretation	62
3.7.1	Statistical analysis	63
3.8	Reliability and validity	63
3.8.1	Reliability	63
3.8.2	Validity	63
3.9	Ethical considerations	65
3.10	Summary	66

CHAPTER 4 - DATA ANALYSIS AND INTERPRETATION 67

4.0	Introduction	67
4.1	Reliability and validity	67
4.1.1	Reliability	67
4.1.2	Validity	68
4.2	Questionnaire response rate	69
4.3	Presentation of findings	69
4.4	Section A: Biographical data	70
4.5	Section B: Tax compliance	75
4.5.1	Registration as a taxpayer	76
4.5.2	Tax return compliance	78
4.5.3	Amount of disclosure	82
4.5.4	Attitude and ethics	82

4.5.5	Attitude towards the South African Revenue Service	84
4.5.6	Factors influencing compliance	85
4.6	Section C: Tax amnesty	86
4.6.1	Multiple tax amnesties	88
4.6.2	Tax amnesties versus Tax compliance	92
4.7	Summary	93
CHAPTER 5 - CONCLUSIONS AND RECOMMENDATIONS		94
5.0	Introduction	94
5.1	Overview of the study	94
5.2	Achievement of the research objectives	95
5.2.1	Research objective 1	96
5.2.2	Research objective 2	96
5.2.3	Research objective 3	97
5.3	Recommendations	98
5.4	Limitations of this study	99
5.5	Implications for further research	99
5.6	Value of the study	100
REFERENCES		102
APPENDICES		
Appendix A	Covering letter of questionnaire	136
Appendix B	Letter of informed consent	138
Appendix C	Questionnaire	140
Appendix D	Permission to conduct research	149

LIST OF TABLES AND FIGURES		PAGE
Table 1	Age and gender distribution	70
Table 2	Cross tabulation table of occupations and industries	73
Table 3	Distribution of income, gender and age	74
Table 4	Reasons for defaulting on tax return submissions	81
Table 5	Accumulated results of attitude and ethics	83
Table 6	Bilateral relations table on attitude	84
Table 7	Bilateral relations table on influence	85
Table 8	Accumulated results of questions 14 to 29	87
Figure 1	Industry category	72
Figure 2	Registered for income tax	77
Figure 3	Defaulting on tax return	80
Figure 4	Acceptable level of non-disclosure	82

CHAPTER 1

INTRODUCTION

1.0 BACKGROUND TO THE STUDY

South Africa has seen tremendous changes since 1994, from the introduction of a new government to structural changes in tax administration; one of the challenges the government faced in the new democracy, was the restructuring of the tax system. In 1994, the Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa better known as the Katz Commission was introduced. The Katz Commission was appointed with an extensive mandate to investigate nearly every aspect of the South African tax regime inherited from the previous government against the backdrop of the political, social and economic goals of the new government (Manuel, 2002: 2).

In its first interim report, the Katz Commission made recommendations for a tax amnesty (South African Government Information, 2005). The first tax amnesty introduced under the Tax Amnesty Act in 1995 cleared the slate for taxpayers with outstanding tax liabilities prior to 1994 (Flanagan, 2010: 15). Since then, four other tax amnesty programs have been introduced in South Africa. The Final Relief on Tax, Interest, Penalty and Additional Tax Act of 1996 provided forgiveness in respect of certain taxes, interest, penalties and additional tax (Republic of South Africa, 1996). In 2003, a third amnesty was introduced under the Exchange Control Amnesty Act of 2003 which allowed individuals to disclose both authorised and unauthorised assets held abroad without being subjected to the law (Manuel, 2003: 2). This was followed by the introduction of the Small Business Tax Amnesty and

Amendment of Taxation Laws Act of 2006 which was intended to provide relief to businesses owned or operated by natural persons with a turnover not exceeding ZAR 10 million in the 2006 financial year (Republic of South Africa, 2006: 5). The most recent amnesty proposed in 2010 was the Voluntary Disclosure Program (VDP), to encourage taxpayers to regularise their tax affairs and provide qualifying taxpayers with relief from additional taxes, penalties and interest arising from past transgressions. The VDP also provided immunity to individuals who fully disclosed unreported bank accounts held abroad (Croome, 2010).

1.1 TAX AMNESTY AND COMPLIANCE

A tax amnesty is a government program which is usually offered for a limited period to a particular group of taxpayers. A tax amnesty allows non-compliant taxpayers the opportunity to voluntarily disclose incomplete or unreported information and agreeing to pay outstanding tax liabilities relating to past transgressions without being subject to penalties and prosecution (Luitel and Sobel, 2005: 1; Cordes, Ebel and Gravel, 2005: 387; US Legal, 2012). Being tax compliant is an obligatory duty of every citizen, whether natural or corporate. As a civil duty, every citizen is expected to voluntarily comply with such an obligation; however some citizens do not always comply with the law. Tax compliance can be described as the degree to which a taxpayer abides by the tax rules and regulations as laid out by the law (Ariffin and Idris, 2011: 123). The main purpose of a tax amnesty therefore is to increase the collection of taxes and improve tax compliance.

1.2 DEMARCATION OF THE NON-COMPLIANCE PROBLEM

South Africa has a residence based system, which means that residents are taxed on their worldwide income, regardless of where the income was earned. Non-

residents are however taxed on their income from a South African source (SARS, 2012c). The vast majority of South Africans pay tax and make contributions to the fiscus by paying VAT, excise duties and the fuel levy on the goods and services they consume (Gordhan, 2012). The tax system in South Africa is progressive, where the marginal rates are based on a larger percentage of income from people, as their income increases (Roux, 2005: 82). This means that the more a person earns, the higher the percentage of tax they would pay. The National Treasury is responsible for managing South Africa's national government finances. All revenue that is received by the South African Revenue Service (SARS) is handed over to the Treasury to distribute to government departments as well as provincial and local government (Republic of South Africa, 2012a).

In South Africa, non-compliance by taxpayers is one of the main causes of the tax gap (Venter, de Clercq, Swanepoel, Posthumus, Doussy, Heyns and van Aard. 2010: 64). The tax gap is defined as the difference between the tax collected and the tax that theoretically should be collected. This means that tax which is actually supposed to be collected is lost through non-payment, use of avoidance schemes, complex transactions, errors on assessment, evasion, the hidden economy and organised crime (HM Revenue and Customs, 2012: 3). These practices to intentionally avoid paying ones' true tax liability, is known as tax evasion. Tax evasion is an intentional and fraudulent attempt practised by dishonest persons to reduce payment of taxes by concealing income from the revenue authorities, underreporting income, inflating deductions, or hiding money and its interest altogether in offshore accounts (Legal Information Institute, 2010). Tax evasion is criminal offense as it is a violation of the provisions of the Income Tax Act (Kumar, 2012).

According to SARS (2006: 8d), one of the main obstacles which prevents taxpayers from becoming compliant is fear of past contraventions of the law, which includes possible liability for additional tax, interest and prosecution; this fear make taxpayers' decisions to enter the formal tax system a difficult one. Therefore, to address this problem, tax amnesty and awareness campaigns were launched by SARS to assist citizens who wanted to regularise their tax affairs (Gcabo and Robinson, 2007: 357).

Many developed and developing countries conduct tax amnesties as part of their fiscal program and sometimes the repetition of amnesties takes place at intervals as short as every two years (Luitel and Sobel, 2007: 6). These include both Organisation for Economic Co-Operation and Development (OECD) and non-OECD countries (Mare and Salleo, 2003: 1) in all parts of the world such as Europe (Belgium, France, Ireland, Italy, Switzerland), United States of America, Latin America (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Honduras, Mexico, Panama, Peru, Uruguay), Asia (India, Malaysia, Pakistan, Sri Lanka), and the Pacific (Australia, Indonesia, New Zealand, the Philippines) (Alm, 1998: 1). Like South Africa, some countries such as Argentina, Bolivia, Chile, Colombia, Ecuador, India, Pakistan, Panama, Peru, Mexico and the Philippines have employed tax amnesties at regular intervals (The World Bank, 2011a).

Tax amnesty programs have been widely used by many governments throughout the world as a method to alleviate tax evasion and promote tax compliance in an effort to broaden the tax base. While some countries have implemented tax amnesties as a onetime offering, others have introduced them on a frequent basis. Research has however shown that multiple tax amnesties are not regarded as a viable method to reduce non-compliance and increase revenue as it has been largely criticised by

many compliant taxpayers as an unfair policy imposed by governments, since the benefits of an amnesty are perceived to only protect the interest of non-compliant taxpayers (Torgler and Schaltegger, 2005; Fox and Murray, 2011; Alm, 1998; The World Bank, 2011a; Mattiello, 2005).

Bokhari (2012) states that high income earners who are non-compliant benefit from the periodic launch of amnesty programs by legalising their undocumented assets but continue to operate outside the legal tax net and then wait for the next amnesty. However he adds that, no relief of any kind is provided to the honest taxpayers who are instead subjected to harsh taxation measures. The international Organisation for Economic Co-operation and Development (OECD) (2009: 64) therefore recommends that repeated tax amnesties need to be discontinued as they only discourage tax compliance. Several arguments have supported this view that repeated tax amnesties cause a decline in tax compliance (Saracoglu and Caskurlu, 2011); Marchese and Cassone, 1998; Mattiello, 2005; Torgler, 2003; Luitel and Sobel, 2005; Alm, McKee and Beck, 1990; Bird, 2004). Torgler (2003: 3a) concurs that if most taxpayers voluntarily comply with the law, the option of an amnesty offered to a small group of non-compliant taxpayers can be viewed as a violation of equity. He adds that this could result in non-compliant taxpayers continuing to remain non-compliant in anticipation of additional future amnesties. He states further that compliant taxpayers may also start to dodge on tax commitments which could also result in deterioration on tax compliance as a whole.

1.3 PURPOSE OF THE STUDY

Malherbe (2011), Mhkize (2011) and Govender (2008) have conducted studies on tax amnesties in South Africa. However, Malherbe's (2011) study has only covered

the different types of tax amnesties offered in South Africa and the structure of these amnesties, while Mhkize (2011) and Govender (2008) focused only on the compliance and tax implications on small, medium and micro businesses (SMMEs) with both providing an analysis of the 2006 Small Business Tax Amnesty. Mhkize's (2011) study briefly outlines the 2010 Voluntary Disclosure Program (VDP).

The researcher is an employee at an audit and advisory firm since 2007 and is aware of the fact that the offering of multiple tax amnesties has effects on tax compliance, whether positive or negative. Although extensive research conducted abroad has illustrated the potential problems and complexities that could arise from multiple amnesties, very little research has been conducted in South Africa to evaluate the viability of offering repeated amnesties. To the best of the researcher's knowledge, no studies have been conducted in South Africa on multiple tax amnesties and compliance; this study therefore addresses this gap. The emphasis in this study is on the Small Business Tax Amnesty of 2006, and its primary purpose is to explore the effects that multiple tax amnesties have on compliance and whether it is possible for tax compliance to improve if further tax amnesties are introduced.

1.4 RESEARCH AIMS, OBJECTIVES AND DESIGN

This research sought to seek answers to problems through the application of scientific methodology to guarantee that the information was reliable and unbiased (Khan, 2008: 2). The aim of this study was to investigate multiple tax amnesties and compliance in South Africa.

In order to achieve the above aim, the following objectives were addressed to:

- determine if the tax amnesty improved tax compliance through its awareness campaigns launched by SARS
- determine if compliant and non-compliant taxpayers remain compliant after the offering of multiple tax amnesties; and
- investigate if the offering of multiple tax amnesties generate more revenue.

It is envisaged that the findings of this study will make recommendations to the South African government regarding the offering of multiple tax amnesties to citizens that are not compliant with the tax system and the viability of repeating tax amnesties in the future.

1.5 DEFINITION OF KEY TERMS USED IN THIS STUDY

1.5.1 Shadow economy

Also known as an underground economy, shadow economy is defined by Smith (1994: 4) as a market and non-market based production of goods and services, whether legal or illegal, that escapes detection in or is intentionally excluded from the official estimates of Gross Domestic Product (GDP).

1.5.2 Fiscus Policy

Fiscus is the Latin term which means fiscal and can be described as the treasury of the state or public revenue. The fiscal policy is devoted to achieving the desired level of revenue which is received through taxation and deciding the priorities and purposes governing expenditure (Upshall, 1992: 291).

1.5.3 Value-Added Tax (VAT)

Value-Added Tax is a general tax which is levied on most goods and services (Mohr and Fourie, 2000: 439). VAT is imposed on the supply of goods and services by a vendor in the furtherance of their enterprises which is subject to certain exemptions (Money Tax Web, 2012). Currently, VAT is levied at a standard rate of 14% (SARS, 2012c).

1.5.4 Gross domestic product (GDP)

The gross domestic product is the total value of all final goods and services produced with the boundaries of a country in a particular period (Mohr and Fourie, 2000: 87).

1.5.5 Transitional economies

A transitional economy is one that is changing from central planning to free markets. Since the collapse of communism in the late 1980s, countries of the former Soviet Union and its satellite states have sought to embrace market capitalism and abandon central planning (Economics Online, 2012).

1.5.6 Exchange control

Exchange control refers to the centralisation of all dealings in foreign exchange in the hands of a public authority i.e. treasury, central bank or an institution created (Heilperin, 2007: 238). In South Africa, exchange control rules regulate the flow of currency out of South Africa, or restrict the amount of foreign assets held by South African individuals and companies (Republic of South Africa, 2012: 207b).

1.6 OVERVIEW OF THIS STUDY

Chapter 1 - Introduction

Chapter 1 serves as an introduction and background to this study. This chapter sets out the background of the research, presents the research problem and significance of the study.

Chapter 2 - Literature Review

In this chapter the literature and relevant research are presented on the research topic. This study places emphasis on the Small Business Tax Amnesty and Amendment of Taxation Laws Act of 2006 and explores multiple tax amnesties and its effects on tax compliance. Since very little research has been conducted on multiple tax amnesties in South Africa, the research looks at multiple tax amnesties offered abroad.

Chapter 3 - Research design and methodology

Chapter 3 discusses the research methodology used in this study. The research design, population, sampling frame and data collection and analysis are presented.

Chapter 4 - Data analysis and interpretation

This chapter presents the analysis of the findings of the study.

Chapter 5 - Conclusion and recommendations

The final chapter presents the research conclusions and recommendations and makes suggestions for further research.

CHAPTER 2

LITERATURE REVIEW

This chapter explores the literature that is relevant to understanding the development of, and exploring whether the offering of multiple tax amnesties will affect tax compliance.

Since 1994, five different tax amnesties have been offered in South Africa. The first two tax amnesties were introduced under the tax amnesty act in 1995 and under the final relief on tax, interest, penalties and additional tax act in 1996. This was followed by a third amnesty which was passed by the exchange control amnesty act of 2003. Thereafter in 2006 the small business tax amnesty was introduced. The most recent amnesty introduced was the Voluntary Disclosure Program which came into effect in 2010. This study will however only place emphasis on the small business tax amnesty and will explore the effects of offering multiple tax amnesties in South Africa. Since very little research has been conducted on multiple tax amnesties in South Africa, this research will draw on research conducted on tax amnesties offered abroad.

2.0 INTRODUCTION

The use of illegal means to reduce ones tax liability, such as falsification of accounting records, suppression of income or fraudulent non-disclosure of income is known as tax evasion (Huxham and Haupt, 2011: 454). Tax evasion is a global problem that occurs in all societies and economic systems including both developed and developing countries. This concern has become intensely severe for developing

countries given the rapid growth of investment in their economies and their lack of adequate experience in dealing with this problem.

Cobham (2005: 12) estimates that developing countries lose approximately USD285 billion per year due to tax evasion in the domestic shadow economy. Tax evasion is therefore important for many reasons as it reduces the collection of taxes, thereby affecting taxes that compliant taxpayers face and public services that citizens receive. Furthermore, evasion creates misallocations in resource use when individuals alter their behaviour to cheat on their taxes thereby altering the distribution of income in unpredictable ways (Alm and Luis, 2008: 73). Tax evasion is illegal and is constituted as a criminal offence, which could result in severe penalties or imprisonment. As a result, the fiscus does not require a statutory law to deal with this type of misconduct (Huxham and Haupt, 2011: 454).

In South Africa prior to 1994 many individuals and small businesses remained outside the tax system as a result of the complications in the tax system. This was caused by the high level of taxes imposed on small businesses, the enormous volumes and complexity of the tax laws and the difficult administrative requirements to comply with these laws (Hetherington and Davie, 1999). The tax legislation and ineffective tax collection allowed people to divert large chunks of income to tax shelters and tax havens. Some of the tactics employed were legal and some were not, but in both cases the tax authorities were frustrated and relatively powerless. This caused the shortfall in taxes to be made up by lower-income taxpayers who were not in a position to make smart tax arrangements (Hazelhurst, 2003).

To address this problem, many countries including South Africa have reformed their taxation policies and have implemented tax amnesty programs over the years

(Uchitelle, 1989: 48). Therefore after the 1994 elections, a series of legislative changes and the creation of a new revenue collection system created a tax dispensation in which there were better compliance and improved enforcement (Hazelhurst, 2003). This led to the restructuring of the tax system in South Africa and a commission of inquiry into certain aspects of the tax structure of South Africa known as the Katz Commission was appointed. In its first interim report the Katz Commission made recommendations for a Tax Amnesty (South African Government Information, 2005).

This literature review serves as a theoretical framework for the structure and focus of the data collection instrument. At present; there is no information available on multiple tax amnesties in South Africa. However, research on similar types of amnesties has been conducted in other countries and the available literature on those studies will be reviewed in the following sections.

2.1 THE KATZ COMMISSION AND THE RESTRUCTURING OF THE REVENUE SERVICE

In the decade prior to 1994, apartheid South Africa experienced the worst period of economic growth which began to decline as a result of its inconsistency in the economy. South Africa was isolated from the rest of the world through the trade and financial sanctions imposed against the apartheid government. This was the primary cause of its slow growth which resulted in political instability. The macroeconomic policy decisions resulted in higher inflation, increased uncertainty, and declining investment (Faulkner and Loewald, 2008: 20, 21). These inefficiencies and distortions resulted in taxpayers believing that they were overtaxed while the marginal rates continued to increase. Reforms to strengthen the public finances were

crucial in developing stronger economic progress, including key measures to improve the accountability and competitiveness of the corporate tax regime (Fan, et al, 2008: 91).

The introduction of the Katz Commission had an extensive mandate to investigate virtually every aspect of the South African tax regime inherited from the previous government against the backdrop of the political, social and economic goals of the new government (Manuel, 2002: 3). Thus the main objective of the Katz commission was to reconstruct a more efficient tax system which was to correct complications in the system and to broaden the tax base.

This appointment of the Katz commission was an attempt by the new government to implement a more developmental approach to economic policy, and to link taxation with issues of income distribution and poverty relief (Budlender, Casale, and Valodia, 2010: 209). One of the proposals made in the Katz Commission's first interim report (1994: 263) was the urgent need to enhance the status and administrative autonomy of the then Commission of Inland Revenue. This was supported by the recommendations initially made by the Margo Commission in 1986.

These recommendations motivated the South African Revenue Service (SARS) to establish legislation in terms of the South African Revenue Service Act, No. 34 of 1997 (Republic of South Africa, 1997). SARS was recognised as an independent organ of the state that carried out its functions outside the public service. This meant that it could employ its own staff and run independently from the rules which related to the public service (Huxam, 2009: 2). The consequence was that South Africa's tax regime was set by the National Treasury but it would be managed by SARS (SARS,

2012b). While SARS performs its functions outside the public service, it operates under the executive authority of the Minister of Finance (SARS, 2005: 103).

SARS was established by legislation to collect revenue and ensure compliance with tax law. Its vision is to be an innovative revenue and customs agency that enhances economic growth and social development, and supports South Africa's integration into the global economy in a way that benefits all citizens (SARS, 2012a).

SARS approach to taxpayers has been to deliver better service and instil the notion of good citizenship through taxpayer education programmes. The culture of non-compliance has been addressed through stricter, visible and focussed enforcement of the law for high risk economic sectors, broadening the tax base, engaging stakeholder forums of tax and trade professionals, and breaking down the lack of communication and understanding of taxpayers in respect of the various types of taxes (Pama, 2004: 2).

2.2 OVERVIEW OF THE SOUTH AFRICAN TAX SYSTEM

South Africa has a resident based tax system, in which residents are subject to certain exclusions. South African residents are taxed on their worldwide income, irrespective of where the income was earned. Non-residents are, however, taxed on their income from a South African source and foreign taxes are credited against South African tax payable on foreign income. The majority of the country's income is derived from personal and company tax. One third of the total revenue is received from national government taxes which come from indirect taxes, primarily VAT (SARS, 2011b).

Every year, the Minister of Finance presents the Budget, which outlines the total government expenditure for the following financial year and the ways in which this expenditure will be financed. Expenditure is funded predominantly by means of taxation and the balance is met by means of loan finance.

In line with the rest of the world South Africa has moved away from a tax system which was based predominantly on direct taxation to a system that is a mixture of both direct and indirect taxation. Direct taxation is based on the income of persons and is imposed on persons such as individuals, trusts, deceased estates and companies whereas indirect taxation is levied on transactions which usually takes the form of a sales tax or a value-added tax (Haxham and Haupt, 2011: 4).

2.3 TAX COMPLIANCE

The most interesting feature of the modern system of income tax is its fundamentally voluntary nature. Some individual taxpayers always face some chance of being audited by the revenue authorities, however most taxpayer's actual assessments depend on the income they choose to report. This may not necessarily be the same as their actual income (Reinganum and Wilde, 1985: 1).

A man once wrote to the revenue authority and said "I have been unable to sleep, knowing that I have cheated on my income tax. I understated my taxable income and now enclose a cheque for USD1,500. If I still can't sleep, I will send you the rest" (Torgler, 2008). This anecdote demonstrates the importance of taxation and tax compliance in the daily lives of citizens. Alm and Gomez (2008: 86) find that an individual's tax morale is significantly and positively associated with a taxpayer's perception of the benefits accruing to society from the public delivery of goods and services.

Tax compliance is a problem that is as old as taxes themselves. Distinguishing and explaining the observed patterns of non compliance together with finding ways to reduce it is of great importance to nations around the world. The economics of tax compliance can be viewed as a problem of public finance, law enforcement, organisational design, labour supply or ethics or a combination of these (Andreoni, Erard and Feinstein: 1998: 818).

Frey and Feld (2002: 6) find that tax compliance is determined by a psychological tax contract between citizens and tax authorities. Rechberger, Hartner, Kirchler and Hämmerle (2010: 215) adds that in order to keep the contract in balance, taxpayers must pay their taxes honestly and tax authorities “must recognise and support the contract with taxpayers by treating them in a respectful manner, but also preventing honest taxpayers from being exploited in the process” (Frey and Feld, 2002: 6). Frey and Feld (2007: 103) further add that in order for that contract to be maintained, incentives in the form of rewards or punishment need to be provided together with the consideration of loyalties and emotional ties.

According to Brown and Mazur (2003: 2), tax compliance is a multi-faceted measure and theoretically it can be defined by considering three distinct types of compliance. These are payment compliance, filing compliance and reporting compliance. Feld and Frey (2007: 102) state that citizens are willing to honestly declare their income even if they do not receive a full public good equivalent to tax payments as long as the political process is perceived to be fair and legitimate. Feld and Frey (2007: 104) further explain that as a contractual relationship exist between the taxpayers and the revenue authorities, they are both bound by the duties and rights for each other. Tax compliance is therefore increased by keeping to the fiscal exchange paradigm between citizens and the state.

The level of taxation, however, is also related to tax morale and income inequality, which enhances the decision to participate in the informal sector. The lower the degree of tax morale and the more unequal the distribution of income and wealth, the larger the informal sector and thus the lower the tax effort (Steenekamp, 2007: 2). Tax compliance has therefore caused international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue (Chau and Leung, 2009: 34).

2.4 TAX COMPLIANCE BY INDIVIDUALS AND SMME'S

2.4.1 Small, medium and micro enterprises

Small, medium and micro-enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in South Africa (Republic of South Africa, 1995). They contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers or other enterprises. This includes the provision of products and services to foreign clients, thereby contributing to the overall export performance (Berry et al, 2002: 4).

In South Africa the importance of small business as a creator of jobs particularly for those with a low skills level is widely recognised. Small, medium, and micro enterprises (SMMEs) contribute 36, 1 per cent of the country's gross domestic product (GDP) and employ 68, 2 per cent of the workforce in the private sector. In the agriculture, construction, and retail sectors, SMMEs employ more than 80 per cent of the total workforce. Over the last few years, the growth in employment by SMMEs has exceeded the growth with their contribution to GDP. This highlights its

potential as a job creator in this sector of the economy (Killian, Karlinsky, Payne and Arendse, 2008: 17).

However taxation is considered a high regulatory cost and discourages small-scale entrepreneurs. It is therefore assumed that micro-enterprises are generally reluctant to enter the formal economy as this step requires them to enter the tax system. This is a loss not only to the economy, but also to state revenue, because micro-enterprises operate on a cash basis without a 'paper trail', therefore making the enforcement of compliance by SARS much more difficult (Small Business Project, 2003: 1). Govender (2008: 11) discovered that informal small businesses did not always believe there were benefits to being registered for tax. Tax compliance to these businesses meant that taxation would impose burdensome demands on their businesses.

The primary disadvantages of being registered for tax were further highlighted by Govender (2008: 38, 39) which were reported to be the following:

- A significant portion of SMME's believed that the current levels of tax were too high and meeting this burden would result in a negative impact on their business revenue and potential growth and success in the future.
- Some SMME's were convinced that the cost of compliance would be very high and beyond the scope of the small business sector. The costs associated with record keeping and employing professionals at exorbitant costs to deal with the preparations and filing of tax returns were of paramount importance for these informal small businesses.
- Many small businesses believed that being registered for tax would increase the risks for the business in three ways: Firstly, there would be the increased

potential for prosecution for past non-compliance, secondly, there would be the increased risk for overall greater scrutiny and intervention by SARS. And, thirdly, there would be the increased risk of having to deal with possibly corrupt tax officials.

- The small business sector further believed that tax compliance was a disadvantage, since any revenue collected by the government could be misused or abused. Small businesses clearly did not believe that the increased tax revenue would automatically result with an improvement in the quality of service and delivery.

Govender (2008: 40) revealed in his findings that despite government's introduction of the small business tax amnesty program, many informal businesses feared that its past non-compliance would have led to prosecution. As a result the tax amnesty offered to small businesses was not as successful for this sector as the tax authorities might have hoped. The evidence revealed that a small number of SMMEs were actually aware of the amnesty or had knowledge of the essential details of the amnesty campaign but it was therefore clear that this segment of the informal SMME was the most difficult sector for the amnesty campaign to reach. Despite the extensive media coverage which supported the amnesty campaign, the ignorance of the government to communicate sufficient information to this sector about the amnesty therefore resulted in an unsuccessful amnesty campaign.

2.4.2 Individuals

In an ideal world, all taxpayers would voluntarily pay their taxes and comply with all their tax obligations willingly. But it is clear, no one derives pleasure from paying taxes. At the end of each financial year some individuals plan on how they can

arrange their tax affairs strategically in order to pay as little tax as possible. This may result in some taxpayers making use of strategies which are legal in order to minimise their taxes (Murphy, 2004: 1). This term is referred to as tax avoidance.

The perceived quality of government is argued to affect taxpayer's willingness to comply with their taxes. If taxpayers believe that their interests or preferences are properly represented by the government and they receive a desirable mixture of public goods, then their willingness to pay increases. On the other hand, a country where corruption is widespread will cause citizens to have little trust in the government and this will lower the incentive to comply. A country that upholds the law firmly will be likely to have higher levels of tax compliance. Such a country may tend to increase taxpayers positive attitudes and commitment to the tax system. This will be accompanied with a positive effect on tax compliance (Smith and Stalans, as cited by Cummings et al, 2007: 11).

Leonard and Zeckhauser (as cited by Torgler, 2003: 629b) point out that some taxpayers become tax evaders only by choice. Such individuals might be willing to correct their behaviour to become honest citizens when they are not confronted with punishment mechanisms such as prosecution and penalties. Thus non compliance in the future can be reduced by integrating former tax offenders into the tax system.

Fjeldstad (2006: 6) examined the factors that determined South African citizen's compliance and trust with the government. He revealed that three dimensions of trust could affect citizen's voluntary compliance, namely: trust in the local government to use revenues to provide expected services, trust in the authorities to establish fair procedures for revenue collection and distribution of services and lastly trust in other citizens to pay their share.

2.5 TAX AVOIDANCE AND EVASION

Tax evasion and fiscal corruption have been a major problem throughout the world with economic consequences (Fjeldstad, 2006: 1). Former British Chancellor Dennis Healey stated “the difference between tax avoidance and tax evasion is the thickness of the prison walls”. To explain Healey’s quote, Elliffe (2011) illustrates that tax avoiders generally remain on the outside of the prison wall while tax evaders are detained on the inside. This may imply that there is a significant difference between the legal aspects of tax evasion and tax avoidance. Bailey (2006) states that tax planning and tax avoidance are methods which are entirely legal to reduce ones tax. However, tax evasion is a criminal offence which always involves dishonesty in some form or another. Elliffe (2011) further explains that although tax avoidance may be legal, it lies fairly close from tax evasion. Therefore, if taxpayers ignore the development of the law and cross the line of the judicial system, they may risk finding themselves on the wrong side of the prison wall.

Tax avoidance can therefore be described as the legal utilisation of the tax act to one’s own advantage which involves the reduction or deferment of a taxpayer’s liability for tax by means that are legal and within the provisions of the law (Killian and Kolitz, 2004: 235). The US Supreme court (1935: 293) has stated that “the legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted”

Tax evasion on the other hand can be described as an illegal, dishonest activity that usually involves taxpayers deliberately misrepresenting or hiding the true status of their tax affairs to the tax authorities in order to reduce their tax liability. This may either occur by the taxpayer not declaring income accrued or by claiming deductions

against income which is disallowed. Tax evasion is simply a fraud against the fiscus for which appropriate penalties are usually provided in the tax legislation (Killian and Kolitz, 2004: 236).

The South African Income Tax Act 58 of 1962 contains a new general anti-avoidance provision under Section 80A and 80L, which replaced the previous provision section 103(1) as a result of conflicting court decisions that made it difficult for the Commissioner to argue various elements of certain tax avoidance schemes. The Commissioner may use its provisions to determine the liability of a taxpayer who enters into a transaction which results in a liability. If there are elements of irregularity in the conclusion of a transaction and if the taxpayer's main purpose of entering into the transaction was to avoid, defer or reduce his tax liability (Killian and Kolitz, 2004: 243), the courts may then be able to make a clear judgement on the taxpayers default.

Trevor Manuel stated that there were significant changes made in reforming the tax policy which were aimed at broadening the tax base to ensure that all individuals pay taxes so that the tax burden is shared fairly and equitably between all citizens and the corporate sector. According to the National Treasury (1999: 35) many citizens benefit from the use of public goods without paying towards it. This limits the chance of speeding the tax reform process and easing the tax burden. The National Treasury further stated that tax compliance is not optional and warned that those caught transgressing the law would be prosecuted. Supporting this Finance Minister Pravin Gordhan was certain that those who continually attempted to evade tax would eventually get caught as the South African Revenue Services have identified highly effective ways in identifying cases of tax evasion. He further stated that the tax net was closing on those who had invested in tax havens (Gordhan, 2010b).

A popular indicator of the magnitude of evasion is the tax gap (Andreoni et al, 1998: 818). The United States Internal Revenue Service (2005) defines the tax gap as the “difference between the amount of tax that taxpayers should pay and what they actually pay on a timely basis”.

2.5.1 The tax gap

In South Africa, there is a significant gap between the amount of tax that is theoretically collectable from economically active persons and that which is actually collected, this is commonly known as the tax gap. The tax gap is therefore defined as the combined amount of the actual tax liability imposed by the law on taxpayers that is not paid voluntarily and on time. The actual tax liability for any given taxpayer means that all the relevant aspects of the tax law will be correctly applied to the taxpayer's situation in order to determine the amount of tax that would be due in that specific tax year (United States Internal Revenue Service: 2007: 6).

Non-compliance by taxpayers is one of the main causes of the tax gap (Oberholzer and Stack, 2009: 737). Bullock (2010: 267) supported by Gcabo and Robinson (2007: 358) state that the tax gap exists because a taxpayer either does not submit the required returns or submit these after they are legally due, does not declare the full tax liability on a tax return that was already submitted, does not pay the full amount of tax that should have been paid, overstate deductions, credits or exemptions or make calculation errors on their returns. Finally, tax authorities sometimes make errors on the assessments, however some taxpayers do not always notify the authorities to correct these.

The tax gap is made up of two parts, Hazelhurst (2003: 64) and Delport (2000: 16), (as cited by Oberholzer, 2008: 51) state that the first part of the problem is failure to

register as a taxpayer. Individuals, who choose not to register for income tax purposes, or those who decide not to declare the full amount of income derived by them, violate the provisions of the Income Tax Act, thus creating the second part of the tax gap. Manuel (2005) stated that the tax gap in South Africa continued to be unacceptably high and it was important that the number of persons not registered for tax purposes were reduced in order to broaden the country's tax base. This would enable the government to reduce the tax rates further, which would also lead to a reduction in the level of tax avoidance.

For a tax liability to be paid voluntarily it must be paid without direct intervention by the revenue authorities. Taxpayers have the responsibility to determine and report their correct tax liability and to make sure that the tax is paid whether through withholding, estimated tax payments or payments on an assessment. To be paid on time, a tax liability must be paid in full and on or before the date on which all payments are legally due for that given tax year (US Internal Revenue Service, 2007: 6).

The integrity of the tax system is weakened when high net worth taxpayers are confident that they can underreport their income, overstate expenses or not report offshore income and get away with not paying what they are liable to pay (Bullock, 2010: 271). The tax gap also increases income inequality which is reduced progressivity (Furman, Summers, and Bordoff, 2007: 7). Most countries encounter difficulties in determining the extent of the tax gap and it is therefore important that the government continues to broaden the tax base. This can only be done by ensuring all citizens who are engaged in economic activity in the country are registered as taxpayers. Furthermore, all citizens that receive an income should be

honest enough and declare their income correctly to the authorities thereby ensuring that the tax burden is spread more equitably throughout country (Croome, 2008).

2.5.2 The tax Incidence and the tax burden

In most countries, governments levy taxes in order to cover majority of the costs of expenditure. It should therefore be recognised that any tax levied directly on a business will ultimately be paid by real live people such as consumers *via* higher prices, business owners *via* reduced profits or employees *via* reduced wages. In the first instance, the tax is considered to be shifted “forward,” and in the second and third instances it is considered to be shifted “backward” to the factors of production (Combs, 2011: 41).

The tax incidence is the positive analysis of the impact of taxes on the distribution of welfare within a society. It begins with the very basic insight that the person who has the legal obligation to pay a tax may not be the person whose welfare is reduced by the tax. The statutory incidence of a tax refers to the distribution of tax payments based on the legal obligation to remit taxes to the government (Metcalf, 2006: 1). This means that the tax falls on a group of individuals that bears the burden of the tax. Jha (1998: 239) explains that when a tax is imposed on a commodity, part of the tax is distributed amongst consumers so that part of the burden of the tax is shared by both the consumer and the producer. However if the tax cannot be passed on to the consumers then the incidence of the tax falls on the producers alone.

The tax burden can be measured as the change in people’s economic situations as a result of the tax. Taxes affect taxpayer’s behaviour, triggering economic changes that regularly shift some or even the entire economic burden of a tax to other citizens. This changes and reduces the mixture of what people are willing to produce

in their roles as workers, savers, and investors. Therefore taxes increase what these producers charge for their services or products. The changes in the prices of these products or services in turn affect consumers when they try to spend their income.

The consequences of taxation impose additional costs on taxpayers (Entin, 2004: 1).

It is therefore important that government finds ways to reduce the tax burden and ensure that it is equally spread amongst all citizens in order to prevent a single group from bearing it.

2.6 OVERVIEW OF THE TAX AMNESTY

A tax amnesty is a government programs that typically allows an opportunity for a limited time to tax defaulters to voluntarily repay previously evaded taxes without being subject to penalties and prosecution that the discovery of such tax evasion normally brings (Luitel and Sobel, 2005: 1). The purpose and objective of a tax amnesty is to increase and improve the tax compliance of taxpayers who have not been tax compliant in the past.

Uchitelle (1989: 48, 49) explains the three sources that governments uses to raise revenue during the implementation of tax amnesties;

- The first source is the large amount of revenue in the domestic economy that goes unreported because of its circulation in the shadow economy. Tax amnesties are not only used to increase current tax revenue but also to reduce the amount of economic activity that occurs permanently in the shadow economy, therefore increasing future tax revenue as well.

- The second source of potential revenue is flight capital. Tax amnesties are used as an incentive for citizens to repatriate large sums of money that have been illegally moved abroad.
- The third and final source of potential revenue is the payment of back taxes by those who inadvertently underpaid taxes but never reported their default because of penalties associated with tax evasion. Therefore tax amnesties encourage full repayment by eliminating or lessening such penalties.

Non-tax compliance, avoidance and evasion are problems of great importance for many countries around the world. However, non-tax compliance not only reduces tax revenue but has a number of other welfare-reducing consequences (Damjanovic and Ulph, 2007: 2). Therefore governments generally limit tax amnesties to taxpayers not currently reporting their income or to those with outstanding liabilities that have not been identified by the tax authorities (Nakamura, 2009: 398).

To understand the components of a tax amnesty, Luitel and Sobel (2005: 1) explains its three general characteristics. Firstly, a tax amnesty is short-term in nature and generally lasts from two months to a year. Secondly, participation in an amnesty is voluntary. Individuals may decide not to participate, however the consequences of not participating could be such that if a defaulter is later caught, the defaulter could be liable for a harsher punishment than before. Finally, an amnesty, generally waives the fines and penalties associated with the evasion but does not absolve the principal amount of tax that is due.

Governments in most transitional economies have considered and granted some form of tax amnesty (Pajula and Prohnițchi, 2008: 2), while others around the world have increasingly and frequently turned to tax amnesties as part of fiscal programs.

An amnesty is also often accompanied by increases in tax administration efforts, especially in enforcement measures (Alm, Martinez-Vazquez and Wallace, 2007:1).

2.7 HISTORY OF TAX AMNESTIES IN SOUTH AFRICA

Since the change in government in 1994, there have been a number of tax amnesty programs in South Africa. The Katz Commission had recommended in its first interim report that an amnesty be introduced for a number of reasons. One of the possible reasons explained was that previously disadvantaged people who were not required to pay taxes under the prior system of government was encouraged to come forward and register without being penalised. The aim of the commission was to attract more people into the tax system which was intended to generate additional revenue for the fiscus. (Killian and Kolitz, 2004: 245, 246). This gave rise to the first tax amnesty which was introduced under the Tax Amnesty Act in 1995. This amnesty cleared the slate for taxpayers with outstanding tax liabilities prior to 1994.

In 1996, it was followed by a second tax amnesty which was offered under the final relief on tax, interest, penalty and additional tax Act which provided relief from certain taxes, interest, penalties and additional tax (Flanagan, 2010: 15 and Republic of South Africa, 1996). Malherbe, 2011: 43) stated that the objective of these two amnesties was to allow persons who were not compliant in the past to come forward and regularise their tax affairs.

Then in 2001 South Africa moved from a source basis of taxation to a residence basis, in which residents were to be taxed on their world-wide income (South African Government Information, 2000). This led to the introduction of a third tax amnesty which was passed by The Exchange Control Amnesty Act of 2003 (Manuel, 2003). This amnesty allowed South African residents to come forward and regularise their

tax affairs without being subjected to any civil or criminal liability (National Treasury, 2003: 5). Applicants had to disclose both authorised and unauthorised assets held abroad for the year ending 28 February 2003 (Organisation for economic co-operation and development, 2007: 29). Thereafter applicants had to ensure that they continued to declare any such investments to the authorities in the future.

Prior to 2006, many small businesses, particularly in the taxi industry were historically marginalised and were excluded from the economic mainstream. This sector operated informally and thus remained outside of the tax system (SARS, 2006a). Many businesses wanted to regularise their tax affairs to become compliant but were faced with obstacles, which included possible liability for additional tax, interest and even prosecution. This fear made the decision to enter the tax system difficult. Since many businesses wanted to get into the tax system, the government therefore decided to introduce a tax amnesty to ensure that the small business sector could overcome this obstacle (National Treasury, 2006: 75).

This small business amnesty was intended to give relief to the taxi industry by allowing the industry to regularise their past non compliance without facing prosecution. However, the amnesty was later extended to the small business sector and individual taxpayers (National Treasury, 2006: 74). The small business tax amnesty provided in the Small Business Tax Amnesty and Amendment of Taxation Laws Act was the fourth amnesty program offered in South Africa. The main purpose and objective of the amnesty was to broaden the tax base, regularise the tax affairs of small businesses, increase and improve tax compliance and facilitate participation in the taxi recapitalisation programme (Malherbe, 2011: 46). The tax amnesty originally ran from 1 August 2006 to 31 May 2007, but was subsequently extended by SARS to 30 June 2007.

The fifth most recent tax amnesty introduced in South Africa was the Voluntary Disclosure Program (VDP), which was introduced in 2010 and provided qualifying taxpayers with relief against additional taxes, penalties and interest arising from past defaults (Buttrick, 2010). SARS (2010: 4) described the VDP as an internationally accepted mechanism to broaden compliance with tax and exchange control requirements. The global scope of the VDP was to end bank secrecy and to allow revenue authorities the access of information both domestically and globally. It was envisaged that this program would take the form of a tax amnesty for those individuals and companies that had undeclared taxes or foreign assets.

2.7.1 Small business tax amnesty

The small business tax amnesty was first introduced in South Africa as a way to deal with the taxi industry in the light of its recapitalisation programme proposed by Government to reform the sector. Due to the informal nature of this multi-billion rand industry the South African government had to find a way to bring the taxi industry into the tax system. However, in the middle of the campaign the amnesty was broadened to include all small businesses with revenues of not more than R10 million (Mantshantsha, 2006: 69).

During the start of the amnesty an important issue was overlooked in the haste to implement it (Mantshantsha, 2006: 69). Boris Pelegrin stated that the amnesty Act had not considered an exemption from the Financial Intelligence Centre (FICA) for non-lawyer tax advisers and practitioners. This issue prevented the privilege of confidentiality between attorneys and their clients, as tax advisers were compelled to report any tax offences committed by these clients to FICA. Pelegrin further added that the legislation affected tax advisers and any advice that had been provided to

clients. This resulted in tax practitioners advising their clients not to apply for amnesty which defeated the whole objective of the program (Mantshantsha, 2006: 69). The exchange control amnesty was reported to have had the same effect where a number of auditing and consulting firms were reluctant to assist clients until the matter was resolved. This affected the decisions of a number of people that wanted to apply for the amnesty (Vermeulen, 2003).

The intervention by accounting bodies and consulting firms regarding this concern was followed by an exemption published in the Government Gazette. Tax advisors and accountants were therefore not obliged to report suspicious transactions from information disclosed by their small business clients during amnesty period (Sakoana, 2006). However, this Act had already caused hesitance and uncertainty amongst individuals and small businesses that wanted to apply for amnesty to regularise their tax affairs. This delayed the application process considerably, resulting in some not willing to participate in the amnesty at all.

The 2006 Small Businesses Tax Amnesty offered in South Africa closed on 30 June 2007. The South African Revenue Service confirmed receiving a total number of 353 338 applications, of which 298 814 were for amnesty and 54 574 were for the waiver of additional taxes, penalties and interest. The taxi industry contributed 24 174 applications. Initial analysis of the total applications revealed that about 22 per cent of the applications were received from new taxpayers (National Treasury, 2007: 42).

According to the National Treasury (2010: 166) the total collection in small business amnesty levies reached R12,826,000 in the 2008 tax year, which was a significant amount. However, Mkhize (2011: 30) stated that although 22 per cent of the small

business amnesty applications came from new taxpayers, the small business tax amnesty did not meet its fundamental objective as intended. According to Brincker the results of the small business tax amnesty were disappointing as it did not draw enough taxpayers into the tax system as expected (Temkin, 2007). Croome (2007: 42) supported this and added that the increase in the tax register did not appear to be as large as was originally hoped. Most of the applications were submitted by existing businesses seeking to regularise their tax affairs for previous transgressions when they evaded income tax, or the waiver of interest, penalties or additional tax.

Nevertheless the tax amnesty was a positive exercise as it resulted in a slight increase in the tax base despite the continuing tax burden (Mkhize, 2011: 30). South Africa's tax policy continues to emphasise the need for a broader tax base and a simplified tax system with high service levels in administration which will lead to improved tax morality and compliance (National Treasury, 2007: 42). Brincker stated that government should take measures in simplifying the tax regime for small businesses in order to reduce the burden of compliance (Temkin, 2007).

As previously stated, the difficulty with the introduction of any amnesty is that compliant taxpayers become disgruntled and question why they have complied with the tax laws in the past, because an amnesty only rewards those that have not complied with their fiscal obligations. The commissioner, however, assured that enforcement action would increase once the small business tax amnesty had run its course (Croome, 2007: 42). Although the small business tax amnesty had a poor response Mkhize (2011: 31), SARS successively continued to increase its targeted enforcement drive which led to more than 200 arrest warrants, nearly 1000 summonses and the collection of more than R70 million in revenue (National Treasury, 2007: 42). Mkhize (2011: 31) concluded that the Voluntary Disclosure

Program offered in the 2010 tax year would also have a poor outcome similar to that of the small business tax amnesty.

Uchitelle (1989: 53) concluded that most tax amnesty programs seem to have failed because the countries implementing these amnesties did not have the means or desire to enforce tax collection after the amnesty. As a result, tax amnesty programs often lead to increases in revenue. However, this only lasts once and has no lasting effects. For these reasons, it seems unlikely that developing countries in particular will gain from implementing a tax amnesty until they improve their overall systems of tax collection. In addition, many developing countries have already enacted several tax amnesties, thereby diminishing their chances of implementing truly successful programs in the immediate future. Nevertheless, a well-designed tax amnesty program accompanied by structural and tax reforms will have the potential to lead to beneficial results in both developed and developing countries.

According to the evidence revealed by the US Congress (1998: 16, 17), the long run impact of tax amnesties and its effect on revenue and future compliance has never been consistent. An academic study which used experimental methods to model the tax system, found that subjects decreased their compliance after an amnesty.

The US Congress (1998: 11) found that the implementation of long-run tax amnesties would increase the expectation that additional tax amnesties would be offered again in the future. This could lead to a greater problem which can discourage compliant taxpayers from remaining compliant with the tax system. Tax evasion may therefore result if compliant taxpayers believe that they could avoid being detected by the authorities until the next amnesty is offered (US Congress, 1998: 31).

2.8 PROCESS OF THE SMALL BUSINESS TAX AMNESTY OF 2006

The tax amnesty for small business was promulgated on 25 July 2006, and came into effect on 1 August 2006 (SARS, 2006a). The Second Small Business Tax Amnesty and Amendment of Taxation Laws Act, 2006 (No. 10 of 2006) was later promulgated to provide for the administration of the small business tax amnesty (Republic of South Africa, 2006).

The contribution of South Africa's SMMEs to employment and economic growth is low compared to many other developing countries. This relatively poor performance is often associated with the racial distortions in education, income and economic empowerment inherited from the previous regime (Berry, Blottnitz, Cassim, Kesper, Rajaratnam and Seventer, 2002: 5).

Small, medium and micro enterprises (SMMEs) have been acknowledged internationally and locally (Aucamp, 2011), as a key strategy for economic growth, job generation and poverty reduction (Agupusi, 2007: 2). Since 1994 South Africa has been promoting small businesses as an engine for economic growth and socio-economic integration (Agupusi, 2007: 2).

According to SARS (2006: 2b) many small businesses operated informally and were historically marginalised which resulted in these businesses being excluded from the economic mainstream, thus remaining outside of the tax system. These small businesses wanted to regularise their tax affairs but were afraid that their past regressions would result in them having to pay many years of outstanding taxes, penalties and interest. The Minister of Finance (SARS, 2006c), therefore, announced the introduction of a tax amnesty for small business in the 2006 Budget Speech.

The small business tax amnesty and amendment of taxation laws act of 2006 (Republic of South Africa, 2006: 6) outlined the objectives of the small business tax amnesty as follows:

- to broaden the tax base;
- to facilitate the normalisation of the tax affairs of small businesses;
- to increase and improve the tax compliance culture; and
- to facilitate participation in the tax recapitalisation programme.

2.8.1 Categories of taxpayers who qualify to apply for tax amnesty

Any individual, unlisted company, close corporation, trust, including deceased or insolvent estate of an individual were allowed to apply for amnesty (SARS, 2006: 2b) in terms of the act.

The Act (Republic of South Africa, 2006: 9) provided that taxpayers had to meet the following requirements in order to apply for amnesty. The taxpayer had to be:

- a natural person, including the deceased or insolvent estate of a natural person;
- an unlisted company for all years of assessment preceding the 2006 year and all the shares or members' interests in the company were held directly by natural persons including the deceased or insolvent estate of a natural person;
- a trust and all the beneficiaries of that trust throughout the 2006 year of assessment were natural persons including the deceased or insolvent estate of a natural person; and
- the total gross income of that person from carrying on business did not exceed ZAR 10 million for the 2006 year of assessment. If that person's

financial year was not 12 months, the amount of ZAR 10 million would be reduced proportionally;

In terms of the amnesty, the 2006 year of assessment was defined as the year of assessment which was for the period of 12 months starting from 1 April 2005 to 31 March 2006 (National Treasury, 2006: 2). SARS (2006: 3b) stated that the small business tax amnesty benefited small businesses that were not registered at the end of the 2006 year of assessment and to those that were registered taxpayers but under declared its taxable income during all years of assessment prior to 2006.

2.8.2 Period for applying for amnesty

The period within which a person could apply for amnesty was 1 August 2006 to 31 May 2007. Applications had to be submitted using the prescribed SBA 001 form to the Commissioner (Republic of South Africa, 2006: 10). However shortly after the amnesty deadline, Manuel (2007) announced that an extension would be granted for many potential applicants who were unable to apply for the amnesty. The Bill was therefore amended to provide for a one month extension which ended on 30 June 2007 (Jones, 2007).

2.8.3 Information required with the application

On the application for tax amnesty an applicant had to disclose the taxable income in respect of all amounts received by or accrued to that applicant from the carrying on of business during the 2006 year of assessment. The applicants had to furnish an income tax return for the 2006 year of assessment and a statement of all assets (at cost) and liabilities as at the end of that year. If it was not possible for the applicant to provide full particulars of any actual amounts in the application or in any return or

statement relating to the application, the applicant had to provide a reasonable estimate of those amounts and had to disclose which of those amounts were estimated (Republic of South Africa, 2006: 10).

2.8.4 The Amnesty Levy

The amnesty levy was based on a sliding scale rate and was applied to the taxable income of the applicant for the 2006 year of assessment to the extent that the taxable income was attributable to any amount derived by the applicant from the carrying on of business (SARS, 2006a).

2.8.5 Extent of tax relief granted in terms of the tax amnesty

In terms of Section 8 and 9 of the Tax amnesty Bill (Republic of South Africa, 2006: 12, 13), successful applicants who are granted amnesty were provided relief of the following:

- income tax in respect of any amount received by or accrued to the applicant during any year of assessment prior to 2006 from the carrying on of any business;
- Employees' tax (SITE and PAYE) in respect of any remuneration paid to employees during any year of assessment which ended on or before 28 February 2006;
- any value-added tax (VAT) in respect of the supply or importation of goods or services during any year of assessment which ended on or before 28 February 2006;
- Withholding tax on royalties paid to a non-resident during any year of assessment which ended on or before 28 February 2006;

- secondary tax on companies (STC) in respect of any dividend declared or deemed to be declared during any year of assessment which ended on or before 28 February 2006;
- Unemployment Insurance Contributions (UIF) in respect of any remuneration paid during any year of assessment which ended on or before 28 February 2006;
- Skills Development Levies (SDL) in respect of any leviable amounts during any year of assessment which ended on or before 28 February 2006.
- Additional Tax, Penalties and Interest relating to any amounts which amnesty has been granted.

In addition the Commissioner may extend the date of submission of any returns to be furnished by the successful applicant in terms of the Act and may waive penalties for late submission. The commissioner may also waive any additional tax, penalties and interest in terms of the Act relating to returns due for the 2006 year of assessment and subsequent tax years.

2.8.6 Circumstances rendering the application for amnesty void

In addition to the requirements which qualified taxpayers to apply for amnesty, applicants had to ensure that the following conditions were met before they could benefit from the amnesty.

- the applicant had to pay the full amnesty levy within the given period of the amnesty.
- the applicant was compelled to make a full disclosure of any required information, including the actual taxable income received or accrued during the 2006 year of assessment or in the income tax return for the 2006 year of

assessment or in the statement of assets and liabilities which had to accompany that return;

- any estimates made by the applicant were not allowed to be materially incorrect. This meant that if an applicant was unable to report the full details of the actual income received, then a reasonable estimate was allowed provided it was not significantly incorrect.

If the applicants did not abide by these criteria laid out by SARS, it would have rendered those applications void (Republic of South Africa, 2006: 15).

2.9 PREVIOUS TAX AMNESTIES RESEARCH

Like South Africa, many emerging economies such as Argentina, Bolivia, Chile, Colombia, Ecuador, India, Pakistan, Panama, Peru, Mexico and the Philippines (The World Bank: 2011a) believe that they can reduce the level of tax evasion by forgiving past non compliance of tax evaders that come forward during an amnesty. However, this task is not a straightforward course of action and could have daunting effects on tax compliance similar to many developed economies that have offered repeated tax amnesties with unsatisfactory results. To the authors knowledge very little empirical evidence on multiple tax amnesties have been conducted or is available in South Africa. Although not specifically related to South Africa, this section highlights a number of previous studies and findings that have dealt with tax amnesties both within the United States America and abroad. Most of the experimental research conducted on tax amnesties have been carried out in the context of developed counties and these theoretical models have been relevant to South Africa.

A number of studies have been conducted on tax amnesties that have been offered once or on a repeated basis by Alm and Beck (1991, 1993), Cassone and Marchese

(1995), Crane and Nourzad (1992), Das-Gupta and Mookherjee (1998), Dubin, Graetz and Wilde (1992), Graetz and Wilde (1993), Mikesell (1986), Stella (1989) and Uchitelle (1989). One of the benefits frequently associated with tax amnesties is that they may encourage those who are not currently compliant with the law to become compliant in the future (Alm, 1998: 3). However, it is unclear from the existing empirical research whether amnesties have achieved these goals (Christian, Gupta and Young, 2002: 704). Although there is an extensive theoretical literature on the economics of tax amnesties, this research will focus on tax amnesties of fairly recent origin and from the selected databases that were available to perform this study.

One of the most obvious reasons that governments implement tax amnesty programs is to raise tax revenue (Alm, 1998: 1). The most significant aspect of an amnesty is the collection of taxes on previously undisclosed income. In many cases the revenue generated by tax amnesty programs has been both substantial and far in excess of expectation. For example, Ireland anticipated raising approximately USD50 million from a 1988 tax amnesty that gave delinquent taxpayers ten months to pay back its taxes free of penalties, interest and prosecution. However, when the amnesty was concluded, the Central Bank of Ireland reported that USD750 million had been raised. This represented 2.55 per cent of the country's gross domestic product (GDP) and 158 per cent of its then-current deficit (Uchitelle, 1989: 50).

In the USA, most states have extensive experience with tax amnesties. A significant number of tax amnesty programs have been conducted in the United States from November 29, 1982 to this present day. This indicates strong variation of the repatriated revenues among the states (Torgler, 2003: 2a).

Leonard and Zeckhauser (1987: 82, 83) stated that whatever its ultimate effects, an amnesty may seem to represent a relaxation of tax enforcement efforts. Many critics are concerned that such a program would unacceptably weaken the legitimacy of the tax code and the laws generally. Most citizens seem to pay their taxes primarily as a matter of conscience. If tax amnesties diminish the force of conscience, spreading the message that tax evasion is a commonplace and is easily forgiven, this may diminish compliance and force society to raise taxes and rely more heavily on less efficient enforcement mechanisms.

Fox and Murray (2011: 37) explored the effects of amnesties on tax revenues and filing rates using a Bayesian empirical framework. The results indicated that an initial amnesty adopted by a country does have a positive effect on the country's tax revenue and tax filing rates. But although subsequent amnesties enhance revenue performance, the effects diminish compared to the initial amnesty, ultimately pushing filing rates below their pre-amnesty levels.

An honest taxpayer that is unsure about his future prospects, because of overdue taxes, has the opportunity to apply for a tax amnesty when offered. However, the honest taxpayer faces different problems depending on whether it believes that the amnesty will or will not be repeated. If more than one amnesty offered is anticipated, rejection of the current offer may also mean that the taxpayer will be in a better position to decide whether to apply in the future (Mello-e-Souza, 2006: 1, 2).

The United States Congress (1998: 14) stated that some individuals believed that tax amnesties are fair to the loyal taxpayer because they bring in tax revenues that would have not been collectable which can finance additional public services without raising taxes, or can be used to reduce taxes for law abiding taxpayers. However,

the views of these critics are dependent on the long-run revenue from an amnesty being positive.

Becourtney (2010: 14) confirmed that the lure of future tax amnesty programs may keep some taxpayers with tax deficiencies on the side lines awaiting the next big tax amnesty program. An honest taxpayer never makes an intentional decision to evade taxes, but can be surprised by an accusation, if audited, that a previously filed tax return is incorrect. Thus, for the honest taxpayer, the amnesty is a previously unavailable opportunity to reduce monetary penalties imposed, or expected to be imposed, by the tax authority (Mello-e-Souza, 2006: 16).

Le Borgne (2006: 448) discovered that tax amnesties are more likely to be declared when a country's indebtedness is growing. Tax amnesties are, therefore, viewed as a revenue raising source, which supporting evidence reveals that law abiding taxpayers perceive tax amnesty programs as "unfair" since they reward tax evaders with a lower effective tax rate than law-abiding taxpayers. The effects of a tax amnesty in developing countries have hardly been analysed empirically in the tax compliance literature (Torgler, Schaltegger and Schaffner, 2003: 376). Torgler, et al (2003, 387) further stated that the offering of a second amnesty gave the impression that the government could not be trusted which increases expectations of additional tax amnesties.

Mattiello (2005: 3, 4) described the two types of effects of offering tax amnesties, namely:

- offering a tax amnesty in the short term could raise the compliance rate by allowing taxpayers to disclose taxable income which will enable them to emerge from a shadow economy and,

- Detection of taxable income and unknown taxpayers can raise future tax compliance, as taxpayers cannot hide from their tax obligation in the next financial year.

Therefore, in the long term, tax amnesties might reduce taxpayer's willingness to fulfil their obligations with the State.

Torgler, Schaltegger and Schaffner (2003: 387, 389) analysed the effect of multiple tax amnesties on tax compliance which its experimental design included a second amnesty and the participants had been informed that no further amnesties would be offered. The findings of the first amnesty had a significant positive effect on tax compliance. However, the second amnesty did not significantly increase compliance in the post-amnesty period. These findings support the view that tax amnesties should not be conducted over short intervals, since individuals anticipate future tax amnesties thus causing non-compliance. Similarly Alm, McKee and Beck (1990, 34) found in an experiment conducted in the United States that the expectations of an amnesty reduce compliance.

Given the experience with tax amnesties both in the United States and abroad, the expectation is not unwarranted. In the international context, Italy has conducted more than a dozen tax amnesties. Ireland conducted five amnesties in a six-year period and Argentina has offered six amnesties over a forty-year period. The experience of the United States also indicates that once a tax amnesty has been offered there is a strong likelihood that the offer will be repeated. Economists have noted that the expectation of future amnesties may create an entirely unintended incentive structure. A tax evader may decide to forego participation in the first

amnesty offered if he believes that another amnesty will be available in the foreseeable future (US Congress, 1998: 33).

A study into the Turkish tax amnesty carried out by Saracoglu and Caskurlu (2011: 102) revealed that honest taxpayers see the tax amnesty as an award for tax delinquents which have caused damage to their tax compliance. The consideration of frequent tax amnesties in Turkey has concluded that tax amnesties complicate tax compliance. The frequency of tax amnesties makes it impossible to convince taxpayers that the tax amnesty is a one-time opportunity to become tax compliant as it has become part of the legislation. Routine tax amnesty executions effect honest taxpayers in a negative manner as the tax amnesty is considered as a privilege for tax offenders. The repetition of tax amnesties in Turkey had resulted in compliant taxpayers believing that they were disadvantaged because of their honesty which caused these groups of taxpayers not to fulfil their tax obligations (Saracoglu and Caskurlu, 2011: 103).

Christian, et al (2002: 719) examined the Michigan Tax Amnesty which ran from May 12 to June 30 1986, and concluded that while the amnesty was unsuccessful in keeping all of the new applicants in the system it appeared to have kept a sizeable number in the system after the amnesty. The downside of this amnesty results showed that the new participants who did not stay in the system made enforcement efforts aimed at non-compliance more difficult. The conclusions reached in previous research on the other aspects of tax amnesties showed that tax amnesties have had little positive impact on compliance or on revenue.

Baer and Le Borgne (2008: 24) examined the 2002 Kentucky tax amnesty program and found that it did not meet one of its two goals which were broadening the tax

base and improving future compliance. However, it did manage to raise revenue in the short term which provided the state some fiscal relief in its difficult economic environment and therefore helped the state by not increasing taxes and not cutting expenditure. The down side of this short term revenue gain was its cost as a large share of this revenue stemmed from identified tax evaders who would have eventually paid most of their tax liabilities thereby causing compliance to be negatively affected going forward. The Michigan tax amnesty had a similar result.

Comparing the outcomes of both the Kentucky tax amnesty and the Michigan tax amnesty revealed that both these amnesties were very similar to the outcome that South Africa had after the 2006 Small Business Tax Amnesty had ended.

2.10 PROBLEMS ASSOCIATED WITH TAX AMNESTIES

Tax amnesties are ideal from a revenue point of view because they are able to raise government revenue. However, honest taxpayers with moral values may feel disappointed by an amnesty offering thus reducing their welfare and political obligations (Marchese and Cassone, 1998: 12). Mattiello (2005: 5) supports this by explaining that after an amnesty has been offered, an honest taxpayer may feel a sense of injustice since the government forgives dishonest taxpayers that have been non compliant with the tax system. If most taxpayers voluntarily comply with tax laws, the option of an amnesty given to a small group of tax evaders can be understood by a majority of taxpayers as a violation of equity (Torgler, 2003: 3a). Thus, an honest taxpayer's willingness to remain tax compliant can become a condition that could damage its tax compliance which could result in its future reporting being undermined (Mattiello, 2005:5, Saracoglu and Caskurlu, 2011: 102).

According to a research conducted by Luitel and Sobel (2005: 2, 3), the results revealed that the effect of offering an amnesty repeatedly, is to change the revenue impact of the amnesty itself. When looking at the impact of a repeated tax amnesty on total tax revenue, a country's first amnesty results in a short-run increase in revenue. However it is accompanied by a long-run revenue loss, likely due to lower future compliance. These results suggest that multiple tax amnesties should be kept at a minimum and should only be used once.

Tax amnesties are therefore regarded as a controversial revenue issue of which particular concern is given to their long run impact on voluntary tax compliance. Critics contend that the long run consequences of an amnesty are more likely to lead to a significant negative impact on voluntary compliance. They present several arguments to substantiate their case. Firstly an honest taxpayer may perceive the amnesty as special treatment for tax cheats. If the honest taxpayers resent the tax breaks given to evaders and conclude that the amnesty is unfair to them, then their compliance may decline. Secondly, individuals may not believe that the amnesty is a one-time opportunity to repay taxes. If non-compliant individuals anticipate further amnesties, then compliance may decline again (Alm, McKee and Beck, 1990).

When governments decide to introduce a tax amnesty program several factors have to be considered prior before adopting the amnesty program. There are costs as well as benefits associated to the amnesty program and there are also policy-based concerns. One concern with an amnesty program is that it appears to excuse or overlook failure to file tax returns and failure to comply with the tax law. Taxpayers may therefore think that they can avoid paying their taxes and wait for the next amnesty. This underscores the voluntary nature of the tax system. The infrequent offering of amnesties would help alleviate the public from anticipating future

amnesties. This could reduce voluntary compliance (Joint Legislative Audit and Review Commission: 2002: 6).

Ross and Buckwalter (2010: 23) concludes that the exemption of tax offenders from participating in tax amnesties is a policy that stands out to a certain extent, because it unambiguously lowers revenue collections in conjunction with a program whose intention is to generally create a cash windfall. There are two groups of people that are impacted by such an exemption: the incidentally delinquent, who would have been delinquent regardless of the amnesty offer, and the strategically delinquent, who would use the tax amnesty as a short-term loan from the government.

Therefore, a tax amnesty has a complex effect on taxpayer's behaviour and also because of its frequent use by Governments throughout the world. On the whole, the evidence is clear that tax amnesties should be avoided. Amnesties guarantee immunity from punishment for non-compliant taxpayers. For an amnesty to be effective, a taxpayer must be certain that income declared during an amnesty does not lead to investigation of tax evasion in years not covered by the amnesty and does not make him liable for technical penalties for not maintaining accounts (Bird, 2004: 144).

2.11 SUMMARY

Since 1994, tax amnesties in South Africa have become a popular program which has always been introduced by government in an attempt to improve tax compliance and to generate revenue. Although many countries around the world have offered some form of tax amnesty, evidence about its positive effects are lacking to a large extent. A vast array of research has been conducted on the offering of one or more tax amnesties and the results have been constant throughout the world. Research

has found that compliant taxpayers are beginning to believe that tax amnesties are an award which is only offered to non complaint taxpayers. This can result in a serious problem as this belief can damage the voluntary compliance of honest taxpayer's. It is therefore imperative for governments to ensure that the introduction of a tax amnesty is not offered more than once.

Despite the appearance of success, the small business tax amnesty program offered in 2006 was a disappointing attempt employed by government to reform its tax policy. The general findings on the conclusion of the tax amnesty campaign revealed that although 22 per cent of the amnesty applications came from new taxpayers, this however, was still not sufficient as the authorities may have initially anticipated. Croome (2007: 42) found that majority of the applications were received from existing businesses seeking to regularise their tax affairs for previous offences committed. This outcome was therefore disappointing as compared to its objectives, since the main purpose of the amnesty was to draw in more citizens into the tax system.

It is therefore important that the South African government limits the offering of multiple tax amnesties and continues to focus its efforts to address the country's economic problems that may have led citizens to becoming non-compliant in the first place. Multiple tax amnesties are therefore considered less successful then a one-time amnesty as its potential to generate additional revenue in the long run is rather poor. It further creates an expectation for future amnesties to occur which has a negative effects on voluntary compliance (Alm, 1998: 7). Uchitelle (1989: 53) stated that a well-designed tax amnesty program, accompanied by structural and tax reforms, has the potential to lead to beneficial results in both developed and developing countries.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter presents the research methods and procedures used in this study. The research design, population, sample and sampling techniques, data collection and analysis are discussed. The instruments used to collect data and methods implemented to maintain validity and reliability of the instrument are described. The chapter further highlights the ethical considerations in the scope of the study.

3.1 RESEARCH DESIGN

The purpose of a research design is to provide a plan of study that permits accurate assessment of cause and effect relationships between multiple tax amnesties and compliance (Jang, 1980). A research design is a general plan of how the research investigation will be run and organised (Walsh and Wigen, 2003: 69). The research strategy is a broad plan of action of how one intends to go about answering research questions one has asked (Saunders, Lewis and Tornhill, 2000: 98).

Descriptive research was used to provide desirable outcomes on whether the offering of multiple tax amnesties would improve tax compliance. Descriptive research involves collecting and analysing data to characterise a group, concept, or phenomenon (Fitzpatrick and Wallace, 2012: 122). Chapter 2 explained that very little research has been carried out on multiple tax amnesties in South Africa, Fitzpatrick and Wallace (2012: 123) explain that descriptive research is often used when little research has been done in an area to clarify and define new concepts or phenomena, to increase understanding of a phenomenon from another experiential

perspective, or to obtain a fresh perspective on a well-researched topic. In this study a descriptive survey research design was used as it attempted to describe or document current conditions or attitudes in the area under study (Wimmer and Dominick, 2011: 185).

A survey or questionnaire is the main tool or instrument used to collect data in a descriptive survey research study (Lodico, Spaulding and Voegtle, 2010: 204). Survey research is a method for collecting and analysing social data *via* highly structured and often very detailed interviews or questionnaires in order to obtain information from large numbers of respondents presumed to be representative of a specific population (Wiseman and Aron, 1970: 37).

In this study a survey research design was adopted and a systematic inquiry was conducted to investigate whether the offering of multiple tax amnesties would affect tax compliance. Structured questionnaires were used to elicit responses from respondents that participated in this study.

The approach a researcher uses to conduct research is called research methodology (Kumar, 2005: 16 as cited by Pooran, 2011: 49).

3.2 RESEARCH METHODOLOGY

Research methodology is the integration of the various components of a study and its efforts to accomplish a defined, goal directed function with its goal being both to expand and confirm our knowledge and to make that knowledge relevant to the contemporary world (Ethridge, 2004: 5). This includes the procedure of collecting and analysing data and to find the conclusion or truth (Khanzode, 2004: 3). Research is not just a process of gathering information; rather it is about answering

unanswered questions or creating that which does not currently exist (Goddard and Melville, 2007: 1). There are two types of research approaches, namely, quantitative research and qualitative research. Deciding on which type of research to follow, depends on the purpose of the study and the type and availability of the information which is required (Naoum, 2007: 37). The proposed study sought to obtain a suitable research outcome by adopting a mixed method approach that applied both quantitative and qualitative research.

3.2.1 Mixed methods research

Creswell (2003: 76) explains that a mixed method study can employ either qualitative or the quantitative approach. Griffin and Museus (2011: 32) adds that a mixed method approach allows the researcher to obtain and analyse data in multiple ways to acquire a rich and complex understanding of how multiple tax amnesties will effect tax compliance.

According to Cormack (2000: 19) quantitative research is a formal, objective, systematic process for obtaining quantifiable information about the world; presented in numerical form, and analysed through the use of statistics; used to describe and to test relationships; used to examine the cause-and-effect of relationships. In quantitative research, the aim is to determine the relationship between an independent variable and a dependent variable in a population (Hopkins, 2000). The quantitative approach is used when one begins with a theory or hypothesis and tests for confirmation or disconfirmation of that hypothesis (Newman and Benz, 1998:3). Quantitative experiments all use a standard format, with a few minor interdisciplinary differences of generating a hypothesis to be proved or disproved. This

hypothesis must be provable by mathematical and statistical means, and is the basis around which the whole experiment is designed (Shuttleworth, 2008).

A common way of conducting quantitative research is using a survey which usually involves filling in a questionnaire (Finlay, 2012:3). The time to use surveys is when you cannot observe directly what you want to study (Balnave and Caputi, 2001:75). Surveys are useful as the information you get is standardised because each respondent is answering the exact same questions (Finlay, 2012:3), therefore in this study a descriptive survey research design was used.

Qualitative research is a form of social inquiry that focuses on the way people interpret and make sense of their experiences and the world in which they live (Holloway, 1997: 1). The qualitative, naturalistic approach is used when observing and interpreting reality with the aim of developing a theory that will explain what was experienced (Newman and Benz, 1998:3) by measuring the proportion of a population who thinks or behaves in a particular way (Keegan, 2009: 11).

Qualitative research is often regarded as a precursor to quantitative research as it is often used to generate possible leads and ideas which can be used to formulate a realistic and testable hypothesis. This hypothesis can then be comprehensively tested and mathematically analysed, with standard quantitative research methods (Shuttleworth, 2008). Qualitative research therefore explores the questions such as what, why and how, rather than how many or how much, it is primarily concerned with meaning rather than measuring (Keegan, 2009: 11).

In many qualitative studies, researchers collect multiple forms of data and spend considerable time in the natural setting gathering information (Creswell, 2003: 185), for these reasons qualitative data may be gathered from field notes, public

documents and journals. All of these methods and data gathering practices are supported by existing literature (Hahn, 2008: 2). At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret a phenomena in terms of the meanings people bring to them (Denzin and Lincoln, 2005: 3).

In this study, quantitative research was conducted by means of administering questionnaires to taxpayers while qualitative research on the other hand was derived from the findings stated in published documents and literatures related to the research problem, these will be discussed later in this chapter. The researcher considered that the most suitable design in this study to be non-experimental, univariate and a descriptive survey design. This study adopted the mixed method approach so as to overcome the limitations of both approaches.

3.3 THE TARGET POPULATION

Groves, Fowler, Couper, Lepkowski, Singer and Tourangeau (2009: 69) explain that the target population is a group of elements for which the researcher wants to make inferences by using the sample statistics. To generalise the results from a single research study, you would have to identify a target group of individuals, settings, times, outcomes and treatment variations and then randomly select from these populations so that you have a sample representative of these populations (Johnson and Christensen, 2012: 257).

The researcher chose to carry out his investigation using a data base of taxpayers from an audit and advisory firm which is situated in the Durban region and is familiar with the practices and policies of the South African Revenue Service as it deals and

liaises with SARS on a daily basis on behalf of their clientele. Due to the sensitive nature of this study and for the protection of the firm and its clients, the firm chose to remain anonymous as it would have been an infringement on the firm's policy and their clients' personal information. The database contained information about taxpayers that applied for amnesty and taxpayers that did not apply for amnesty.

During the period of the small business tax amnesty in 2006 the firm rendered its professional services by assisting clients that wanted to apply for amnesty to SARS. These applicants included both individual taxpayers and small businesses as the amnesty provided for a waiver of past taxes due and forgiveness for past non-compliance in exchange for a commitment to remain compliant in future (Jones, 2007). The target population numbered 234 clients made up of both individual and small business corporations with a turnover of less than R 10 million. After determining the population, the researcher proceeded to select a sampling method to draw the sample (Pooran, 2011: 52).

3.4 SAMPLING

It is impossible to obtain a complete enumeration of the population for reasons such as the large size of many populations, inaccessibility of some of the population and accuracy and sampling, this is the reason why researchers rely on sampling techniques (Castillo, 2009a). Sampling is the process of directly observing only a portion or sample of the population (Mugo, 2011) or selecting a sufficient number of the right elements from the population, so that a study of the sample and an understanding of its properties or characteristics make it possible for the researcher to generalise such properties or characteristics to the population elements (Sekaran and Bougie, 2009: 266).

Creswell (2003: 156); Goddard and Melville (2007: 36); and Lane (2012) recommend selecting a random sample in which each individual in the population has an equal probability of being selected using a systematic or probabilistic sample. A random sample selection is the basic principle used to try to avoid bias in a sample and must ensure that each member of the population has as much chance as any other of being included in it.

3.4.1 Sampling frame

The researcher compiled a list of the 234 elements in the population from which the sample was selected; this is known as the sampling frame (Marlow, 2010: 140). Due to the constant additions and parting of clients at the firm, the researcher used an updated client portfolio at the time of the research which according to the firm's data base were categorised into individuals and small business corporations.

In determining the sample size, the researcher consulted the sampling table by Sekaran (2003: 294) which provided generalised scientific guidelines for sample size decisions. According to the table, for a population size of 234, the appropriate sample size is 146. Thus, for a sample to generate a 95% confidence interval with a 5% margin of error, responses were needed from a random sample of 146 taxpayers that both applied and did not apply for amnesty. In total, a sample of 146 taxpayers was randomly selected from the total portfolio of 234 taxpayers. This technique is called a systematic sampling selection technique.

The widely used method of systematic sampling provides a means of substantially reducing the effort required for sample selection (Kalton, 1983: 16). Babbie (2010, 211) explains that systematic sampling is easy to apply, where every *kth* element in the total list of taxpayers is chosen systematically for inclusion in the sample. For the

purpose of this study, the researcher used a client list and constructed a table numbering everyone and arranging them in alphabetical order.

According to Altares, *et al.* (2005: 12) a sampling ratio may be applied to calculate the sample from the population using the formula:

$$k = N/n,$$

Where N is the population size and n is the sample size

The systematic random sampling consists of choosing a sample by randomly selecting the first element and then every *kth* element thereafter (Stephens, 2006: 13). In order to obtain the systematic sample of 146 of the 234 clients, the researcher required an integer which would serve as the constant difference between any two consecutive numbers in the progression (Castillo, 2009). The researcher then divided 234 by 146 to obtain 1, 60, which was rounded down to 2. This sampling fraction of 2 was then used as the constant difference between subjects to achieve the sample number of 146 taxpayers (Castillo, 2009b).

3.5 DATA COLLECTION INSTRUMENTS

3.5.1 Primary and Secondary Sources

The researcher used both primary and secondary techniques in gathering data. Secondary data was collected and analysed from information gathered from the web, reference books, scholarly journals, media and newspapers while primary data was collected by a questionnaire survey which was administered to taxpayers that applied apply for amnesty and taxpayers that did not apply for amnesty.

3.5.2 Collecting primary data through questionnaires

A questionnaire is a set of systematically structured questions used by a researcher to get required information from respondents (Ong'anya and Ododa, 2009). It is a method of getting data about respondents by asking them rather than by observing and sampling their behaviour (Khan, 2008: 99). Questionnaires are written instruments that present respondents with a series of questions or statements to which they are able to complete by either writing out their answers or selecting from a list of pre-populated answers (Brown, 2001: 6). If the questions ask for information about the individual respondents, they are called self-administered questionnaires. Information obtained in a self-administered questionnaire includes biographical information, attitudes, opinions and knowledge (Schwab, 2005: 38).

3.5.3 Administration of the questionnaires

The questionnaires were emailed to the 146 taxpayers which they could complete in the privacy of their home or office. The participants either emailed the completed questionnaires back to the researcher or dropped off the questionnaires at the firm's office in a secure box provided by the researcher.

A Covering Letter (**Appendix A**) and Letter of Informed Consent (**Appendix B**) were attached to the questionnaire informing participants of the aim of the research study and assuring them of their anonymity, confidentiality and non-traceability. Participants were required to complete and sign the Letter of Informed Consent. They were assured that any information that could identify them would be removed before sending the questionnaires for analysis and that only the researcher and his research supervisor would have access to their information. Information identifying respondents were stored in a secure box away from the firm.

3.5.4 Layout of the questionnaire

The appearance of the questionnaire is vitally important. It must look easy, attractive and interesting rather than complicated, unclear, forbidding and boring (Cohen, Manion and Morrison, 2007: 338). As stated by Rubin and Babbie (2001: 385), the covering letter is usually what prospective respondents read first, so it was constructed in a way that would motivate them to respond and alleviate any resistance they may have had about participating in the survey. The researcher followed Kumar's (2005, 129) suggestions that the covering letter of the questionnaire should briefly cover the following points which the researcher used in the construction of his questionnaire, namely:

- introduce you and the institution you are representing;
- describe the main objectives of the study;
- explain the relevance of the study;
- give clear instructions on what needs to be done;
- Indicate that participation in the study is voluntary, if respondents do not want to respond to the questionnaire they have a right not to;
- assure respondents of the anonymity of the information provided by them;
- provide a return address and an email to return the completed questionnaire;
and
- thank the respondents for their participation in the study.

3.5.5 Questionnaire design

Panneerselvam (2004: 24) states that the format of a questionnaire can be one of three types, namely open-ended questions, closed questions and structured questions. With open-ended questions, respondents are free to devise their own

unique answers to the questions posed (Ruane, 2005: 131). In this study, closed questions were used where possible answers were set out in the questionnaire for the respondents' to tick the category that best describes their answer. As advised by Kumar (2005: 132), categories that contained 'other or please explain' were provided to accommodate any response.

In this study, the questionnaire comprised the following three sections:

Section A: Biographical details of the respondents - in this section respondents' had to answer closed questions regarding their age, gender, occupation and income bracket they fell under.

Section B: Tax compliance - this section comprised of both open-ended and closed questions which gathered information from respondents about their personal conduct in terms of compliance and their perceptions of tax compliance in South Africa.

Section C: Tax amnesty - this section also contained both open-ended and closed questions and questioned respondents whether or not they applied for the small business tax amnesty or the voluntary disclosure program offered in South Africa and their opinion on whether government should continue offering tax amnesties.

Towards the end of the questionnaire an opportunity using an open-ended question for respondents to add any further comments that they believe are relevant (Smith, 2010: 128) was provided.

3.5.5.1 Closed questions

Panneerselvan (2004: 24) explains that closed questions are structured questions that have two formats, namely: questions with multiple responses out of which the respondents have to select one or more choices; and questions with a rating scale

with discrete responses or continuous range. In this study, closed questions were used in all sections of the questionnaires which focused on biographical details, tax compliance and tax amnesty.

3.5.5.2 Open-ended questions

Open-ended questions are sometimes more difficult for respondents to complete as the questions requires more effort from respondents to complete and to provide an answer. Therefore, open-ended questions do not always have a high response rate compared to closed-ended questions (Ruane, 2005: 132). However, opened-ended questions may also result in respondents providing unconventional answers which are not always understood by the researcher (Panneerselvan, 2004: 24).

The researcher used open-ended questions mainly in Sections B and C, to get respondents to substantiate their answers or opinions regarding the implementation of multiple tax amnesties.

3.6 THE PILOT STUDY

The aim of a pilot study is to identify potential problems in the data collection and to show that the study design is both appropriate and feasible. Pilot studies often provide important insights into the problem being investigated and may lead to reconceptualization of the problem or refinement of the research questions (Fitzpatrick and Wallace, 2012: 408).

For the purpose of this study, a pilot study was conducted with randomly selected taxpayers to test whether the questionnaire required any adjustments, corrections or refinements before they were administered to the respondents. A sample of five participants who met the selection criteria were randomly selected at the firm. These

participants were all registered taxpayers. The pilot study revealed that: four of the questions were incorrectly numbered and two were ambiguous, three of the participants did not understand the terms used in the questions as they were accounting terms which were not easily understood as these participants had a non-accounting background. The researcher then attended to all corrections by correcting the numbering on the questionnaire, simplifying the unclear questions by using everyday or lay terms and simplifying the difficult accounting terms to enable understanding.

3.7 DATA ANALYSIS AND INTERPRETATION

All research involves some form of data analysis, which derives some meaning from the observation made during a research study (Monette, Sullivan and Dejong, 2007: 364). To develop the research plan, processing and analysing of data is necessary, it covers all technical matters related to the research study (Khanzode, 2004: 83).

According to Creswell and Clark (2010: 203) data analysis in mixed methods research is the process of separately analysing the quantitative data using quantitative methods and the qualitative data using qualitative methods. They state further that it also involves analysing both sets of data using techniques that 'mix' quantitative and qualitative data which results in a mixed method analysis.

The analysis of quantitative data usually entails the use of statistics, which are procedures for assembling, classifying, tabulating and summarising numerical data to obtain some meaning or information (Monette, Sullivan and Dejong, 2007: 364). For qualitative data analysis, preparing the data means organising the document or visual data for review or transcribing text from interviews and observations into word processing files for analysis (Creswell and Clark, 2010: 206).

3.7.1. Statistical analysis

Research work cannot be completed without using a statistical approach where various measures such as Dispersion, Variance, Square root, Standard deviation and Range are used (Khanzode, 2004: 86). The data collected from this study were analysed using Version 20.0 of the Statistical Package for Social Scientists (SPSS).

3.8 RELIABILITY AND VALIDITY

3.8.1 Reliability

According to Goddard and Melville (2007:47), an instrument is reliable if it consistently gives the same results, however this does not make the answer valid. The questionnaires which were administered and answered by the participants revealed consistency in their responses. Reliability was also ensured by minimising the sources of measurement error namely data collection bias. The researcher minimised data collection bias by being the only one to administer the questionnaires and standardising the conditions so that all participants were treated equally throughout the study. The environment where data were collected was made comfortable by allowing the participants to complete the questionnaires in the comfort of their home or office and ensuring privacy and confidentiality to all participants. The participants were requested not to write their names on the questionnaire to maintain confidentiality.

3.8.2 Validity

Kumar (2002: 63) explains the three approaches that are used to test validity, namely: criterion-related validity, construct validity and content validity. Criterion-related validity measures whether an instrument accurately predicts or diagnoses

some particular variable. Construct validity measures something that is known to be closely related to the thing you want to measure, compare the results obtained by the new instrument with that of the old and check that there is a high correlation. Lastly, content validity is used if no related instruments exist; expert opinions are gathered on a question to determine whether or not it actually tests what it supposed to. As in the case of reliability there are a good number of procedures for establishing the validity of tests, such as validating the present data against the concurrent criterion or a future criterion or a theory. Any measuring instrument is considered to be valid when it measures what it proposes to measure. Establishing construct validity are prerequisites for achieving results that can be viewed with confidence (Ketchen and Bergh, 2006: 399).

Before the questionnaires were administered to the participants they were pilot tested to ensure that the questions were simple to understand and unambiguous. Questions were based on information gathered during the literature review to ensure that they represented the investigation into multiple tax amnesties and compliance. Construct validity was maintained by ensuring consistency in the administration of the questionnaires. All questionnaires were administered by email or hand delivered to all the research participants personally. The questions were constructed in simple language which participants were able to understand and the questionnaire omitted accounting terms which the participants were not familiar with. The instructions on the questionnaires were clearly given to the respondents and the respondents also had the option to contact the researcher to clarify any instructions or questions if they had trouble understanding. The researcher made certain that all the participants that were approached to participate in this study did so willingly and the researcher also ensured that they completed the questionnaires.

3.9 ETHICAL CONSIDERATIONS

When conducting research, a researcher's ultimate research endeavours are to abide by standards of professionalism and honesty, a researcher efforts must strive to earn the respect and trust of both research participants and the public at large (Rauane, 2005: 16).

The principle of voluntary participation requires that people not be coerced into participating in research (Research Methods Knowledge Base, 2006), therefore a major principle of research ethics is that participation must be voluntary and no one should be forced to participate. As advised by Rubin and Babbie, (2009: 257), all participants were informed of all the outcomes and consequences of the study before signing the Letter of Informed Consent. In accordance with Heffernan (2005: 109), they were also made aware that they had the right to withdraw from the study at any time, if they decided that they did not wish their data to be used in the report after being debriefed.

Participants have the right to withdraw from the study at any time, if they decide that they do not wish their data to be used in the report after being debriefed (Heffernan, 2005: 109). The right to anonymity and confidentiality (Heffernan, 2005: 109) are the two standards that are applied in order protect the privacy of research participants. The researcher assured the participants of confidentiality so that they understood that identifying information would not be made available to anyone except himself and his research supervisor. As stated by Research Methods Knowledge Base (2006), the stricter standard is the principle of anonymity which essentially means that the participant will remain anonymous throughout the study, even to the researcher himself.

As explained by de Jager (2011: 82), the information that was gained from the participants was used for the sole purpose of this study. Ethical clearance was obtained from the Faculty of Accounting and Informatics Research Committee. Permission to conduct the research with the participants was obtained from the audit and advisory firm which could not be disclosed due to the firm's privacy policy and protection of client's information. No interviews were conducted with the participants due to the sensitivity of this study.

3.10 SUMMARY

This study employed a mixed method, descriptive survey design. Questionnaires were administered by the researcher to collect the data from the sample of 146 taxpayers. The questionnaire contained both closed and open-ended questions. The sample included taxpayers that applied for amnesty and taxpayers that did not apply for amnesty and who were willing to participate in the study. Privacy and confidentiality were maintained during the administration of the questionnaires and report writing. Questionnaires were administered to the participants to ensure validity. Reliability and validity were further maintained by pilot testing the questionnaire before it was administered.

This chapter discussed the research methodology of the study and described the research design, target population, sample, data analysis and interpretation, reliability and validity and ethical consideration. A descriptive analysis of data from the questionnaire is presented in Chapter 4.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

4.0 INTRODUCTION

The research methodology described in the previous chapter provided the framework for data gathering. In this chapter, the presentation of data is systematically linked to the format of the questionnaire and focuses on the analysis and interpretation thereof. Further, the biographical data of the sample is described in detail, followed by the analyses undertaken to find answers to the research questions. The analysis and the discussions are presented and explored in terms of the research objectives.

The data collected from the responses were analysed using SPSS version 20.0. The findings are presented in the form of graphs, cross tabulations and other figures. When working with data, the two most important aspects of precision are reliability and validity.

4.1 RELIABILITY AND VALIDITY

4.1.1 Reliability

Reliability is computed by taking several measurements on the same subjects; a reliability coefficient of 0.70 or higher is considered as acceptable (UCLA: Academic Technology Services, 2012).

All of the ordinal sections that constituted this study had reliability values greater than the suggested value (of 0.7), except for questions 11 and 12, which were slightly less than the acceptable value. This is expected as the results are from a

newly developed construct that would need further rigour. The acceptable scores indicate a high level of consistent responses. The results are presented below for each of the sections that comprised ordinal data.

Question 11

Cronbach's Alpha	N of Items
.589	2

Question 12

Cronbach's Alpha	N of Items
.623	4

Question 13

Cronbach's Alpha	N of Items
.724	2

Questions 18 - 29

Cronbach's Alpha	N of Items
.869	12

According to Mitchell and Jolley (2012: 406), nominal data cannot be used to compute meaningful results because the scores relate to categories rather than amounts. The data contained in questions 1 to 10 are nominal data and can therefore not be tested for reliability.

4.1.2 Validity

Validity is a measure in research which concerns the relationship between a concept and an indicator (Carmines and Zeller, 1979: 12). Validity tells the researcher if the study actually measures what it intended to measure and not something else (Goodwin, 2009: 134). Validity is therefore a very important and useful concept in all

forms of research as its primary purpose is to increase the accuracy and usefulness of findings which allows for greater confidence in the finding of a given study (Marczyk, DeMatteo and Festinger, 2005: 158). The questionnaires were thus carefully constructed to elicit the required information from the participants. Also, the constructs of the tax amnesty was explained to the participants although it is a universally accepted frame.

4.2 QUESTIONNAIRE RESPONSE RATE

Questionnaires were distributed by email to 200 respondents from an Audit firm database containing information about taxpayers that applied for amnesty and taxpayers that did not apply for amnesty between 1 August 2006 and 30 June 2007. The participants returned the completed questionnaires to the researcher *via* email or dropped off the questionnaires at the firm's office into a secure box provided by the researcher. 153 of the respondents completed and returned their questionnaires on or before the due date. A small percentage (2.73%) of respondents that were out of Durban were not able to return their questionnaires by the due date so the researcher allowed them an extension of time. On their return, some of the respondents returned their questionnaires a few days after the deadline. A total of 157 questionnaires were thus received and 146 were deemed complete and usable.

4.3 PRESENTATION OF FINDINGS

The findings are discussed according to the sections of the questionnaire and with reference to the literature review. The three sections of the questionnaire were:

- Section A: Biographical details of the respondents
- Section B: Tax compliance
- Section C: Tax Amnesty

4.4 SECTION A: BIOGRAPHICAL DATA

This section presents the descriptive statistics based on the biographical information of the study. Descriptive statistics is the branch of statistics that includes methods for organising and summarising data (Peck, Olsen and Devore, 2011: 7). The biographical issues explored in this study were: age; gender; industry; occupation description; and income of the participants. Table 1 below indicates the age of the respondents by gender.

Table 1: Age and gender distribution

			Gender		Total
			Male	Female	
Age Group	< 20	Count	0	1	1
		% of Total	0.0%	0.7%	0.7%
	20 -29	Count	12	24	36
		% of Total	8.2%	16.4%	24.7%
	30 - 39	Count	21	37	58
		% of Total	14.4%	25.3%	39.7%
	40 - 49	Count	15	12	27
		% of Total	10.3%	8.2%	18.5%
	50 - 59	Count	9	11	20
		% of Total	6.2%	7.5%	13.7%
	60+	Count	3	1	4
		% of Total	2.1%	0.7%	2.7%
Total		Count	60	86	146
		% of Total	41.1%	58.9%	100.0%

Table 1 shows that the majority of the participants in this study were female. The sample in this study consisted of males to females in the ratio of 2:3 (41.1%: 58.9%). As the ratio clearly shows, there is an imbalance between male and female respondents in this study. However, although the female gender in this research was by far the majority, this did not influence any of the parameters examined in the study. Due to the increase of the female population in the workforce and in business,

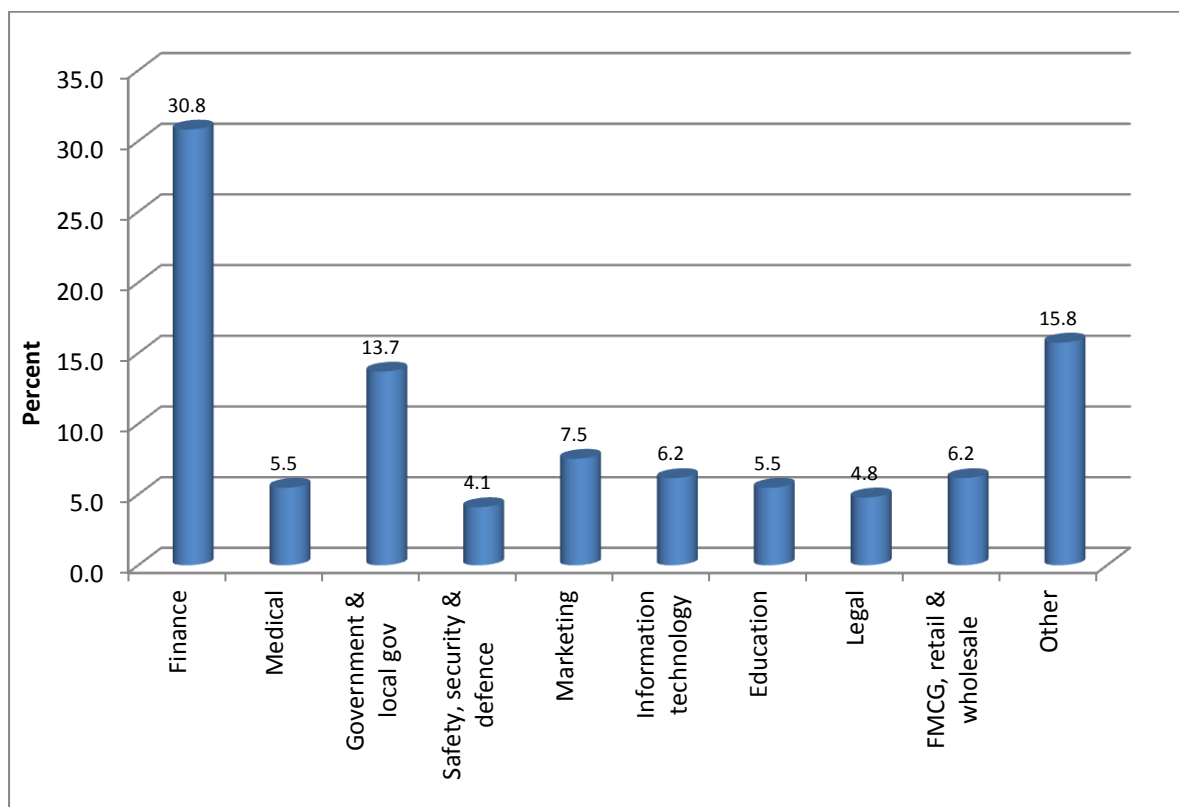
more women seek the use of audit firms to manage their financial affairs professionally. As a result, the database used in this study consisted of more females who fell within the qualification category and who met the criteria to apply for amnesty. This is in contrast to the 2012 Quarterly Labour Force Survey which shows that the percentage of females employed in South Africa is 34.7% compared to males at 47.3% (Statistics South Africa, 2012:2b). The South African Board for People Practices (SABPP), however states that South Africa has seen a dramatic increase in women entering the labour market since 1994 (Bosch, 2011: 21).

Reasons for the high proportion of females in this study could also be related to the fact that women now have more access to employment than ever before (United Nations Development Programme, 2012) and that employment of women in the South African workforce has increased more rapidly than that of men (Oosthizen and Bhorat, 2004: 4). Bosch (2011: 22) adds that the slower employment growth in the workforce amongst males aided the influx of women into the labour force. He states further that this has resulted in employment absorption being almost twice as high amongst women reflecting the increased feminisation of the South African workforce.

The largest groupings were females between the ages of 30 and 39 years (25.3%). This was relevant to the findings as a report published by The Economist (2010: 50), stated that the expansion of higher education amongst women has also boosted job prospects, improving their value on the job market and shifting their roles from stay-at-home mothers to successful professional women. It can be suggested that most of the respondents in this age category are much more experienced and settled in their careers and are either employed in industry as salaried employees or involved in running their own businesses. This could suggest that most individuals in this age category are more settled in their careers. There is also a correlation with the

national results which show that 84.9% of the country's population are employed in an industry (Statistics South Africa, 2012: 24a). However, these patterns are gradually changing as more people are beginning to start their own businesses as a result of the high rate of unemployment (Statistics South Africa, 2005: 19c). Figure 1 below indicates the industries in which the respondents work.

Figure 1: Industry category



The majority of respondents (30.1%) were employed in the financial sector. According to the Adcorp Employment Index (2012), employment in the financial sector stands at over 1.6 million in South Africa. This makes finance (18.3%) the second largest sector next to the community, social and personal services sectors (30.3%) which stands at nearly 2.7 million. The findings of this study however, are contrary to the national figures. The finance sector in this study comprised a little less than a third (30.8%) of the total sample of respondents, this caused the sample

to shift towards the finance sector. The only reason that could be suggested for this pattern is that the majority of respondents were from the finance sector as this sector, more than any other is likely to use the services of auditing firms.

The occupational status of the respondents is given in Table 2 below. The majority of the respondents (86.3%) worked as employees in an industry. This indicates that these respondents earned an income in the form of a monthly salary while 9.6% of the respondents who were self-employed earned an income from conducting their own business.

Table 2: Cross tabulation table of occupations and industries

			Which of the following best describes your occupation?				Total
			Self employed	Employee	Unemployed	Retired	
In terms of your current occupation, how would you characterise the industry you work in?	Finance	Count	1	44	0	0	45
		% of Total	0.7%	30.1%	0.0%	0.0%	30.8%
	Medical	Count	1	7	0	0	8
		% of Total	0.7%	4.8%	0.0%	0.0%	5.5%
	Government & local government	Count	2	17	0	1	20
		% of Total	1.4%	11.6%	0.0%	0.7%	13.7%
	Safety, security & defence	Count	0	5	1	0	6
		% of Total	0.0%	3.4%	0.7%	0.0%	4.1%
	Marketing	Count	2	8	1	0	11
		% of Total	1.4%	5.5%	0.7%	0.0%	7.5%
	Information technology	Count	0	9	0	0	9
		% of Total	0.0%	6.2%	0.0%	0.0%	6.2%
	Education	Count	1	7	0	0	8
		% of Total	0.7%	4.8%	0.0%	0.0%	5.5%
	Legal	Count	2	5	0	0	7
		% of Total	1.4%	3.4%	0.0%	0.0%	4.8%
	FMCG, retail & wholesale	Count	1	7	1	0	9
		% of Total	0.7%	4.8%	0.7%	0.0%	6.2%
	Other	Count	4	17	0	2	23
		% of Total	2.7%	11.6%	0.0%	1.4%	15.8%
Total		Count	14	126	3	3	146
		% of Total	9.6%	86.3%	2.1%	2.1%	100.0%

Table 3 below is a summary of the respondents' income scales by gender and age.

Table 3: Distribution of income, gender and age

Gender				Age Group						Total
				< 20	20 -29	30 - 39	40 - 49	50 - 59	60+	
Male	What income bracket do you fall under? (in R000's)	< R60	Count		3	1	0	0	1	5
			% of Total		5.0%	1.7%	0.0%	0.0%	1.7%	8.3%
		150 - 235	Count		7	9	8	5	0	29
			% of Total		11.7%	15.0%	13.3%	8.3%	0.0%	48.3%
		235 - 325	Count		2	11	3	2	1	19
			% of Total		3.3%	18.3%	5.0%	3.3%	1.7%	31.7%
		325 - 455	Count		0	0	4	1	1	6
			% of Total		0.0%	0.0%	6.7%	1.7%	1.7%	10.0%
		455 - 580	Count		0	0	0	1	0	1
			% of Total		0.0%	0.0%	0.0%	1.7%	0.0%	1.7%
	Total	Count		12	21	15	9	3	60	
		% of Total		20.0%	35.0%	25.0%	15.0%	5.0%	100.0%	
Female	What income bracket do you fall under? (in R000's)	< R60	Count	1	3	4	0	1	0	9
			% of Total	1.2%	3.5%	4.7%	0.0%	1.2%	0.0%	10.5%
		150 - 235	Count	0	17	19	8	7	0	51
			% of Total	0.0%	19.8%	22.1%	9.3%	8.1%	0.0%	59.3%
		235 - 325	Count	0	4	12	3	3	0	22
			% of Total	0.0%	4.7%	14.0%	3.5%	3.5%	0.0%	25.6%
		325 - 455	Count	0	0	2	0	0	0	2
			% of Total	0.0%	0.0%	2.3%	0.0%	0.0%	0.0%	2.3%
		455 - 580	Count	0	0	0	1	0	0	1
			% of Total	0.0%	0.0%	0.0%	1.2%	0.0%	0.0%	1.2%
		580 >	Count	0	0	0	0	0	1	1
			% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	1.2%
	Total	Count	1	24	37	12	11	1	86	
		% of Total	1.2%	27.9%	43.0%	14.0%	12.8%	1.2%	100.0%	
Total	What income bracket do you fall under? (in R000's)	< R60	Count	1	6	5	0	1	1	14
			% of Total	0.7%	4.1%	3.4%	0.0%	0.7%	0.7%	9.6%
		150 - 235	Count	0	24	28	16	12	0	80
			% of Total	0.0%	16.4%	19.2%	11.0%	8.2%	0.0%	54.8%
		235 - 325	Count	0	6	23	6	5	1	41
			% of Total	0.0%	4.1%	15.8%	4.1%	3.4%	0.7%	28.1%
		325 - 455	Count	0	0	2	4	1	1	8
			% of Total	0.0%	0.0%	1.4%	2.7%	0.7%	0.7%	5.5%
		455 - 580	Count	0	0	0	1	1	0	2
			% of Total	0.0%	0.0%	0.0%	0.7%	0.7%	0.0%	1.4%
		580 >	Count	0	0	0	0	0	1	1
			% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.7%
	Total	Count	1	36	58	27	20	4	146	
		% of Total	0.7%	24.7%	39.7%	18.5%	13.7%	2.7%	100.0%	

Analysis of the data revealed that 54.8% of the respondents earned between R150 000 and R235 000 per annum. According to Statistics South Africa (2012: 4a), the average monthly income earned by employees in the formal non-agricultural sector at the end of February 2012 was R 13,080. This indicates that the median income earned by respondents in this category was well over the average monthly income. These results also indicate that respondents earned above the South African tax threshold which is R 59,750 and were therefore compelled by law to contribute their share of taxes to SARS.

The largest group of respondents that fell within the R 235,000 to R 325,000 income category were males between the ages of 30-39. Female respondents within the 30-39 year age bracket fell between the R 150,000 to R 235,000 income category. In the R 60,000 income category, females' earnings were much higher when compared to males. These patterns suggest that the earning of females on the whole is much lower than the earnings of males and correlates with the findings released by the Institute for Women's Policy Research (IWPR, 2012) which show that the gender wage gap between men and women is a common feature and that women have lower median earnings than men in nearly all common occupations. Another study conducted by The World Bank (2011: 198b) in relation to gender differences in labour market participation also confirms that males earn higher salaries than females whether as employees or entrepreneurs, this was prevalent in both underdeveloped and rich countries.

4.5 SECTION B: TAX COMPLIANCE

Tax compliance can be described as the degree to which taxpayers meet their legal obligations by declaring their income to the authorities and paying their taxes

voluntarily and honestly (Alabede, Ariffin and Idris, 2011: 123). Fortunately in South Africa, the vast majority of taxpayers are law abiding and share a sense of responsibility to actively participate in building the country by making their fair tax contribution to the economy (SARS, 2012: 4e). The following sections investigated the issues related to tax compliance.

4.5.1 Registration as a taxpayer

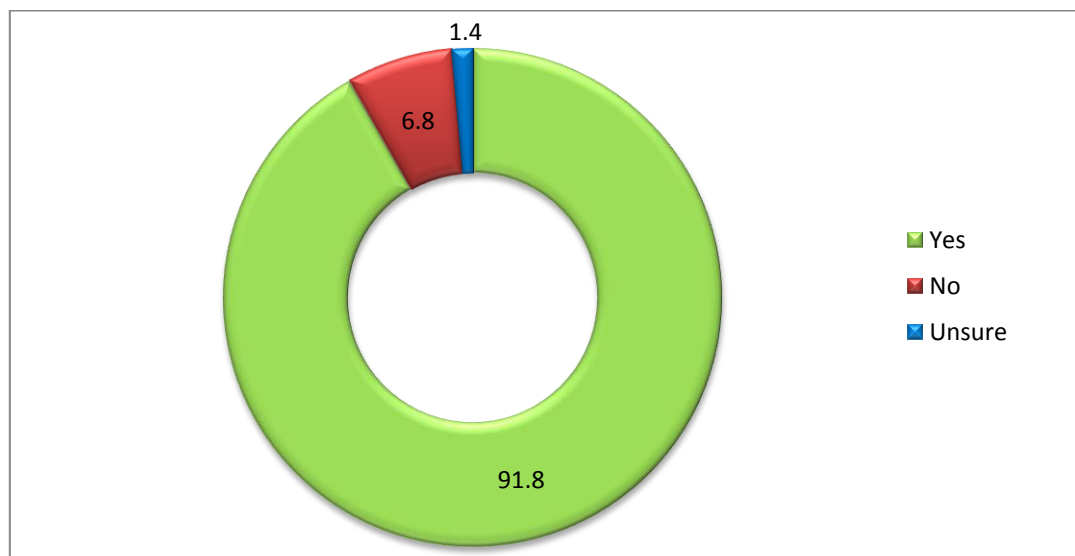
The primary objective of SARS (2012a) is to reduce the tax gap by growing the number of taxpayers on the tax register. This level of growth is influenced by economic conditions, tax policy, legislative amendments, tax-base broadening activities and the overall compliance climate. The tax register comprises of individuals, companies, Pay as You Earn (PAYE) and Value Added Tax (VAT).

Section 67 (Republic of South Africa, 2009: 340) of the Income Tax Act states that every person who becomes liable for normal tax or who becomes liable to submit a tax return must apply to the Commissioner to register as a taxpayer. The Act further states that any person, whose income is derived solely from net remuneration which is only subject to Standard Income Tax on Employees (SITE), is not required to register as a taxpayer. The principle aim of SITE is to remove taxpayers who earned below the threshold of R 60,000 from the assessment process (Haupt, 2012: 679). This means that taxpayers that earn a net remuneration that does not exceed the SITE limit are not required to submit a tax return (Haupt, 2012: 256).

According to the South African Institute of Race Relations (2011), the total number of registered individual taxpayers in South Africa has grown from 3.4 million in 2002/03 to 5.9 million in 2009/10, an increase of 73%. The data obtained from the respondents were positive and correlated with these findings as nearly 92% of the

respondents indicated that they were registered taxpayers. This is relevant to the study as the perceptions of taxpaying respondents were considered. The results are presented in Figure 4 overleaf.

Figure 2: Registered for income tax



Respondents that were not registered as taxpayers were either unemployed, retired or near retirement age. However, the majority of the respondents that were not registered as taxpayers were between the ages of 20 to 29 and received an annual income of between R 60,000 to R 235,000. These results could suggest that some of the respondents in this category were either below the tax threshold or had just reached the tax threshold and therefore had not been registered. Also, 2.72% of the respondents stated that they did not think that being tax compliant was an advantage in South Africa, this could have been one of the main reasons for not being registered for income tax.

The data from this study indicates that occupation type plays a key role in determining whether individuals register as taxpayers. This is evident from the chi square test results which indicate that a significant relationship exists between being

a registered taxpayer and occupation ($p < 0.001$). The majority of the respondents that were registered taxpayers came from the following industries: finance (29.45%); government (19.18%); other (logistic, mechanical engineering, leisure and hospitality, manufacturing, petroleum, agriculture, health and fitness, real estate and construction) (13.70%); fast moving consumer goods (FMCG) (6.85%); and legal (6.16%).

4.5.2 Tax return compliance

SARS (2012a) issues income tax returns to registered taxpayers on an annual basis. The year of assessment for individuals covers a 12 month period which begins on 1 March and ends on the final day of February the following year. Companies are permitted to have a tax year ending on a date that coincides with their financial year. The Act also provides for certain classes of taxpayers to have a year of assessment ending on a day other than the last day of February. Tax returns are therefore required to be submitted on the due date stipulated by the Commissioner. Section 69(3) of the Income Tax Act (Republic of South Africa, 2009: 342) states that every person to whom a tax return or a written request for information is required by the Commissioner, must complete the return or comply with the written request for information in accordance with the requirements of the Commissioner and return it.

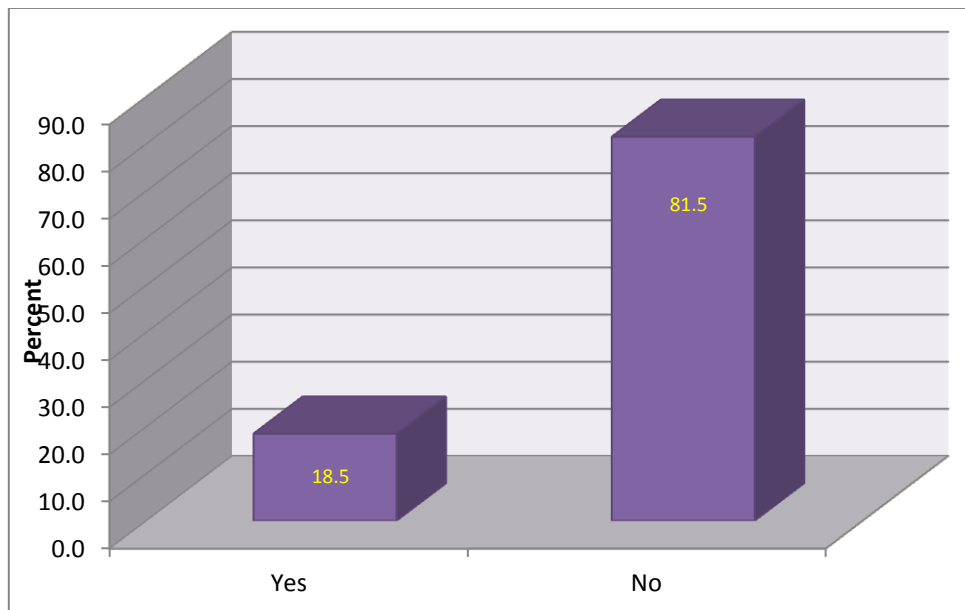
Figure 5 (overleaf) indicates that approximately 82% of the respondents had not defaulted on their tax returns. The majority (75.63%) of these respondents believed it was their personal integrity to be honest and remain tax compliant, while 57.14% feared being audited by the authorities if they were dishonest. These results suggest that most people do not default on their tax commitments as they are bound by their integrity and by the law. The pattern of these results are significant and in line with

Minister of finance, Pravin Gordhan's announcement made in his Medium Term Budget Policy Speech in October 2012 where he pointed out that the growth in tax revenue is a result of steady improvements in tax compliance by taxpayers (Republic of South Africa, 2012:13c).

Although 74.66% of the respondents believed that being tax compliant was an advantage in South Africa, 14.38% of respondents were of the opinion that it was not. Some respondents (5.48%) believed that being compliant was a disadvantage; they cited the following reasons: the high rates of corruption by government officials and departments; tax spending is abused and is not used for the purpose that it is meant for; and it does not benefit the public as a whole. According to Palil (2010: 188), many taxpayers, especially those who pay high amounts of tax will be sensitive to what the government spends their money on. He adds that if taxpayers believe that the government is spending too much on something considered unnecessary or unbeneficial to them, then taxpayers will feel betrayed and attempt to evade. Taxpayers' perceptions are therefore potentially important in determining their compliance behaviour.

It is a voluntary activity for a taxpayer to remain compliant, and the way the tax system works, affects taxpayers' knowledge regarding their moral and legal responsibility to pay their taxes (Dubin, 2012). This is observed from the chi square test results which indicate that the attitude and ethics of being tax compliant has a significant relationship with a taxpayer's belief that it is every citizen's civil duty to pay their fair share of taxes ($p < 0.001$). Therefore, 63.70% of the respondents who felt that being tax compliant is an advantage in South Africa also felt that it is every citizen's civil duty to pay their fair share of tax.

Figure 3: Defaulting on tax return



SARS (2012d) has taken severe action against non-compliant taxpayers who fail to comply with their tax obligations and have introduced interest and penalties for non-compliance. In terms of Section 75 of the Income Tax Act (Republic of South Africa, 2009: 349), therefore any person who fails or neglects to furnish, file or submit any return or document as and when required by the Commissioner, shall be guilty of an offence and will therefore be liable on conviction to a fine or imprisonment. This study found that the majority of the respondents who defaulted on their tax returns did not do so intentionally and that they understood the implications of defaulting on their tax commitments.

The new administrative penalty regulations introduced by SARS on 1 October 2012 under section 75B (Income Tax Act, 2012) of the Tax Administration Act, No 28 of 2011 (TAA) has been broadened to deal with the imposition of administrative penalties in respect of non-compliance by taxpayers with the provisions of the Income Tax Act. This regulation as opposed to the past now gives SARS the authority to impose much higher penalties where there is continuous non-compliance

by taxpayers. Section 217 of the Act (Republic of South Africa, 2012: 164d) states that the Commissioner may allow a taxpayer that has been penalised to apply for remission from the penalties imposed, provided that there is a reasonable or exceptional circumstance that caused the taxpayer's non-compliance. SARS will only consider such an application where the taxpayer has fulfilled its obligations.

The main reasons for respondents defaulting on their return were not submitting their tax returns on time and not knowing how to complete their tax returns. Respondents were of the opinion that if more information and guidance was provided by SARS, then more people would correctly file their tax returns. The results suggest that if the issue of promoting tax education and training had been addressed by SARS, it would have enabled taxpayers to be better equipped with knowledge which would have assisted and guided them in meeting their tax obligations. This would have also resulted with an improvement on the level of tax compliance. Table 4 (below) indicates the reasons why 18.5% of the respondents defaulted on their tax returns.

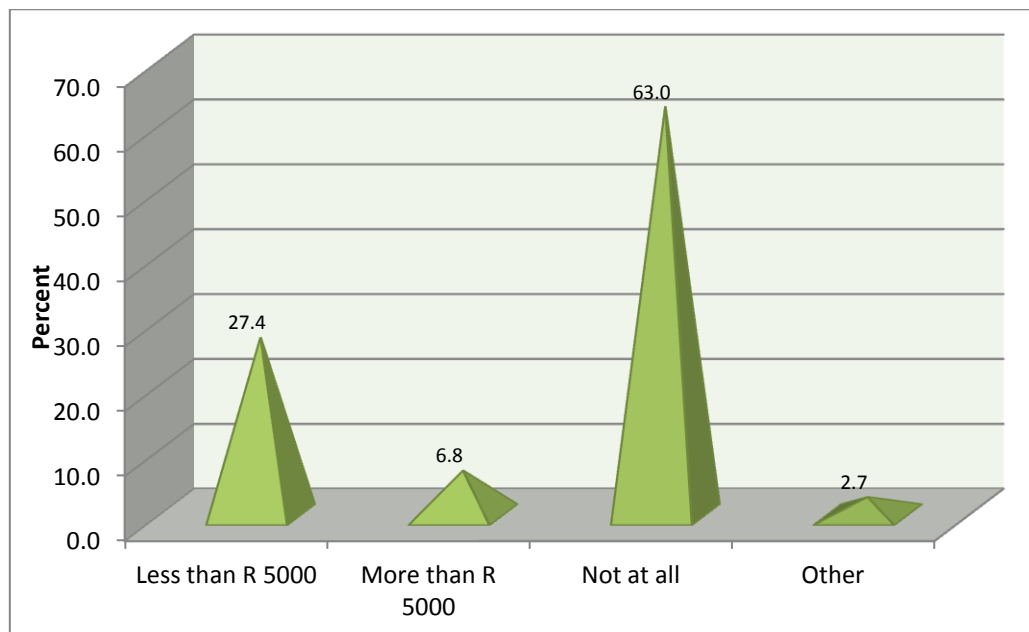
Table 4: Reasons for defaulting on tax return submission

	Frequency	Percent
Didn't manage to submit my return before the deadline	9	6.2
Did not know how to complete my return	5	3.4
Did not declare the correct income	2	1.4
Tax consultant submitted return late and SARS coded me as a defaulter and charged a late submission penalty	1	.7
Total	17	11.6
Missing	129	88.4
Total	146	100.0

2.74% of these respondents had also applied for the 2006 tax amnesty. One of the primary reasons that led respondents to apply for amnesty, was the waiver of interest and penalties which had accumulated during the period of non-compliance. These reasons were consistent amongst these respondents.

4.5.3 Amount of disclosure

Figure 4: Acceptable level of non-disclosure



A little more than a quarter of respondents (27.4%) thought that it was acceptable to not disclose income less than R 5,000, while 6.8% thought that not disclosing amounts over R5,000 was acceptable. One respondent felt that non disclosure of an amount of R 100,000 or less was acceptable while another felt that a “fair amount” did not have to be disclosed, this respondent did not indicate what constituted “a fair amount”. However, a large majority (63%) of respondents expressed strong support for compliance with the SARS. Nonetheless, tolerance for tax cheating was viewed by respondents as unacceptable. This showed that majority of the respondents were honest taxpayers and were bound by their integrity to remain compliant taxpayers.

4.5.4 Attitude and ethics

In the following tables, the questions and answers by participants are summarised and their distributions are shown.

Table 5: Accumulated results of attitude and ethics

Question 11	Completely agree	Mostly agree	Mostly disagree	Completely disagree	Not sure
It is every South African's civil duty to pay their fair share of taxes	76.7	18.5	4.1	0	0.7
Everyone who cheats on their taxes should be held accountable	78.1	15.8	2.7	2.7	0.7
It is everyone's personal responsibility to report anyone who cheats on their taxes	41.8	31.5	11	8.9	6.8
Taxpayers should just have to pay what they feel is a fair amount	18.5	12.3	11.6	54.8	2.7
The more information and guidance the South African Revenue Service provides, the more likely people are to correctly file their returns	77.4	11	0.7	8.2	2.7

The majority (76.7% and 78.1% respectively) of the respondents agreed that it is every South African's civil duty to pay their fair share of taxes and those that cheat should be held accountable. The results indicate that the respondents' moral beliefs are highly significant in their decisions to be tax compliant.

A previous study showed that when tax compliance is seen as a moral issue, individuals are more likely to remain compliant regardless of the tax situation (Reckers, Sanders and Roark, 1994: 833). In another study, Torgler (2003:83b) concluded that individuals who comply with the tax system tend to view non-compliance as immoral, therefore compliance is higher if moral appeals are made to the taxpayer.

The majority of the respondents (77.4%) indicated that the more information and guidance that SARS provides the more likely people are to correctly file their returns. These results suggest that tax knowledge through education could have a significant impact on tax compliance. 41.8% also felt that it was everyone's responsibility to report anyone who cheated on their taxes. 54.8 % felt that taxpayers should not be

given the option of deciding what amount of tax they believed was fair to pay as the only obvious result that would occur in this case is that most taxpayers will only pay the bare minimum which would be unfair. This finding was not surprising considering that the majority (86.3%) of the respondents were salary earners who had their taxes deducted from their salaries; this could have influenced their response.

4.5.5 Attitude towards the South African Revenue Service

Table 6: Bilateral relations table on attitude

Question 12	Very important	Somewhat important	Not very important	Not at all important
Ensures low-income taxpayers are reporting and paying their taxes honestly	65.1	11.6	17.1	6.2
Ensures small businesses are reporting and paying their taxes honestly	76.7	13.7	6.2	3.4
Ensures high-income taxpayers are reporting and paying their taxes honestly	88.4	7.5	1.4	2.7
Ensures corporations are reporting and paying taxes correctly	91.1	5.5	1.4	2.1

The majority of the respondents agreed that it was the responsibility of the SARS to ensure that every category of taxpayer reported and paid their taxes honestly. These results suggest that many taxpayers want the tax system to be equitable and free from prejudice. SARS (2012: 23f) has recognised that a certain number of taxpayers will always choose to remain compliant while others will always choose to remain non-compliant. Some people fit between these two extremes, for example some taxpayers will only abide by the law if the circumstances are suitable for them. The main initiative of SARS therefore is to get as many taxpayers into the tax system as possible. As an employee in an audit firm and from experience with the tax system, the researcher believes that this plan can only be achieved primarily through

educating taxpayers, providing a streamlined and friendly service and by enforcing the law for non-compliant taxpayers.

4.5.6 Factors influencing compliance

Table 7: Bilateral relations table on influence

Statements	Great deal of influence	Somewhat of an influence	Very little influence	Not at all an influence
1. Fear of an audit	58.2	12.3	7.5	21.9
2. Belief that your neighbours or colleagues are reporting and paying honestly	17.8	24.7	21.2	36.3
3. Third parties reporting your income (e.g., salary, interest, dividends, insurance) to the SARS	45.2	16.4	15.1	23.3
4. Your personal integrity	71.9	13	8.2	6.8

Statements 1, 3 and 4 above indicate that tax compliance is influenced specifically by: the probability of being audited by the authorities; third parties such as banks or investment firms that allow SARS to have access to taxpayer information regarding income that may have been accrued; and the influence of personal integrity. The results in statement 2 above show that a 17.8% of respondents feel that tax compliance can be improved if taxpayers believe that their neighbours or colleagues are reporting and paying their taxes honestly which could in turn influence them to report their taxes honestly as well. This correlated with Alabede, Ariffin and Idris' (2011: 94) findings that the perception of taxpayers on the fairness of the tax system is seen as an important factor that can have a significant influence on individuals' tax compliance behaviour. In 2012, the Minister of Finance, Pravin Gordhan stated that all areas of society should work together to achieve a moral society with integrity, honesty and equality as its core value (SARS, 2012: 1e). However, 36.3% of the respondents did not think that statement 2 had an influence at all.

4.6 SECTION C: TAX AMNESTY

This section provides results on the perceptions of the respondents regarding tax compliance and government's introduction of multiple tax amnesties in South Africa. These findings are based on the strength of respondents' agreement with the items which represents tax amnesties that exist in the country and are based on the theory discussed in chapter 2.

Overall, 9.6% of the respondents reported having applied for the 2006 small business tax amnesty. The age group of taxpayers that had the highest application rate for the small business tax amnesty was 3.42% for the age group of 30 - 39 years of age. The use of the chi square analysis shows that applying for amnesty does not depend on age group. Some of the respondents who had applied for the small business tax amnesty were women (4.11%) and 5.48% of respondents were men. The chi square analysis indicates that no correlation exists between applying for tax amnesty and gender.

Table 8: Accumulated results of Questions 14 to 29

Questions 14 to 29	Yes	No	Unsure
In 2006 the South African Revenue Service offered a Small Business Tax Amnesty to registered and non-registered taxpayers, did you take advantage and apply for this amnesty?	9.6	90.4	0.0
Recently the South African Government offered a Voluntary Disclosure Program to allow applicants to disclose their defaults and to give them an opportunity to regularise their tax affairs, did you apply for this amnesty?	0.0	100.0	0.0
Do you think that the South African Government should continue having multiple tax amnesties?	43.8	42.5	13.7
Do you think that compliant taxpayers benefit from the offering of multiple tax amnesties?	34.3	45.8	19.9
Do you think that the offering of multiple tax amnesties in South Africa will increase tax compliance?	41.1	42.5	16.4
Do you think that the offering of multiple tax amnesties in South Africa will generate more revenue?	37.7	41.1	21.2
Do you think taxpayers will remain compliant after the offering of multiple tax amnesties?	35.6	45.2	19.2
If a person applied for an amnesty the first time, do you think that they should be allowed to apply for a second offering?	26.7	60.3	13.0
Do you think that the tax amnesty awareness campaigns launched by SARS to promote tax compliance are sufficient?	28.1	45.9	26.0
Do you think a compliant taxpayer will remain compliant after the offering of multiple tax amnesty?	30.8	43.8	25.3
Do you think a non-compliant taxpayer will remain compliant after the offering of multiple tax amnesties?	18.5	50.7	30.8
Do you think a compliant taxpayer may start to default on his taxes after repeated tax amnesty offerings?	52.4	17.2	30.3
Do you think the offering of repeated tax amnesty programs may keep some taxpayers with tax deficiencies on the sidelines awaiting the next big tax amnesty program?	55.5	17.8	26.7
Do you think that the Government should continue to offer amnesties to non-compliant taxpayers?	29.5	54.1	16.4

6.85% of respondents who applied for amnesty were of the opinion that repeated tax amnesty programs may keep some taxpayers with tax deficiencies on the sidelines awaiting the next big tax amnesty program. Most taxpayers who did not apply for amnesty (48.63%) thought that tax amnesties encouraged non-compliance. This is revealed by the chi square test results which show that respondents that did not

apply for amnesty believed that repeated tax amnesties could increase non compliance ($p < 0.001$).

Some of the reasons that were suggested by respondents for applying for amnesty were: to waiver interest and penalties in respect of outstanding taxes (8%); failing to submit tax returns in the past (3%); not disclosing their full income in the past (2%); and failing to meet their commitments by not paying their tax liabilities to the revenue authorities. When respondents were asked whether they took advantage of the Voluntary Disclosure Program (VDP), none of the respondents reported applying for this amnesty. Some respondents stated that they had been compliant and therefore did not need to apply. However, some respondents stated that they had no idea what the VDP was about and that they were not aware of such an amnesty; others stated that they were not interested in applying for VDP.

4.6.1 Multiple tax amnesties

Although 9.6 % of the respondents applied for the small business tax amnesty, 43.8% stated that government should continue to offer multiple tax amnesties. However, 45.8% felt that compliant taxpayers did not benefit from the offering of multiple tax amnesties and 66.6% stated that compliant taxpayers had to carry the burden of paying taxes while non-compliant taxpayers benefited from this.

33.3% of the respondents felt that multiple tax amnesties could benefit compliant taxpayers since more taxpayers would in turn become compliant; that the tax base would therefore increase and this would result in more taxes being recovered in the future which could also result in a reduction on the tax rates. These findings correlate with the findings highlighted by Luitel and Tosun (2010: 1) who state that tax amnesties are sometimes seen as a “costless tax” because participation in an

amnesty is voluntary. They explain that when an amnesty is offered, non-compliant taxpayers can rejoin the tax system without fearing the consequences of the law. As a result, additional tax revenue will be raised, which could be used to provide more public goods or to payoff public debt.

Data gathered on the effects of multiple tax amnesties on the levels of compliance indicated that:

- 42.5% of the respondents believed that the recurrence of tax amnesties would affect the levels of compliance of taxpayer's negatively as it was perceived to cause an increase in the number of tax offences committed;
- respondents believed that tax amnesties only pardoned non-compliant taxpayers from their default which was unfair to honest taxpayers;
- 41.1% said that if more tax amnesties were offered it would encourage tax offenders to become compliant; and
- 93.8% alleged that taxpayers would remain compliant if more tax amnesties were offered, however 43.8% of respondents felt that compliant taxpayers would also start to default on their taxes.

When respondents were asked whether they thought a tax offender would remain compliant if a tax amnesty was repeated, the responses were as follows: 50.7% felt that a tax offender would still remain non-compliant and 52.4% also believed that honest taxpayers would also start to default on their taxes if repeated tax amnesties were offered. These outcomes reveal that tax compliance cannot succeed by offering repeated tax amnesties as this could harm the tax compliant levels of taxpayers. They also stated that honest taxpayers may lose confidence in government if they believe that only non-compliant taxpayers benefit from these

amnesties. This could therefore cause future compliance levels of honest taxpayers to diminish as well.

41.1% of the respondents did not believe that multiple tax amnesties would generate additional revenue, this was similar to a comprehensive study conducted on the long-run tax revenue collections across the United States which revealed that the post-amnesty periods actually had lower revenue collections after executing an amnesty (Ross, 2012: 2). 60.3% were of the opinion that taxpayers who did apply for amnesty for the first time, should not be allowed to reapply for any amnesty program that maybe offered in the future. This result is significant as it may assist government in determining whether to continue offering tax amnesties to non-compliant taxpayers in the future. Observing the chi square analysis, a significant relationship exists between being allowed to apply for amnesty for a second time and government decision to offer repeated amnesties to non-compliant taxpayers ($p < 0.001$). As previously discussed, repeated tax amnesties generally create a favourable expectation that an amnesty is not a one-time opportunity to repay taxes. Therefore, if non-compliant taxpayers anticipate further amnesties, then their compliance may continue to decline. This was validated by the majority (55.5%) of the respondents who felt that repeated tax amnesty programs may keep some taxpayers with tax deficiencies on the sideline while awaiting the next big tax amnesty program.

The majority of the respondents believed that repeated tax amnesties harm the tax compliance levels of both compliant and non-compliant taxpayers. These respondents also believed that repeated tax amnesties cause the repetition of tax offences. More than half (54.1%) of the respondents therefore believed that government should not continue to offer tax amnesties to non-compliant taxpayers

as many stated that these repeated amnesties only cause taxpayers to remain non compliant without fearing the repercussions of the law. Malherbe (2011: 144) concurs that an amnesty leaves an impression that the authorities are unable to enforce the laws. He adds that it sends a signal to non-compliant taxpayers that the possibility of being detected by the authorities is slim and as a result, their decision to continue evading taxes is much greater. Therefore, when tax amnesties are offered on a frequent basis, they undermine the equity on compliant taxpayers and lower society's respect for the revenue administration (Kelegama, 2004: 146).

45.9% of the respondents thought that the tax awareness campaigns launched by SARS in promoting tax compliance were not sufficient. The main views expressed by respondents concerning the improvement of tax awareness campaigns were that SARS needed to ensure that there is sufficient advertising to inform the public on programs such as the small business tax amnesty campaign and also adequate training workshops were necessary to educate taxpayers on these matters. According to a study by Le Borgne and Baer (2008: 56), multiple tax amnesty programs have produced mixed results in terms of gross revenue collection. They explain that although there are some exceptions, many amnesty programs have generated very little additional revenue. They state further that even though some tax amnesties have significantly affected the attitude of non-compliant taxpayers, this has not automatically resulted in significant increases in tax revenue for the treasury.

Out of the 37.67% of respondents who felt that multiple tax amnesties would generate additional revenue, 15.75% felt that the tax amnesty awareness campaigns launched by SARS in promoting tax compliance were sufficient while 17.12% did not think so. Respondents felt that taxpayers will normally remain compliant if they are aware of the changes in the tax administration regarding policy changes and

educated on their tax compliance obligations across a broad spectrum. It is therefore important that SARS continues to promote tax education by providing better planned campaigns in order to increase taxpayer's awareness and promote compliance (SARS, 2012: 16f). Overall, 76.4% of the respondents suggested that government should reward compliant taxpayers by offering additional tax rebates and lower tax rates for being compliant.

4.6.2 Tax amnesties versus Tax compliance

Although the response rate was very poor for this section, some respondents (12.3%) stated that if government offered more tax amnesties, tax compliance would improve and this would get more citizens into the tax system. Other respondents (19.9%) however referred to tax amnesties as a form of a "reward" which is given to non-compliant taxpayers by the government, this belief could later have detrimental effects on the future compliance of honest taxpayers.

Respondents (25.3%) felt that if government considered having repeated tax amnesties, it could cause honest taxpayers to start defaulting on their taxes in order to benefit from the amnesty. Other respondents (26.7%) felt that non-compliant taxpayers should only be given one chance to apply for an amnesty program and should therefore not be allowed a second chance. They also suggested that if a person applied for amnesty the first time and did not remain compliant in the future, then government should take legal action against defaulters. A small amount of respondents (6.85%) felt that government should also tackle corruption which currently plagues the country in all spheres including the tax administration which is another major problem that undermines the tax morale amongst compliant taxpayers that could also affect the collection of revenue. One respondent thought that it would

be a good idea for government to provide incentives for taxpayers who continued to remain compliant with the tax system.

4.7. SUMMARY

This chapter discussed the descriptive statistics employed to describe and analyse the data and interpretation of the research findings with the use of graphs and frequency tables and references made to the literature review. The findings of this study indicate that tax amnesties in South Africa should not be offered on a frequent basis to non-compliant taxpayers as it causes non-compliant taxpayers to anticipate further amnesties which could impact negatively on tax compliance on a whole. This result is consistent to prior research conducted by Saracoglu and Caskurlu (2011); Luitel and Sobel (2007); Leonard and Richard (1987); and The World Bank (2011a) who found that people may be angered by the fact that abusers of the tax system benefit from repeated amnesties and therefore law abiding citizens in turn may start to evade tax in anticipation of additional future amnesties. It was also suggested that educating taxpayers about tax issues could result in better tax compliance thus contributing to the development of an equitable society. The findings also indicated that government needed to fulfil its obligation by eliminating corruption from its cabinet and administration in order to gain more faith and confidence from citizens and to build a lawful society. The following chapter presents the research conclusions and makes recommendations for further research.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

In the previous chapter, the findings of the study were presented. This chapter provides an overview of the study together with the conclusions drawn and the resulting recommendations. The limitations encountered in conducting the study are described and possible avenues for future research are mentioned. The chapter concludes with a summary of the value of this study.

5.1 OVERVIEW OF THE STUDY

In South Africa, a significant gap exists between the amount of tax that is theoretically collected from economically active persons and that which is actually collected, and this is known as the tax gap. One of the main causes of the tax gap is non-compliance by taxpayers (Oberholzer and Stack, 2009: 737). The tax gap arises when taxpayers intentionally or inadvertently understate their income, fail to file a tax return before the due date, or fail to pay the amount of tax shown on their tax assessments (United States Small Business Administration, 2011: 2). The gap includes errors that are made on tax assessments by SARS (2004: 30). To complicate matters further, failing to pay taxes can also be unintentional, for instance where certain aspects of tax law are complicated making understanding difficult for citizens with limited tax knowledge.

Since non-compliance mostly involves breaking the law, individuals will often try to conceal their non-compliance. It is therefore very difficult to measure the extent of

the tax gap or explain all the factors that can influence this gap (de Clercq, Swanepoel, Posthumus, Doussy, Heyns, and van Aardt, 2010: 64). These practices to intentionally avoid paying one's true tax liability, is known as tax evasion. Tax evasion is an illegal activity where registered individuals or businesses deliberately omit, conceal or misrepresent information in order to reduce their tax liabilities (HM Revenue and Customs, 2012: 8).

Franzoni (1999, 52) explains that tax evasion occurs when individuals deliberately fail to comply with their tax obligations. The resulting tax revenue loss may have serious implications for the proper functioning of the public sector which threatens its capacity to finance its basic expenses. In South Africa, taxpayers who were non-compliant in the past faced severe penalties; this perpetuated the problem as it prevented them from entering the formal tax system and becoming compliant. The fear of harsh penalties made the decision to enter the tax system a more difficult one (SARS, 2006a). To address this problem, tax amnesty and awareness campaigns have been launched by SARS; this includes informal sector participants. In these efforts, the factors influencing tax collection have assumed greater importance although very little research has been conducted to explore the links between improved revenue collection in South Africa and enhanced confidence in the government on the part of citizens' positive attitudes (Gcabo and Robinson, 2007).

5.2 ACHIEVEMENT OF THE RESEARCH OBJECTIVES

This study sets out to determine whether the government should offer multiple tax amnesties to citizens who are not compliant with the tax system and whether tax amnesties should be repeated in the future. Conclusions in this regard are provided for each research objective.

5.2.1 Research objective 1: *To determine if the small business tax amnesty improved tax compliance through its awareness campaigns launched by SARS.*

Since the researcher is employed at an audit and advisory firm and assisted clients during the period of the amnesty, he found that although SARS had communicated information regarding the tax amnesty in the media (SAPA, 2007), many taxpayers only came to know about the tax amnesty through tax seminars that were held by the firm. This showed that many taxpayers who did not use the services of an audit firm or tax practitioner may have not known about the tax amnesty. These results were similar to the data gathered from the questionnaires which revealed that the majority (45.9%) of the respondents felt that the awareness campaigns launched by SARS were not sufficient in promoting tax compliance. Respondents stated that SARS needs to ensure that there is sufficient advertising to inform the public about programs such as the small business tax amnesty campaign and they also need to provide adequate training workshops to educate taxpayers on tax compliance matters. The overall low rate of 45.9% clearly suggests that the campaigns undertaken by SARS have not been as successful as intended in terms of reaching all potential applicants.

5.2.2 Research objective 2: *To determine if compliant and non-compliant taxpayers would remain compliant if tax amnesties were offered on a repeated basis.*

The findings of this study indicated that if tax amnesties were considered on a recurring basis it could negatively affect the compliance levels of non-compliant as well as compliant taxpayers which would eventually start to deteriorate. It was perceived by respondents that multiple tax amnesties would cause an increase in the number of tax offences committed. The majority of the respondents therefore

strongly believe that multiple tax amnesties would discourage compliance. The expectation of recurring amnesties could cause non-compliant taxpayers to remain non-compliant and await a future amnesty program to pardon their default. Respondents also stated that compliant taxpayers may start defaulting on their commitments as they see tax amnesties as a reward to tax evaders which is unfair. The findings of this study therefore indicate that tax amnesties should not be offered on a frequent basis as it causes non-compliant taxpayers to anticipate further amnesties which could cause tax compliance to decline.

5.2.3 Research objective 3: *To investigate whether the offering of multiple tax amnesties would result in the generation of additional revenue.*

To the best of the researcher's knowledge, no information relating to the results of tax revenue generation from South African tax amnesties are made available to the public. However, in keeping with the findings of Christian, Gupta and Young (2002); Baer and Le Borgne (2008); Luitel and Sobel (2007); Alm and Rath (1998); and Torgler and Schaltegger (2005), this study concluded that the offering of multiple tax amnesties would not generate additional revenue as non-compliant taxpayers will still continue to evade in anticipation of additional future amnesties thus decreasing tax compliance. This correlated with the Croome's (2007: 42) findings from the 2006 small business tax amnesty, he stated that the increase in the tax register was not as large as anticipated as most applicants were existing businesses seeking to regularise their tax affairs for previous contravention of the tax laws. Consequently even though a substantial amount of amnesty levies were collected, the increase in revenue would have not been significant.

5.3 RECOMMENDATIONS

Based on the findings of this study and the conclusions drawn above, the following recommendations are made.

1. When a tax amnesty programme is offered for a given period of time, its criteria should be restricted to first time applicants only and should not allow any previous applicants to re-apply for the new offering. This will prevent defaulters from anticipating further amnesties in the future.
2. Government should ensure that the authorities are able to co-ordinate an amnesty program with a view of detecting, investigating and prosecuting any abuse of the programme by previous applicants who continue to default on their taxes
3. The number of tax amnesty programs offered should be limited and the periodic launch of the next amnesty should not be over short spaces of time, that is, a minimum period of five years should elapse before the next amnesty is offered as this could affect the response rate.
4. Since compliant taxpayers do not benefit from the relief of an amnesty which is seen to only benefit non-compliant taxpayers, tax rebates should therefore not be allowed as a deduction to applicants who have been granted amnesty for a period of three years.

Tax educational programs should be introduced to the younger generation in schools and universities to ensure that the new generation of people entering the job markets or starting their own business will acquire the knowledge and understand the importance of being tax compliant this may also serve to reduce any negative perceptions or doubt that people may have regarding tax system.

It is important for the revenue authorities to educate taxpayers about fiscal issues in order to create and enhance a more efficient tax collection system which contributes to building legitimacy and trust. The provision of educational campaigns using media and new technology can help ensure that taxpayers understand compliance requirements (African Economic Outlook, 2010).

5.4 LIMITATIONS OF THIS STUDY

The research sample was limited in terms of the population and the geographical location as the researcher was aware of the difficulties and sensitivities of collecting data from citizens regarding their income and tax information. The research sample was therefore drawn from an audit and advisory firm in the Durban region. The sample was therefore limited in terms of diversity of: professions; income brackets; knowledge of the tax system; and race groups. Any significant results emerging from this study may therefore not be widely generalisable, but will undoubtedly prove useful in beginning to understand and address the offering of tax amnesties in South Africa.

This study could have been expanded to include in-depth studies of compliance among different income brackets, race groups, occupations and gender which would have yielded richer data. Unfortunately, inclusion of the above was not possible within the ambit of this study.

5.5 IMPLICATIONS FOR FURTHER RESEARCH

This study has contributed to new research on multiple tax amnesties and compliance in South Africa as well as the factors that could negatively influence taxpayer's perceptions on remaining tax compliant.

As the nature of research always gives rise to other questions, further investigation is recommended on:

- other tax amnesties such as the voluntary disclosure program as this study was limited to the small business tax amnesty
- the trends of amnesties that were previously offered in South Africa and whether this led to any increases in tax compliance.
- other factors that affect tax compliance
- research on a larger and more varied population based on different income brackets, race groups, occupations and gender could yield valuable results in terms of improving tax compliance.

5.6 VALUE OF THE STUDY

This research has made a contribution to the academic body of knowledge on the understanding of multiple tax amnesties and compliance. As no study of this nature has been conducted in South Africa to date, particularly in the Durban region, it is envisaged that the findings of this study will add value by assisting tax authorities and policy makers in understanding the effects of multiple tax amnesties on levels of taxpayers' compliance. The results of this study can inform policymakers on whether tax amnesties should be offered on a regular basis and the ways in which it could affect tax compliance. It also provides an indicator for the government to understand the relative importance of educating taxpayers and improving their tax knowledge by assisting and providing tax education programmes, simplifying the current tax systems and developing a wider understanding of taxpayer's attitudes and perceptions on the current tax system.

This study contributes to the current global literature in this field and the relative importance of multiple tax amnesties and its effect on tax compliance. This study further contributes to the knowledge of multiple tax amnesties by providing evidence on amnesty programs conducted abroad, particularly in first world countries.

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APPENDIX A

COVERING LETTER OF QUESTIONNAIRE

Date: 13 March 2012

Dear Participant

I am studying towards an MTech Degree in Taxation at the Durban University of Technology. The title of my research is: Multiple Tax Amnesties and Tax Compliance in South Africa.

Please complete the attached questionnaire to enable me to gather data for my research. The information you provide will be kept strictly confidential. Only my research supervisor and I will have access to the completed questionnaires. Please be assured that you will remain completely anonymous throughout the research process and in any reporting or write-ups related to my research.

Please read and sign the attached Consent Form. Please return the Consent Form and completed questionnaire to Sachin Vir Junpath at the email address below.

Thank you very much.

Name: Sachin Vir Junpath
Student No: 20353062
Address: 38 Salvia Avenue
Tel No. : (W) 031 5765500
(Cell) 079 550 2818
(Email) : sachinvir@gmail.com

Prof. P Singh
Research Supervisor

APPENDIX B

LETTER OF INFORMED CONSENT

LETTER OF CONSENT

Dear Participant

Thank you for agreeing to participate in this research study entitled: *Multiple Tax Amnesties and Tax Compliance in South Africa*.

The aim of this study is to investigate whether the offering of multiple tax amnesties by government will have an effect on tax compliance. The purpose of this research is to analyse taxpayer's compliance in post amnesty and to investigate if it is possible that the offering of repeated tax amnesties will increase tax compliance.

This study will make recommendations on whether the government should or should not offer multiple tax amnesties for citizens that are not compliant with the tax system.

The researcher undertakes to assure you of the following:

- to maintain your confidentiality
- to protect your rights and welfare, i.e. to ensure that no harm comes to you as a result of your participation in this research;
- to present information and transcripts used in this research in such a way as to maintain your dignity, and if in doubt to first consult with you; and
- to make available to you the final copy of this research publication
- you are free to withdraw from this research at any time, if the need should arise
- no manipulation or withholding of information is involved in this study

It is intended that the findings of this research study shall also serve as guide for other researchers and institutions in their quest to evaluate and gain additional knowledge in this subject.

Thank you for volunteering to add to a body of academic knowledge in Taxation.

Yours sincerely

S.V Junpath
MTech: Taxation
Student No: 20353062

I, _____ (participant's name), agree to participate in this study, to add to the body of academic knowledge in Taxation.

Participant's signature

Date

APPENDIX C

QUESTIONNAIRE

Questionnaire on Multiple Tax Amnesties

All responses are anonymous and will be kept strictly confidential

SECTION A: BIOGRAPHICAL DETAILS

1 In what age group are you?

19 and under

☐

20 - 29

☐

30 - 39

☐

40 - 49

☐

50 - 59

☐

60 +

☐

2 Your gender:

Male

☐

Female

☐

3 In terms of your current occupation, how would you characterise the industry you work in?

Finance

☐

Science & Technology

☐

Medical

☐

Government & Local Government

☐

Safety, Security & Defence

☐

Marketing

☐

Information Technology

☐

Education

☐

Legal

☐

Fast Moving Consumer Goods, Retail & Wholesale

☐

Other, please specify:

4 Which of the following best describes your occupation

Self-employed

☐

Employee

☐

Unemployed

☐

Retired

☐

5 What income bracket do you fall under?

Below R 60,000

☐

R 150,001 - R 235,000

☐

R 235,001 - R 325,000

☐

R 325,001 - R 455,000

☐

R 455,001 - R 580,000

☐

Over R 580,000

☐

SECTION B: TAX COMPLIANCE

6 Are you a registered taxpayer?

Yes

☐

No

☐

Not sure

☐

If not, please explain why you did not register as a taxpayer?

7 Do you think being tax compliant is an advantage in South Africa.

Yes

☐

No

☐

Not sure

☐

Please explain your answer

8 Have you ever defaulted on your tax return?

Yes

☐

No

☐

9 If yes, why did you default on your submission?

Didn't manage to submit my return before the deadline

☐

Did not know how to complete my return

☐

Didn't want to pay any taxes

☐

Did not declare the correct income

☐

Other, please explain

☐

10 How much, (if any), do you think is an acceptable amount not to disclose on your income taxes?

Less than R 5000

☐

More than R 5000

☐

Not at all

☐

Other, please specify

11 For each of the following statements, please indicate your answer using the following 5-point scale where:

1 - Completely Agree

2 - Mostly Agree

3 - Mostly Disagree

4 - Completely Disagree

5 - Not Sure

	Statements	Completely Agree	Mostly Agree	Mostly Disagree	Completely Disagree	Not Sure
A	It is every South African's civil duty to pay their fair share of taxes.	1	2	3	4	5
B	Everyone who cheats on their taxes should be held accountable.	1	2	3	4	5
C	It is everyone's personal responsibility to report anyone who cheats on their taxes	1	2	3	4	5
D	Taxpayers should just have to pay what they feel is a fair amount.	1	2	3	4	5
E	The more information and guidance the South African Revenue Service provides, the more likely people are to correctly file their returns.	1	2	3	4	5

12 Please answer this question using the 4-point scale below:

1. Very important,
2. Somewhat important,
3. Not very important
4. Not at all important

How important is it to you, as a taxpayer, that the South African Revenue Service does each of the following to ensure that all taxpayers honestly pay what they owe?

	Statements	Completely Agree	Mostly Agree	Mostly Disagree	Completely Disagree
A	Ensures low-income taxpayers are reporting and paying their taxes honestly	1	2	3	4
B	Ensures small businesses are reporting and paying their taxes honestly	1	2	3	4
C	Ensures high-income taxpayers are reporting and paying their taxes honestly	1	2	3	4
D	Ensures corporations are reporting and paying taxes correctly	1	2	3	4

13 Please answer this question using the 4-point scale below:

1. Great deal of influence
2. Somewhat of an influence
3. Very little influence
4. Not at all an influence

How much influence do each of the following factors have on whether you report and pay your taxes honestly?

	Statements	Completely Agree	Mostly Agree	Mostly Disagree	Completely Disagree
A	Fear of an audit	1	2	3	4
B	Belief that your neighbours or colleagues are reporting and paying honestly	1	2	3	4
C	Third parties reporting your income (e.g., salary, interest, dividends, insurance) to the SARS	1	2	3	4
D	Your personal integrity	1	2	3	4

SECTION C: TAX AMNESTY

- 14 In 2006 the South African Revenue Service offered a Small Business Tax Amnesty to registered and non-registered taxpayers, did you take advantage and apply for this amnesty?**

Yes

☐

No

☐

Please explain your answer.

- 15 If you answered yes to question 14, why did you apply for this amnesty?**

I did not file my tax returns in the past.

☐

I did not pay my taxes in the past.

☐

I did not disclose my full income in the past .

☐

To waiver interest and penalties.

☐

Please explain your answer.

- 16 Recently the South African Government offered a Voluntary Disclosure Program to allow applicants to disclose their defaults and to give them an opportunity to regularise their tax affairs, did you apply for this amnesty?**

Yes

☐

No

☐

Please explain your answer.

- 17 If yes, why did you apply for this amnesty?**

I submitted incorrect information to the SARS which resulted in me receiving a higher refund

☐

I under declared my income to SARS which resulted in me being taxed at a lower rate

☐

I did not disclose my offshore investments in the past

☐

To waiver interest and penalties

Not sure

☐

Other (please specify)

- 18 Do you think that the South African Government should continue having multiple tax amnesties?**

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

19 Do you think that compliant taxpayers benefit from the offering of multiple tax amnesties?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

20 Do you think that the offering of multiple tax amnesties in South Africa will increase tax compliance?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

21 Do you think that the offering of multiple tax amnesties in South Africa will generate more revenue?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

22 Do you think taxpayers will remain compliant after the offering of multiple tax amnesties?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

23

If a person applied for an amnesty the first time, do you think that they should be allowed to apply for a second offering?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

24 Do you think that the tax amnesty awareness campaigns launched by SARS to promote tax compliance is sufficient?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

25 Do you think a compliant taxpayer will remain compliant after the offering of multiple tax amnesty?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

26 Do you think a non-compliant taxpayer will remain compliant after the offering of multiple tax amnesty?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

27 Do you think a compliant taxpayer may start to default on his taxes after repeated tax amnesty offerings?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

28 Do you think the offering of repeated tax amnesty programs may keep some taxpayers with tax deficiencies on the sidelines awaiting the next big tax amnesty program?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

29 Do you think that the Government should continue to offer amnesties to non-compliant taxpayers?

Yes

☐

No

☐

Not sure

☐

Please explain your answer.

30 How do you think the Government should reward compliant taxpayers to remain tax compliant?

Offer additional tax rebates

☐

Offer lower tax rates

☐

Offer free or reduced parking in public parking facilities

☐

Consider the allowance to airport VIP rooms

☐

Other (please specify)

31 Do you have any comments (positive or negative) that you would like to make regarding tax amnesties in South Africa?

APPENDIX D

PERMISSION TO CONDUCT RESEARCH

NB: Due to the sensitive nature of this research the company where the research was undertaken could not be disclosed, therefore the company logo and details have been blocked out.

Durban University of Technology
PO Box 1334,
Durban,
4000

9 January 2012

Dear Sir / Madam

PERMISSION TO CONDUCT RESEARCH

The purpose of this letter is to inform you that I give Sachin Vir Junpath permission to conduct his research titled *Multiple Tax Amnesties and Tax Compliance in South Africa* at [REDACTED]. This also serves as assurance that this company complies with requirements of the firms Privacy Act and the Protection of client information and will ensure that these requirements are followed in the conduct of this research as laid out below:

- The company's name will be kept anonymous and will not be disclosed
- Clients names are not to be used or disclosed
- You will only be allowed to administer your questionnaires to a portfolio of clients and will not be allowed to record or access their personal information.
- Clients will not be obligated to participate in this study
- A copy of the research must be made available to our office on completion.

We would like to wish you well in your research.

Yours faithfully,