



An expanded tax model to improve tax compliance amongst micro-businesses

By

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DECLARATION

I, Sipho Sifiso Mkhwanazi declare that this dissertation is a representation of my own work both in conception and execution. This work has not been submitted in any form for another degree at any university or institution of higher learning. All information cited from published or unpublished works have been acknowledged.

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ABSTRACT

Taxation plays a significant role in any country's economy, since countries depend on the tax revenues they collect to generate the resources they require to meet their expenditure needs. The contribution of micro-businesses in South Africa, both to society and to the economy, is such that they have the potential to reduce the high rates of unemployment, to reduce poverty and to help address inequality. However, these businesses are known to face challenges with regards to complying with their tax obligations. Therefore, in this study, the conceptual framework presented by Fischer's Tax Compliance Model is explored and its limitations considered in order to find possible solutions to improve tax compliance amongst micro-businesses. The aim of this study was therefore to expand existing theoretical models to further understand tax compliance behavior amongst these micro-businesses. The study adopted a quantitative research approach and a questionnaire was randomly distributed to micro-businesses in the following areas of eThekweni: a suburban area (Durban North), a township area (Umlazi), a rural area (Umbumbulu) and the city centre of Durban. Of the selected sample of 392 micro businesses, only 242 micro-business owners completed the questionnaires despite an extension of time being granted. Three research assistants were employed to assist the researcher in the data collection. The analytic software (SPSS) Version 26.0 was used to analyze the data. Results include the presentation of biographical data of the respondents, along with factors selected for inclusion which would enable a deeper understanding to emerge of aspects needed to improve tax compliance amongst this group of taxpayers. The findings indicate that these business owners share many of the characteristics of other businesses in their tax compliance behavior, but also that there were specific additional factors which affected them as regards tax compliance particularly involving the three aspects selected as a focus by the researcher: registration for tax, keeping of accurate accounting records, and drawing up of financial statements. These findings enabled an expanded tax compliance model to be presented. The study therefore contributes to improving the understanding of tax compliance behavior amongst micro-businesses in eThekweni Municipality. It recommends that, in order to improve the level of tax compliance amongst this group, the South African Revenue Services (SARS) must find better ways of communicating with, and assisting, micro-business owners to

register their businesses for tax and they must emphasize the importance of keeping accurate accounting records, along with the need to prepare accurate financial statements for their businesses.

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CHAPTER ONE

INTRODUCTION AND OVERVIEW

1.1 Introduction

The reason why tax compliance behaviour has become a matter of concern amongst tax authorities globally, is because tax evasion is increasingly prevalent and negatively affects the collection of tax revenues (Jimenez and Iyer 2016). This affects the capacity of governments to accomplish their fiscal and social welfare goals (Hassan & Prichard 2016). Rogerson (2014) notes that small businesses play a significant role with regards to the social and economic development of all countries. Therefore, the lack of tax compliance amongst these can pose a serious problem to the country's economy (Naicker and Rajaram 2018). In dealing with the level of tax compliance amongst individuals and businesses, the South African Revenue Service (SARS) has identified small businesses as an area of concern and this is associated with the fact that compliance levels amongst these businesses have been classified as being significantly low (Deloitte, 2019). In trying to deal with this issue of non-compliance, researchers have highlighted the importance of understanding taxpayers' behaviour as being significant for effective tax administration (Puspita, Subroto and Baridwan, 2016).

1.2 Background to the study

According to Letsoalo (2014), across the world, micro businesses are progressively becoming a significant part of community development. These businesses have been acknowledged for providing employment to more individuals than larger businesses (Shaw 2014). Gluckman and Turner (2018) indicate that small businesses function under a so-called 'regulated environment' whereby they are liable to comply with tax regulations that relate to their particular business division (stratum). However, there are certain challenges that they have to deal with in order to ensure tax compliance (Labuschagne 2018). The focus area of the present study is on micro-businesses (those with a turnover of less than R1 000 000 per year) in the eThekweni Municipality. It will highlight the challenges that these businesses face in order to comply with tax.

1.3 Reasons for the Study

Ndabeni (2014) states that, since 1994, South Africa has moved towards promoting small, medium and micro enterprises (SMMEs) as these play a vital role in improving economic growth and job creation. This is significant because South Africa has a population which comes largely

from historically disadvantaged communities (Masutha and Rogerson 2014) and it is from this section of society that many of the micro-business owners come. According to Ndlovu (2016), SMMEs contribute 36.1 per cent of GDP and they employ 68.2 per cent of the labour force in the private sector.

SMMEs make a significant contribution to different sectors, such as the agricultural industry, construction businesses and the retail sector, employing 80 per cent of the workforce of this industry (Letsoalo 2014). Rogerson (2014) points out that the growth rate for employment in the SMME sector since the year 2000 exceeds job creation in larger businesses.

In countries around the world, taxation is seen as the foundation of public resources (Kollar, 2016). Furthermore, in analysing the role of public finance, Hassan and Prichard (2016) note that it features prominently in discussions on public policy and this has happened at a time when most developing countries are facing significant imbalances in their micro economics (Letsoalo 2014). This study highlights how the tax system needs to be transformed if it is to provide an effective and efficient system which will significantly improve government fiscal reserves (Hassan & Prichard, 2016).

Jimenez and Iyer (2016) note that the efficient collection of tax revenues can be classified as an important component with regard to development efforts in African countries. The importance of tax collection is its role in providing required services and in improving or providing basic infrastructure (Ali, Fjeldstad and Sjørksen 2014). This emphasises the need to develop a system of taxation that functions effectively (Letsoalo 2014).

The role that is played by the South African Revenue Service (SARS), has been explained as follows: SARS is the only organisation appointed by government as overseer (custodian) of the collection of tax revenues in the country (Ouderajh 2019). Likewise, SARS stresses that the Republic of South Africa is perceived as the most efficient and effective country in Africa with regards to the collection of tax revenues (SARS, 2021e). However, the system has also been criticised for lacking clarity with regard to dealing with taxes for small businesses and micro-businesses (Ssenyonjo 2019). Small businesses, which include micro-businesses, regard tax compliance as a constraint (restriction) to their development because of the time it takes to prepare tax information (SARS 2017). Furthermore, tax compliance is hindered by a lack of clear definition of the terms used in the tax submission system (Letsoalo, 2014).

Thus, the literature has indicated challenges faced by small, medium and micro-business owners in complying with tax regulations and this calls for a better way to ensure tax compliance. However, before discussing possible solutions that SARS could explore to improve tax compliance amongst micro-businesses, it is important to reflect on what has been achieved by other researchers to improve tax compliance in this sector.

1.3.1 The lack of research studies to improve tax compliance amongst micro- businesses

According to Matarirano, Chiloane-Tsoka and Makina (2019), considerable research has been conducted in South Africa into ways in which to improve tax compliance amongst small businesses, but most of this research has focused on reducing compliance costs. There is also little research into improving tax compliance specifically amongst micro-businesses since other research studies have been focusing on the broader category of SMMEs, which includes small and medium as well as micro-businesses (Letsoalo 2014). SARS (2017) explains that compliance falls into three different types: filing, payment and reporting compliance. Bornman and Ramutumbu (2019) emphasize that business owners must ensure that their businesses are registered for tax purposes, they must ensure the proper keeping of accounting records, and they must prepare annual financial statements. There is no recent research study that has been conducted specifically into this aspect of tax compliance amongst micro-businesses in South Africa.

This research study will apply the conceptual framework established in Fischer's Tax Compliance Model to find possible solutions to improving tax compliance amongst micro-businesses. In Chapter 2, Fischer's Tax Compliance Model will be discussed in detail and this will include assessing how this model has been expanded by other researchers to find further ways to understand tax compliance. In addition, factors affecting tax compliance amongst micro-businesses will be discussed further (economic factors and non-economic factors) in order to consider a possible further extension of the model.

1.4. SMMEs (Small, medium and micro-enterprises)

Gluckman and Turner (2018) provides a definition of *small businesses* which includes the following:

- "Small businesses are characterised as those businesses that make up the majority of existing enterprises. Small businesses employ between 5 and 50 employees. As with micro-businesses, small businesses are usually managed by one owner.
- Small businesses are operated from business premises and industrial premises.

- Classifying small businesses in terms of assets and turnover is difficult. This is mainly because there is a wide difference in business sectors, such as retail sectors, small businesses that belong to the manufacturing sector, small businesses that provide professional services and small businesses in the construction industry.
- Regarding tax issues amongst small businesses, unlike micro-enterprises, they are likely to be registered for tax purposes. They also meet other formal registration requirements required by the tax authorities (many micro-businesses in this present study are lacking in this aspect).

Letsoalo (2014) highlights the definition of the term SMME in terms of the National Small Business Act (1996):

- The term SMME relates to a separate or distinct business entity which includes co-operative enterprises. The term SMMEs also relates to non-governmental organisations managed by one owner.
- The definition of the term SMME in terms of the *National Small Business Act (1996)* also encompasses branches or subsidiaries of these businesses. SMMEs may operate in any sector or sub-sector within the economy.
- Letsoalo (2014) identifies the following types of SMMEs that are found in the South African economy:
 - Survivalist enterprises and micro- enterprises are included as part of SMMEs together with very small enterprises and medium enterprises.
 - Those categorized as 'survivalist' enterprises are classified as those that provide an income which is below the poverty line.
 - Medium enterprises employ between 100 and 200 employees. However, it can be difficult to define medium enterprises as a wide range of enterprises may fall within this category.
 - Medium businesses are generally owned and controlled through shareholding.
 - The annual turnover of medium enterprises will be between R4 million and R50 million. These medium businesses will have gross assets that range between R4 million and R18 million depending upon the kind of industry in which the business operates.

1.4.1 What is considered a tax obligation amongst SMMEs?

In terms of what is regarded as a tax obligation amongst SMMEs, Hastuti (2014) note the following:

- With reference to what is required by the revenue laws, there are four main obligations with which the taxpayer is expected to comply. It is true that the exact obligation with regard to an individual taxpayer may differ, but these four categories of tax obligations include:
 - Firstly, the taxpayer must be registered in the tax system;
 - secondly, taxpayers must ensure that their requisite taxation information has been filed timeously;
 - thirdly, taxpayers must report complete and accurate tax information and
 - fourthly, taxpayers must ensure that their tax obligations are fulfilled timeously with the revenue authorities.

These four categories of tax obligations are necessary for all taxpayers, irrespective of the jurisdiction of the taxpayer. Hence, the principle of the term 'compliance' requires that the taxpayer has to comply with them all (Jimenez and Iyer 2016). Failure by the taxpayer (including the micro-business tax payer) to comply with any one of the above tax obligations will be considered as being non-compliance.

1.5 Micro-businesses which were the focus of this study

For the purpose of this study, it is important to describe the types of businesses that were targeted. SARS (2017) indicates the following characteristics of micro-businesses:

- Micro-businesses may consist of sole traders (individuals) and partnerships with an annual turnover that is equal to R1 million or less;
- the term 'micro-business' also relates to a company with an annual turnover that is equal to R1 million or less (the term 'company' relates to close corporations and to co-operatives);
- it is expected that these businesses should employ less than six employees.

SARS (2017) elaborates as follows:

- These businesses operate on a very small scale, where the owner may be the one and only employee in the business;
- The owner may also employ some family members to be a part of the business and, in most situations, the owner will employ one or two additional paid employees.
- In most situations, these businesses will not have business licences, this entails exclusion from tax registration. Others struggle to operate their businesses under formal business provisions without operating permits and accounting structures.
- Most of these micro-businesses have limited access to capital.
- The managers often have only basic business skills or technical skills required to operate their businesses.
- However, there is a positive side to these micro-businesses where many of them have advanced into what is called 'sustainable small businesses'.
- These micro-businesses have different income levels depending on the sector to which the business belongs, the growth phase of the business, and any relevant support structures that may exist for the business.

1.5.1 Examples of micro-businesses

Business Tips (2013) provides the following examples of micro-businesses which are similar to the micro-businesses that were included in this study:

- **Trading, merchandising and retail businesses:** Mini grocery stores, cell phone loading stores, school supplies stores and ready-to-wear or apparel stores.
- **Food business or industry:** Canteen businesses, meat selling businesses, catering businesses, fruits stand businesses, vegetable stand businesses, delicacies businesses, roasted chicken businesses, and barbecue stands. Others were classified as chocolate, cakes, sandwiches and pastry-making businesses, including ice cream sellers.
- **Agriculture and aquatics:** Maize farming, poultry and animal raising businesses (including pigs, chicken and goat rearing).
- **Graphics and design:** desktop publishing businesses, T-shirt printing businesses, photography and photo editing businesses, videography and video animation.
- **Arts and crafts:** Furniture making, jewellery and accessories design and sales, gift basket making, flower shops, flower arranging and the production of hats, bags and mats;

- ❑ **Licensed professional services:** Accounting, auditing and bookkeeping services, coaching businesses, legal and notary services, real estate brokerage, dental clinics and medical clinics.
- ❑ **Money and finance businesses:** 'Loan sharks'.
- ❑ **Franchised businesses:** Food cart and food kiosks, bakeshops, perfume and personal care, water refilling stations, pizza shops and laundry shops.
- ❑ **Travel and transportation businesses:** Van hire, taxi hire and car hire, travel agency and ticketing offices.
- ❑ **Party and events businesses:** Wedding planners, event organisers, photo shoot and mobile bar businesses.
- ❑ **Pets care:** Dog day care, pet grooming and pet supply stores.
- ❑ **Education businesses:** Personal tutorial services, training centres, day care centres, pre-elementary schools and others.
- ❑ **Green businesses:** Recycling, organic farming, landscaping, house cleaning services and lawn care and gardening services.
- ❑ **Other businesses:** Security agencies, recruiting agencies, boarding houses and rooms for rent, photocopying and printing businesses, herbal and bath soap making, barber shops (which also include beauty salons) and internet cafés.

1.6 Problem Statement

As stated above, the increase in cases of non-compliance with tax noted around the world, which includes tax evasion, affects the capacity for governments to raise public revenue. As a result, public policy makers and researchers are paying significant attention to issues of tax compliance (Jimenez and Iyer 2016). Most of the research studies have been conducted in developed countries, especially in the United States of America, with less being conducted in developing countries (Mekonen 2015) such as South Africa.

Some scholars have indicated that reasons for non-compliance may include factors that are not included in Fischer's Tax Compliance Model (Tehulu 2016) which is considered the dominant model for understanding tax compliance. The fact that non-compliance with tax has become a significant issue, has resulted in the tax compliance determinants in Fischer's Tax Compliance Model becoming a significant part of tax research in developed countries (Lawan and Salisu 2017) but there is no comprehensive literature that has been gathered to refine Fischer's Model (Alabede 2014). The failure of this theory to deal with some non-compliance issues has already resulted in the identification of additional factors that influence tax compliance in developing countries. However, these may also be inadequate for understanding the tax behavior

specifically of micro-enterprises in South Africa and thus a problem exists in this regard with this dominant theoretical model, which this research hopes to help fill.

With regard to tax compliance for micro-businesses in South Africa, Schutte, Labuschagne, Georgescu and Pop (2019) explain that support has been provided by the Government to assist small businesses to comply with their tax obligations by reducing the administrative burden associated with compliance through a system requiring a simplified 'Turnover Tax'. However, micro-businesses have not been found to use the incentives provided optimally, and many of these businesses are not aware of these opportunities. Letsoalo (2014), indicates that factors such as tax registration, accounting record-keeping and preparation of annual financial statements, have a significant impact on the tax compliance levels of micro-businesses, but there is no research that has been conducted specifically regarding the impact of these factors on tax compliance for micro-businesses. This research therefore focuses on these aspects.

1.7 Aim of the Study

The aim of this study is thus to expand the existing theoretical tax-compliance model (Fischer's Tax Compliance Model) as a tool to assist tax authorities to improve tax compliance amongst micro-businesses, using a case study of such businesses within the eThekweni Municipality.

1.8 Research Objectives

The objectives of the study are as follows:

- To analyse factors affecting tax compliance as indicated in Fischer's Tax Compliance Model as a basis for finding a possible solution to improve tax compliance amongst micro-businesses;
- to assess the suitability of other existing expanded tax compliance models, which are based on Fischer's model, to improve compliance behaviour and expand the tax compliance model in this current study. The following expanded models will be discussed:
 - Fischer's tax compliance model: A proposal for Nigeria; and
 - Fischer's tax compliance model: A research synthesis;
- to evaluate the factors affecting tax compliance amongst micro-businesses and to provide evidence from other studies to confirm their validity; and
- to recommend an expanded tax-compliance model that may be used by tax authorities to improve tax compliance amongst micro-businesses by focussing specifically on tax registration, accounting record-keeping and preparation of annual financial statements.

1.9 Research Questions

The research questions for this study are:

- ☐ What factors affecting tax compliance, as indicated in the Fischer's Tax Compliance Model, can be analysed as a basis for the improvement of tax compliance amongst micro-businesses?
- ☐ How suitable are the existing expanded tax compliance models, which are based on Fischer's Tax Model, for understanding tax compliance behaviour, for this current study?
- ☐ What evidence is there of other factors that may impact on the tax compliance behaviour of micro-businesses – specifically tax registration, accounting record-keeping and preparation of annual financial statements? and
- ☐ What changes to the model (if any) can be recommended to improve the tax compliance of micro businesses?

1.10 Research Variables

The three independent variables of this study are:

- ☐ Tax registration;
- ☐ Accounting records keeping; and
- ☐ Preparation of annual financial statements.

1.11 Research hypotheses

These variables are associated with the following sets of hypotheses:

1.11.1 Research hypotheses based on tax registration

Hypotheses have been set up in terms of how tax registration affects tax compliance amongst micro businesses

1.11.1.1 First set of hypotheses based on tax registration:

- ☐ H0: There is no difference in the agreement levels relating to business owners considering tax registration as part of a legal requirement; and
- ☐ H1: There is a difference in the agreement levels relating to business owners considering tax registration as part of a legal requirement.

1.11.1.2 Second set of hypotheses based on tax registration

- ☐ H0: Micro-business owners do not fear sanctions or punishments that can be imposed by tax authorities on non-compliant taxpayers; and

- ☐ H1: Micro business owners fear the sanctions or punishments that can be imposed by tax authorities on non-compliant taxpayers.

1.11.1.3 Third set of hypotheses based on tax registration:

- ☐ H0: Micro-business owners do not think that it is easier to get access to funding from financial institutions when the business is registered for tax; and
- ☐ H1: Micro-business owners think that it is easier to get access to funding from financial institutions when the business is registered for tax.

1.11.1.4 Fourth set of hypotheses based on tax registration:

- ☐ H0: Micro business owners do not consider tax registration as part of their moral duty; and
- ☐ H1: Micro business owners consider tax registration as part of their moral duty.

1.11.2 Research hypotheses based on accounting record keeping

The following research hypotheses relate to accounting record keeping:

1.11.2.1 First set of research hypotheses related to accounting record keeping:

- ☐ H0: Having sufficient personnel to keep accounting records for the business is not regarded as a matter of importance amongst micro-businesses; and
- ☐ H1: Having sufficient personnel to keep accounting records for the business is a matter of importance amongst micro-businesses.

1.11.2.2 Second set of research hypotheses related to accounting record keeping:

- ☐ H0: Having personnel with the necessary qualifications to keep accounting records for the business is not a matter of importance amongst micro-business owners; and
- ☐ H1: Having personnel with the necessary qualifications to keep accounting records is regarded as matter of importance amongst micro-business owners.

1.11.3 Research hypotheses based on the preparation of the annual financial statements

The following research hypotheses relate to the preparation of annual financial statements amongst micro businesses in this study.

1.11.3.1 First set of the research hypotheses based on the preparation of the annual financial statements:

- H0: Micro business owners do not believe that financial statements can assist the business in the day-to-day running of the business; and
- H1: Micro business owners believe that financial statements can assist in the day-to-day running of the business.

1.11.3.2 Second set of the research hypotheses based on the preparation of the annual financial statements:

- H0: Micro business owners do not believe that annual financial statements can assist in advancing their business operations (taking the business to another level); and
- H1: Micro business owners believe that annual financial statements can assist in advancing their business operations (taking the business to another level).

1.12 Literature Review

Firstly, the literature review will provide an overview of tax obligations for micro businesses. It will also discuss the importance of a simplified tax system involving 'turnover tax', and the obligations related to the preparation of tax returns. Factors affecting tax compliance amongst micro-businesses specifically will also be discussed. An overview of the economic base will be provided. Psychological or behavioural factors which affect tax compliance behaviour amongst micro-businesses will also be considered.

The literature review will then focus on the first research objective for this study which is to analyse factors affecting tax compliance, as indicated in Fischer's Tax Compliance model as a basis for finding possible solutions to improve tax compliance amongst micro-businesses. The second research objective addressed relates to assessing other tax compliance models which will be used as guidelines to expand Fischer's Tax Compliance Model in the current study. The literature review will also focus on the third research objective which is to elaborate or explore factors affecting tax compliance behaviour amongst micro-businesses. The final research objective deals with recommending an expanded tax compliance model for use by tax authorities to help improve tax compliance amongst micro-businesses in eThekweni.

1.13 Clarification/ Definition of Terms

Key concepts used in this study are:

1.13.1 Tax compliance. This is adherence or conformity to the laws and rules of taxation established in a country. This definition indicates the acceptance of the law by taxpayers.

Furthermore, tax compliance involves taxpayers in submitting all tax returns and declaring all liabilities (Slemrod, 2019);

1.13.2 Non-compliance with tax. This refers to a range of activities that are unfavourable to a state's tax system. These include *tax avoidance* (which is tax reduction by legal means) and *tax evasion*, which is the criminal non-payment of tax liabilities (Tishar and Hasanuzzaman, 2019);

1.13.2.1 Tax avoidance – is the legal use of tax laws to reduce one's tax burden. Both tax evasion and avoidance can be viewed as forms of tax non-compliance, as they describe a range of activities that intend to subvert a state's tax system. However, such classification of tax avoidance is contentious, given that avoidance is lawful within self-creating systems (Dyreng, Hanlon and Maydew 2019);

1.13.2.2 Tax evasion – is the illegal evasion of taxes by individuals, corporations and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of affairs to the tax authorities in order to reduce their tax liability. Such evasion includes dishonest tax reporting – declaring lower income, profits, or gains than the amounts actually earned, or overstating deductions. Tax evasion is an activity commonly associated with the informal economy, for example, micro-businesses not registering for taxation purposes (Alstadsaeter, Johannesen & Zucman 2019);

1.13.3 Micro-businesses – As discussed above, there are certain businesses that can be classified as micro-businesses in South Africa. Micro-businesses should have an annual turnover that does not exceed R1 million during the tax period. SARS recognises that micro-businesses can be formed by any person/s in order to operate as a sole proprietor or a partnership. The term 'company' can also refer to a close corporation or a cooperative (SARS 2021b);

1.13.4 Income tax. This kind of taxation is levied by SARS on all income generated by taxpayers. It can also be levied on all the profits received by the taxpayer. Such profits include the profit received by individuals, companies and trusts. Taxpayers may be required to pay one of many forms of income tax, such as income tax, provisional tax, and employee's tax (SARS, 2017);

1.13.5 Turnover tax. This is a tax that reduces the administrative burden for micro-businesses by simplifying the number of returns that must be filed. A typical business may currently be liable for submitting the following to the South African Revenue Services: value-added tax

(VAT); income tax; capital gains tax and secondary tax on companies (STC). Turnover tax is a simplified tax system which is available to replace all these taxes for businesses with an annual turnover of one million rands or less (SARS 2021b) – that is for micro-businesses.

1.13.6 Value-added tax. Up to 31 March 2018, the value-added tax (VAT) rate in South Africa was 14%. However, registered VAT vendors in South Africa are now required to pay a 15% standard rate for the supply of goods and services. Only vendors who are expected to generate taxable supplies that exceed R1 million per annum need to register or comply with VAT in South Africa. Such taxable supplies of goods and services must be made by the taxpayer over a 12-month period; the taxpayer will be required to register and comply with VAT in South Africa (SARS 2021g). Thus VAT is not relevant to micro-businesses.

1.13.7 Pay as you earn (PAYE), Employers must pay wages to employees. Therefore, employers must deduct the employees' tax and pay it to SARS. This kind of taxation is called PAYE. Such an employer must register with SARS for PAYE. Employers have an obligation to deduct their employees' tax from their remuneration, paying it to SARS on a monthly basis (SARS 2020b). Micro-businesses are unlikely to be obliged to pay this tax.

1.13.8 Provisional tax. Some people believe that provisional tax is tax which is separate from income tax, that must be paid by businesses or individuals. However, this is not the case. What is important about the provisional tax is that taxpayers will be provided with an opportunity of paying two instalments of tax liability in advance; such instalments must be paid during the year of assessment. These instalments are estimated and not the final taxation that must be paid by the taxpayer. If it happens that the taxpayer is required to make a third payment of provisional tax after the tax year has ended, this can only happen before the taxpayers are issued with an assessment (SARS 2017).

1.13.9 Capital gains tax. This kind of taxation is imposed or levied on the sale of a company's assets, such as property. Therefore, where proceeds, with regards to the sale of an asset, are larger than what is called the 'asset based cost', the company will be required to pay capital gains tax. Capital gains tax is not classified as separate tax but forms a part of the income tax (SARS 2021c). Micro-businesses are very unlikely to incur this tax.

1.13.10 eThekweni Municipality – This study covers businesses operating in each of the following areas of eThekweni Municipality: the suburbs, a township area, a rural area, and the city centre.

According to Municipalities (2021), the designation eThekweni Municipality was created in the year 2000. This includes the city of Durban and its surrounding towns. The eThekweni

Municipality area is classified as one of the eleven districts of the province of KwaZulu-Natal, South Africa. This municipality includes Adams Mission, Amalanga, Amanzimtoti, Amaotana, Amawoti, Assegay, Blackburn, Bothas Hill, Cato Ridge, Cele/Vumengazi, Chatsworth, Cibane, Clansthal, Clermont, Dassenhoek (Part 1 & 2), Desainager, Drummond, Durban, Elangeni, Emalangeneni, Embo/Nksa Isimahla, Emona, Ezembeni, Folweni, Gcumisa, Genazano, Hambanathi, Hazelmere, Hillcrest, Ilanga, Inanda, Inchanga, Iqadi, Khabazela, Kingsburgh, Klaarwater, Kloof, Kwadabeka, KwaMakhutha, Kwa-Mashu, KwaNdengezi, LaMercy, Lamontville, Luganda, Luthuli/Umnini Trust, Macala-Gwala, Magabeni, Malagazi, Mangangeni/Vumazonke, Maphephatha, Maphunulo, Mawotana, Mawothi, Molweni, Mount Moreland, Mpolo, Mpumalanga, Mt Edgecombe, Mwawine, Naidooville, New Germany, Newlands East, Newlands West, Ngcolosi, Ngqungqulu, Ntshongweni, Ntuzuma, Oceans, Phoenix, Pinetown, Qadi, Qiniselani Manyuswa, Queensburgh, Redcliffe, Roseneath, Siyanda, Sobonakhona, Thoyana, Tongaat Beach, Tongaat, Tshelimnyama, Umbumbulu, Umdloti, Umgababa, Umhlanga, Umkomaas, Umlazi, Verulam, Westbrook, Westville and Ximba.

1.14 Rationale for the Study

A high level of non-compliance with tax has been reported in this country. This affects the amount of tax revenue that tax authorities are able to collect (Mabungu, Fofana & Chitiga-Mabugu 2015). Meheus and McIntyre (2017) indicate that micro-businesses could be playing a more significant role in the country's economy if they contributed more to tax revenue. According to Rahayu (2020), some of these micro-businesses may not be complying with their tax obligations or possibly not paying income tax at all. Likewise, Smulders, Stiglingh, Franzsen, and Fletcher (2016) believe that, if micro businesses can be assisted to comply with their tax obligations, they can have a positive impact on the country's economy (more tax revenues could be generated from these businesses).

1.15 Significance of the research study

A considerable body of research has been conducted by researchers on the taxation of small businesses. However, as stated above, such research has mainly focused on reducing compliance costs. This is referred to as the 'tax burden'. Government's tax regulations in South Africa are constantly changing in line with the evolving business environment. It is therefore important for further research studies to take account of these transformations.

Researching the challenges that are currently faced by micro-businesses in South Africa with a view to encouraging compliance with tax obligations is important when considering the

changing business environment. The results should make it easier for tax authorities to understand the challenges for tax compliance faced by the micro- business sector. Most research that has been conducted in the past has been based on small businesses and this study of micro-businesses should provide a different dimension. This study may also help the tax authorities to find a solution to the problem of creating what is called a 'conducive business environment' for micro businesses.

1.16 Limitations of the Study

The results of the study indicate the opinions of micro-business owners on the causes of non-compliance. However, there were certain limitations encountered by the researcher when conducting this study. The use of a closed questionnaire precluded any opportunity for micro-business owners to explain additional reasons for not complying with their tax obligations, nor could the respondents offer suggestions for improving tax compliance amongst micro-businesses. In addition, some respondents failed to answer all of the questions.

The micro-business owners in general had limited knowledge of tax compliance, owing to their low level of education – some having no education at all. As a result, they may not have been able to answer the questions fully as they had only a limited understanding of what was required or expected by the researcher. Despite the assurances of the researcher that their responses were anonymous and confidential, and would be used for research purposes only, some micro-business owners may not have answered the research questions with honesty and integrity as they may still have been worried that this information was required by the tax authorities (SARS) for further investigation, and that they would be in trouble should they be exposed as not complying with their tax obligations.

This study was restricted to micro-businesses within eThekweni Municipality. It involved a suburb (Durban North), a rural area (Umbumbulu), a township (Umlazi) and Durban Central (a City Centre). The sample was small relative to the population and it is possible that the non-selected participants may have provided different answers with regard to tax compliance.

1.17 General Outline of the Study

This dissertation consists of five chapters.

Chapter 1: Introduction and Background

This chapter provides the background to the study, as well as the problem statement, purpose, goals, objectives and outline of the chapters in the dissertation. Clarification of key concepts is also presented.

Chapter 2: Literature Review

The literature review firstly further discusses the term ‘micro-businesses’ and the provisions of the Income Tax Act with regards to what is expected from sole traders, partnerships and companies in respect of tax compliance. This is followed by a discussion of how the corporate tax system operates in South Africa and the type of businesses that pay corporate tax. Also in Chapter 2 the various tax compliance models, and the economic and non-economic factors affecting tax compliance amongst micro-businesses, are considered.

Chapter 3: Research Methodology

This chapter outlines the research design involving the plan for the collection and analysis of data. The sampling method, data-collection method and data-analysis techniques are explained and details of the questionnaire design used in the study are presented.

Chapter 4: Data Analysis

This chapter presents the findings and analysis of the empirical data.

Chapter 5: Conclusions and Recommendations

This chapter outlines the conclusions drawn from the study. Recommendations are made for improving tax compliance amongst micro-businesses in Ethekweni Municipality and for further developing Fischer’s Tax Compliance Model. The limitations of the study, and suggestions for further research, are also included.

1.18 Summary

This chapter has highlighted the importance of SMMEs in the country’s economy along with the challenges to tax compliance experienced by the authorities as regards to taxing this sector of the economy. SARS is explained as the custodian (tax collector) for South Africa. Tax compliance models and their limitations are explained along the rationale for the study and its aim and objectives. Key terms are explained and an outline of the content of the chapters is provided. The following chapter will discuss the literature pertaining to the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will contextualise ‘micro-businesses’ for the purpose of this study and discuss how the corporate tax system operates in South Africa. The chapter will further elaborate on the taxation of SMMEs. In addition, economic and non-economic factors affecting tax compliance will be discussed along with dominant tax compliance models relevant to the objectives of the study.

2.2 Understanding the term ‘micro-businesses’

For the purposes of this study, the term ‘micro-businesses’ relates to businesses with an annual turnover not exceeding R1 million per annum. As explained above, this includes businesses such as sole traders, partnerships and companies (the term ‘company’ in this case relates to close corporations and co-operatives) (SARS, 2017). The provisions of the Income Tax Act provide an understanding of what is expected from these entities in order for them to comply with their tax obligations in South Africa.

2.3 Corporate tax system in South Africa

According to SARS (2021i), the standard tax with regards to the income of registered companies in South Africa is currently levied at a flat rate of 28%. As from 01 April 2022, tax rates on companies will be reduced slightly to a flat rate of 27%. SARS collects most of the corporate income tax levied in South Africa from foreign companies and from personal service providers (Expatica, 2021).

2.3.1 Type of businesses that pay corporate tax in South Africa

All registered businesses pay corporate or company tax in South Africa (Expatica 2021). Those businesses that are designated ‘South African-based businesses’ have an obligation to pay South African corporate tax on their worldwide income (Tax Summaries, 2021). On the other hand, those companies which are based outside the republic, but operate their businesses in South Africa (these companies have branches within the republic), pay tax only on the income earned or derived within the Republic of South Africa (SARS, 2021e). The following are

examples of companies which are expected to pay corporate tax in the Republic of South Africa (Expatica, 2021):

- ☐ Listed and unlisted public companies;
- ☐ Private companies;
- ☐ Close Corporations
- ☐ Cooperatives;
- ☐ Collective investment schemes;
- ☐ Small business corporations;
- ☐ Share block companies;
- ☐ Corporate bodies;
- ☐ Public benefit companies; and
- ☐ Dormant companies.

2.3.2 Corporate tax for sole traders and partnerships

A taxpayer can be characterised as self-employed, freelance worker, sole proprietor or a partner (Expatica 2021). Such a taxpayer pays individual tax (SARS 2020a). Hence, according to SARS (2021f), if a taxpayer is classified as an individual taxpayer, he/she must submit personal income tax (this will be done using the form called ITR12) and will not be expected to submit a business tax return to SARS. However, SARS (2020f) indicates that two or more partners of a partnership will pay tax based on their individual share of the partnership profit.

2.3.3 Small business tax in South Africa

Where the taxpayers operate as a small business in South Africa, there are a number of ways in which the taxpayer can register his or her business. The type of tax registration will determine how the business will pay tax (Expatica, 2021). For example, in the situation where an owner operates the business by him/herself, it will be a better option to operate the business as a self-employed sole trader. However, to register one's business as a company with a separate legal identity, it is important to consider the following options:

2.3.4. The option to register the business as a standard private company

This option to register the business as a company is important in this study because micro-businesses can also be companies, such as close corporations (CCs) and cooperatives (SARS, 2017).

A business registered as a company must pay corporate tax which is calculated at a standard rate, as explained above (SARS 2021d). Similarly, close corporations (CCs) and cooperatives must also pay corporate tax (SARS 2021j).

2.3.5 The option to register the business as a micro-business for Turnover Tax

Zurcher (2021) believes that all company tax requirements set up by SARS pose an administrative burden for small business owners whose primary focus is to ensure that their businesses remain profitable. Therefore, the option is provided by SARS for these entities to pay a simplified 'turnover tax' based purely on their turnover for the tax period. SARS (2021b) highlights some of the ways that turnover tax can benefit micro-business owners:

- Turnover tax is a simplified tax system for small businesses with a qualifying turnover that is not more than R1 million per annum (i.e. micro-businesses);
- Turnover tax is categorised as tax that is based on the taxable turnover for the business. This is available to sole traders (individuals), and it is also available to partnerships and close corporations, such as companies and co-operatives;
- The advantage of using the turnover tax is that it replaces taxes such as VAT, provisional tax, income tax, capital gains tax, secondary tax on companies (STC) and dividends tax;
- Those businesses who qualify for turnover tax and who elect to be taxed in this way, will be required to pay a single tax as opposed to paying a variety of taxes. Turnover tax is an elective, meaning that the taxpayer is provided with an opportunity to choose this option but s/he is not required to.

Table 2.1 shows the taxable turnover in rand value and rate of tax for the tax year which starts 01 March 2021 to 28 February 2022.

Table 2.1: Taxable turnover and tax rate

Taxable turnover in rand value	The rate of tax in rand value
For turnover from R1 to R335 000	Zero percent of the taxable turnover on this bracket
For turnover from R335 000 to R500 000	One percentage of taxable turnover
For turnover from R500 001 to R750 000	Tax of R1 650 plus two percent of taxable turnover
For turnover from R750 001 TO R1 000 000	Tax of R6 650 plus three percent of the taxable turnover.

Source: SARS (2021b)

2.3.6 The option to register the business as a Small Business Corporation (SBC)

According to Expatica (2021), where the taxpayer wants to pay tax in South Africa as a small business, there is an option to register as a Small Business Corporation and this relates to the situation where the annual turnover is not exceeding R20 million per annum. This includes complying with other detailed criteria which are set by SARS. Those businesses which fall under the category 'Small Business Corporation' pay tax at a lower rate than the standard flat corporate tax paid by companies in South Africa (SARS, 2021a). However, these are not the focus of this study.

Table 2.2 shows the taxable income and tax rate for a Small Business Corporation for the financial year ending between 01 April 2021 and 31 March 2022.

Table 2.2: Taxable income and rate of tax for SBC

Taxable Income in Rand value	Rate of Tax
For taxable income from R1 to R87 300	The tax is calculated at 0% of the taxable income
For taxable income from R87 301 to R365 000	The tax is levied at 7% of the taxable income
For taxable income from R365 001 to R550 000	The taxpayer needs to pay a tax of R19 439 plus 21% of taxable income
For taxable income from R550 001 and above	The taxpayer needs to pay tax of R58 289 plus 28% of the taxable income

Source: SARS (2021d)

2.4 Theories concerning tax compliance.

Theories which seek to explain tax compliance behavior include the following:

2.4.1 Economic-based theories. Allingham and Sandmo (1972), cited in Darmayasa and Aneswari (2015), explain that economic-based theories are based on mainstream standard or neoclassical economic theory. The significance of economic-based theory is analysed by Alm (2019) who explains that taxpayers can be viewed as rational individuals who have options to make alternative compliance decisions. Gillingham and Palmer (2014) using this approach, state that when taxpayers are making a decision to comply or not to comply, they consider factors such as the possibility of being detected when not complying, the possible sanctions that could be imposed against them when they fail to comply with tax, and the inability to claim expected after-tax return benefits when non-compliant. Economic theory also indicates that

there are certain deterrent measures that can be used to improve tax compliance: these include tax audits and the imposing of stiff penalties against non-compliant taxpayers (Alm 2019). A rational taxpayer also needs to consider these. (Note that classical economic theory is based on an understanding of rationality as individualistic and self-interested)

Of relevance to this study, the economic factors which influence tax compliance behaviour amongst micro-businesses, as with other taxpayers, include taxpayers' level of income, tax rates, the impact of tax audits on tax compliance, tax penalties, compliance costs and tax benefits.

2.4.2 Psychological or behavioural theories concerning tax compliance

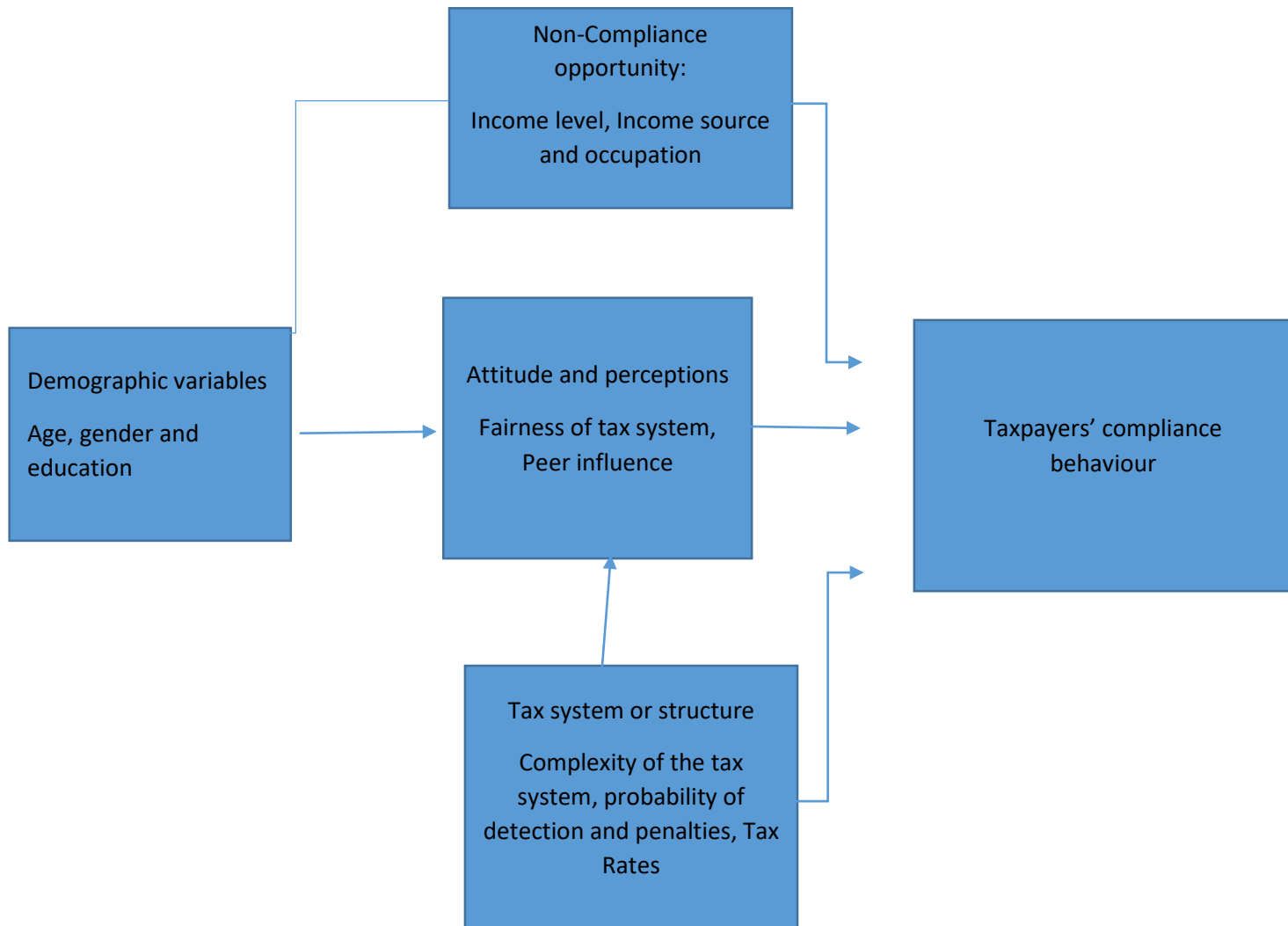
Damayanti, Subekti and Baridwan (2015) believe that the decisions of taxpayers to comply or not to comply with tax regulations are greatly influenced by psychological and behavioural factors. Moreover, in contrast to standard economic theories, these theories accept that the taxpayer voluntarily complying with tax can happen even when the chance of being detected is very small (Oladipupo & Obazee 2016). Additionally, psychological or behavioural theories indicate factors that tax authorities can tap into to improve tax compliance: for instance, taxpayers' moral sensitivities and existing social norms can influence tax compliance behaviour, as can the kinds of interaction that taxpayers have with tax authorities and the government (Jimenez & Iyer 2016). Oladipupo & Obazee (2016) explains that the main object of understanding these psychological or behavioural theories is to be in a position to alter the attitude of the taxpayer towards paying tax, as this can have an impact on improving tax compliance. With reference to what gives rise to the behavioural factors, Randlane (2016) notes that behavioural factors also give rise to economic theories and these may not be conducive to tax compliance.

In this study, some of the non-economic factors which influence tax compliance amongst micro-business owners that are based on psychological or behavioural factors include the taxpayers' attitude, their tax knowledge, the influence of personal, social and national norms on tax compliance, consideration of the impact of theoretical foundations of tax compliance, economic deterrence theory, fiscal exchange theory, and the effect of non-state actors, as service providers, on tax compliance. These are discussed further below.

2.5 Fischer's Tax-Compliance Model

The first research objective of this study is to analyse factors affecting tax compliance as indicated in the Fischer's Tax Compliance model. As stated previously, the model is used as a base from which possible solutions to improving tax compliance amongst micro-businesses can be suggested to SARS. It includes both economic and non-economic factors discussed above, which are broken down further as illustrated below:

2.1 Figure 1: Fischer's tax compliance model



Source: Lawan and Salisu (2017)

Jackson and Milliron (1986), cited in Obaid, Ibrahim and Udin (2020), identified fourteen key factors that impact on taxpayers' behaviour. Fischer *et al.* (1992), cited in Bruce-Twin (2014), combine these factors in a refined model which consists of four different structures involving the following:

- The impact of demographic variables, which include the age of the taxpayers, their gender and education level (Alabede 2014);
- Non-compliant opportunities such as income level, income source, and occupation (Pratama 2018);
- The attitude and perceptions of the taxpayer, namely, the fairness of the tax system, and peer influence (Abd Obaid, Ibrahim and Udin 2020); and
- Finally, these factors include the complexity of the tax system, the probability of detection, penalties and/or interest and tax rates (Bruce-Twum 2014).

2.5.1 Demographic variables

The impact of demographic variables on tax compliance includes the following:

2.5.1.1 Age and gender

Jackson and Milliron (1986), cited in Tehulu and Dinberu (2014), agree that the age of the taxpayer has a significant impact on tax compliance behaviour. Androeni et al. (1998), cited in Bruce-Twum (2014), add that a tax compliant measurement programme, done by an internal revenue service, indicated that there were fewer non-compliance issues found amongst taxpayers above the age of 65. Younger taxpayers were more willing to take risks and cared less about the sanctions that might be imposed for non-compliance (Daniel, Akowe and Awaje 2016). Additionally, Lawan and Salisu (2017), claim that age has a similar major effect on international tax payers/evaders.

Tittle (1980), cited in Mukabi (2014), found that female taxpayers are more compliant than their male counterparts. Mukabi (2014), add that female taxpayers are more likely to be responsible taxpayers, to show moral restraint, and to follow conservative life approaches. Baldry (1987), cited in Nsor-Ambala 2015), also claim that, based on an experimental study which they conducted, female taxpayers are more compliant than male taxpayers. Jaouen (1987), cited in Lawan and Salisu (2017) agree. However, In contrast to these findings, Houston and Tran (2001), cited in Natasha and Yustina (2020), found that there can also be a high level of non-compliance amongst women.

2.5.1.2 Education level

Tehulu and Dinberu (2014) maintain that the education level of taxpayers plays a significant role in influencing their compliance levels. Tishar and Hasanuzzaman (2019) believe that certain aspects of education play a significant role. The education of taxpayers is segregated into two aspects: firstly, the general degree of the fiscal knowledge of the taxpayer and,

secondly, some degree of knowledge with regard to tax evasion opportunities to which taxpayers can be exposed (Alabede 2014). Inasius (2019) argues that the education level for the taxpayer can be considered as a background variable, and that the taxpayers with 'higher fiscal knowledge' have better ethical scores when compared to those taxpayers with lower fiscal knowledge. Sritharan and Salawati (2019) believe that taxpayers' higher knowledge levels have a positive impact on the decision to comply with tax rules. Tehuluand and Dinberu (2014) agree. This can be called the direct function of higher knowledge. Additionally, the results of another survey conducted using a randomized response technique on Australian individuals, showed that those taxpayers with tertiary education were more compliant than those taxpayers without tertiary education (Houston and Tran 2001, cited in Lawan and Salisu 2017).

2.5.2 Non-compliance opportunity

Non-compliance opportunities that are discussed in the Fischer's Tax Compliance Model include the following issues:

2.5.2.1 Income level and income source

In terms of how income level influences tax compliance, Andreoni et al. (1998), cited in Durham, Manly and Ritsema (2014), found that the majority of the tax compliance models show that there is a relationship between an increase of the income level and tax evasion, meaning that when the income level of the taxpayer increases, the level of tax evasion may also increase. Vogel (1974), cited in Lawan and Salisu 2017) agrees. However, there is some contradictory evidence on this point as Houston and Tran (2001), cited in Natasha and Yustina (2020), found that those taxpayers who were classified as within lower income groups were less compliant than the higher income earners: they tended to overstate expenses and under-report incomes as compared with higher income groups. Ritsema et al. (2003), cited in Lawan and Salisu (2017), also note that taxes owed to the revenue authorities were classified as a function of the income level of the taxpayer – but the evidence here is unclear.

2.5.2.2 Income source

Income source has also been found to have an impact on tax compliance. Groves (1985), cited in Durham, Manly and Ritsema (2014), believes that income source plays a major role in tax compliance levels. Self-employed personnel were found to have a markedly higher level of non-compliance (Houston and Tran 2001, cited in Korndörfer, Krumpal and Schmukle 2014). Kogler, Muehlbacher and Kirchler (2015) also found that self-employed personnel are guilty of various forms of non-compliance. This is reinforced by Hurst, Li and Pugsley (2014). Likewise, Vogel

(1974), cited in Lawan and Salisu (2017), reports on a survey done in Sweden, which indicated that thirty-nine percent of the respondents, who were in receipt of additional income, were not taxed at the source and also evaded tax, compared with twenty-one percent of respondents who did not receive any additional income as a self-employed person. Fjeldstad and Semboja (2011), cited in Lawan and Salisu (2017), add that those employees who had the responsibility to pay a head-tax through the tax withholding system, had fewer opportunities to evade tax compared with self-employed personnel. Again, it was shown that tax evasion can be related or classified as a function of income source.

2.5.2.3 The occupation of the taxpayer

Jackson and Milliro (1986), cited in Antwi, Inusah and Hamza (2015), and Andreoni et al. (1998), cited in Shafer and Wang (2018), all conclude that the taxpayer's occupation has an influence on their compliance levels. People who deal with sales that are generated in one fixed location have a tendency to understate taxes, e.g., restaurant owners, car dealers, and business centres, amongst others.

2.5.3 Attitude and perceptions

The factors affecting attitude and perceptions of the taxpayers include the following:

2.5.3.1 The fairness of the tax system

Jackson and Milliron (1986), cited in Gberegbe and Umoren (2017), explain that tax fairness can be looked at from two different perspectives: the first dimension involves the 'equity of the trade' – this is the extent of benefits received for paying tax also known as 'tax dollar given'. The second dimension is called the 'equity of taxpayers' burden' (Lawan and Salisu 2017). Porcano (1984), cited in Mukhlis, Utomo and Soesetio (2015), explains that one of the reasons why taxpayers are willing to pay tax is their perception of the fairness of the *system* of taxation. This was classified as the most significant determinant of the taxpayers' willingness to pay tax by Alshira'h, and Abdul-Jabbar (2019). Lawan and Salisu (2017) find that those taxpayers who perceive the system of taxation to be unfair were likely to evade tax. Eriksen and Fallen (1996), cited in Inasius (2015), indicate that the perception of taxpayers towards the fairness of the system of taxation can be improved by providing adequate tax knowledge which serves as a tool to motivate taxpayers to comply.

2.5.3.2 Peer influence

Jackson and Milliron (1986), cited in Alshira'h (2019), define the term 'peers' as the group of taxpayers that can be classified as being personally linked, such as relatives, friends and associates of the taxpayer. The peers of taxpayers have a major influence on the decision for the taxpayer to comply or not. Grasmick and Scot (1982), cited in Sinnasamy, Bidin and Ismail (2015), support this with their finding that those respondents who spend time with non-compliant taxpayers normally have a similar attitude to paying tax. Mason et al. (1975), cited in Lawan and Salisu (2017) and Chan et al. (2000), cited in Tehulu and Dinberu (2014), concur.

2.5.4 The tax system or tax structure

The impact of the tax system or tax structure on tax compliance includes:

2.5.4.1 The complexity of the tax system

Inasius (2019) and Tehulu and Dinberu (2014) note the 'excessive reforms' of tax laws recently adopted in South Africa, and believe that the complexity of the tax system can be associated with a high rate of non-compliance. Cvrlje (2015) concurs, pointing out that the complexity of the tax system complicates the computation of tax liability and, according to Saad (2014), to improve tax compliance, it is therefore important that the rules regarding tax compliance be simplified: rules must be formulated in such a way that they are clear and easy to follow – but this is hard to achieve when the complexity of the tax system increases steadily as more tax rules are added (Lawan and Salisu 2017).

2.5.4.2 The probability of detection and penalties: tax audits.

Beron et al. (1990), cited in Lawan and Salisu (2017), claim that the impact of tax audits on tax compliance behaviour provides moderately positive effects on tax compliance. When taxpayers understand that when they fail to comply with tax, there will be some form of a punishment instituted against them, this could prevent taxpayers from committing the offence. Jimenez and Iyer (2016), agree that punishment for non-compliance has a positive effect on compliance. For a system of taxation to be effective, it is important therefore to set sanctions for non-compliance. When taxpayers have failed to make a declaration or to file their tax returns, this may come to light during an investigation indicating that the taxpayer did not comply with the applicable provisions of the tax law (Du Chenne 2015). Obara and Nangih (2017) recognize that taxpayers,

who have not experienced tax audits, are open to taking opportunities to underreport their income and to claim incorrect deductions. Modugu and Anyaduba (2014) observe that tax audits are correlated with inducing taxpayers to claim more deductions, but that the system does not encourage taxpayers to report their actual income accurately. Overall however the possibility of having to undergo a tax audit can change the taxpayers' behaviour from being negative to positive.

Modugu and Anyaduba (2014) found that tax compliance amongst small and medium size businesses is influenced by audit history, which includes the frequency of auditing, the impact of audit outcome and the type of audit that is necessary for small businesses. Again the results here are inconclusive.

2.5.4.3 Tax rates

The effect of tax rates was highlighted as a third major construct. Lawan and Salisu (2017) note that there are certain important variables that relate to tax compliance behaviour, such as progressive and flat tax rates. Grundmann and Lambsdorff (2017) add that high tax rates will have a negative impact on tax compliance behavior while Alm et al. (1993), cited in Brockmann, Genschel and Seelkopf (2016), note that the possibility of underreporting can be closely associated with the marginal tax rate.

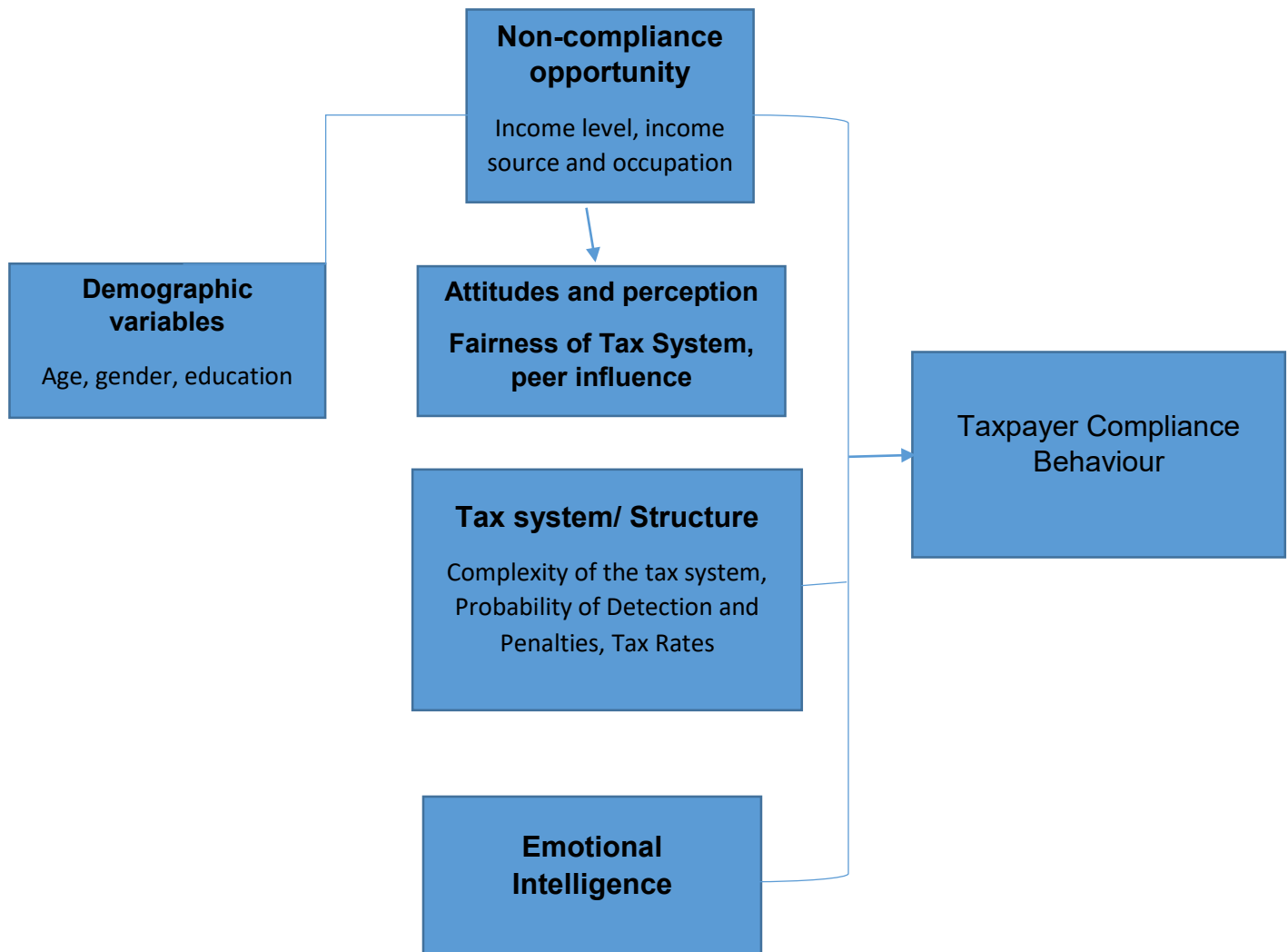
2.6 Expanded Tax Compliance Models

The second research objective for this study relates to the contribution that has been made by other researchers, who have added to Fischer's Tax Compliance Model in order to better understand and improve tax compliance in their own countries. This has resulted in expanded models. Two expanded tax compliance models based on the Fischer's tax model, are:

- Fischer's tax compliance model: A proposal for Nigeria, which adds the dimension of emotional intelligence; and
- Fischer's tax compliance model: A research synthesis by Gerald Chau and Patric Leun, which adds cultural and environmental factors.

Figure 2.2: Expanded Model A. A proposal for Nigeria.

2.6.1 A Proposal for Nigeria



Source: Lawan and Salisu (2017)

Lawan and Salisu (2017) give the following reasons for expanding the model:

- Certain additional factors have been highlighted as responsible for tax evasion in developing countries, where tax evasion is consistently reducing tax revenues. The original Fischer's tax model only considers the impact of economic, social and psychological factors, while in capturing other factors influencing tax-compliance behaviour, Fischer's model is considered weak.
- This model highlights the importance of ensuring that good service can be provided to the taxpayers by tax administrators, through an understanding emotional intelligence. According to Lawan and Salisu (2017), emotional Intelligence, which relates to the ability of the individual to control or manage their emotions, can motivate other people to follow the same behaviour. Furthermore, the control of the emotions will assist the individual

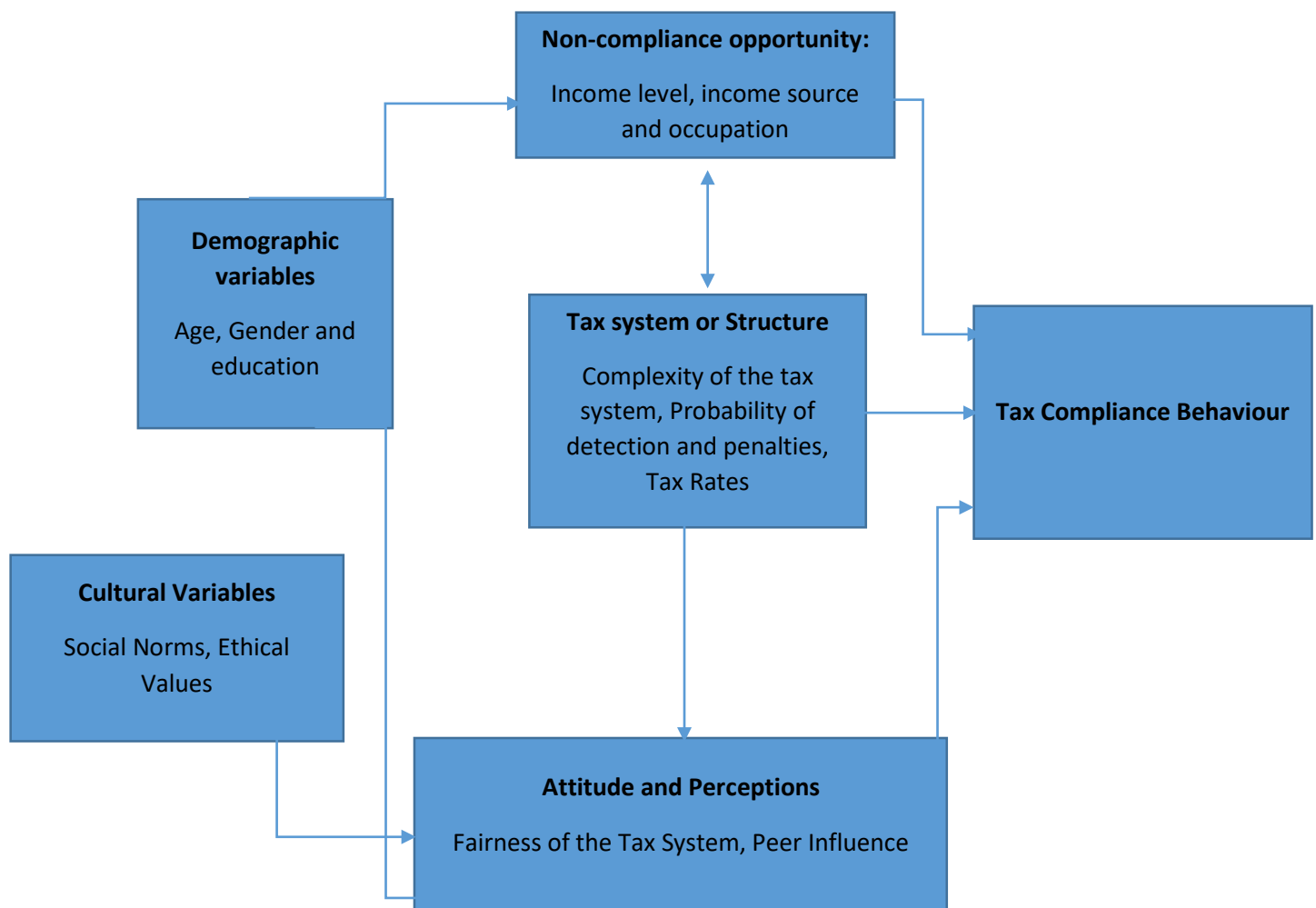
in getting the desired results which could influence the willingness of the taxpayers to comply with tax obligations.

- Chuenjit (2014) explains that the main objective of tax administration in any country is to ensure that better service is provided to all taxpayers. The lack of emotional intelligence on the part of the tax authorities and taxpayers can result in non-compliance with tax. Where taxpayers find that tax officers are officious, bad mannered and unhelpful (Lawan and Salisu (2017) taxpayers will have a negative attitude towards paying tax (Chuenjit 2014). Displaying an understanding of their clients (the taxpayers) through the use of emotional intelligence can set a good example to taxpayers and increase the likelihood of tax compliance.

2.6.2 Expanded model B: A research synthesis

This is the second expanded model that is based on the Fischer's Tax Compliance model. This model adds the significance of culture as a factor that can impact tax compliance behaviour:

Figure 2.3: Modified Fisher *et al.* (1992) tax compliance model



Source: Bruce-Twum 2014

2.6.2.1 The impact of culture on tax compliance behaviour

Culture was considered as one of the most powerful environmental factors which affect tax compliance behaviour. Some of the factors that were highlighted regarding the impact of culture on tax compliance behaviour include the following (Rahman 2017):

- Ethical values may be influenced by social norms. Jimenez and Iyer (2016) indicate that ethical values, which may be influenced by social norms, may prevent taxpayers from engaging in tax evasion. Alabede (2014) concurs that culture impacts tax compliance.
- Deza and Deza (2014) add that the influence of individualism, as opposed to social conformity, may have a negative effect on compliance, along with the effect of power distance (how distant the tax authorities appear from the taxpayers). However, not all cultural values appear to influence tax compliance behaviour. Wang (2014) highlighted that there is a major difference in the cultural values between the individualism of citizens of US and the conformity of Chinese culture, and yet tax compliance experienced is not greatly different between the two powers.

These expanded models have been applied in developing countries. South Africa is also considered a developing country, therefore, factors suggested in these models may also be relevant to South African society.

2.7 Evaluating factors affecting tax compliance behaviour specifically amongst micro-businesses

This is the third research objective of this study whereby factors affecting tax compliance amongst micro-businesses will be evaluated. As with other categories of business, Ayuba, Saad and Ariffin (2020) identify economic factors, such as taxpayers' level of income, tax rates, tax benefits, tax audit, audit probabilities, fines and penalties. Non-economic factors including willingness to pay tax for public provision, public education, tax morale, availability of tax information and other non-economic factors may also affect all categories of taxpayer (Jayawardane 2015). The specific issues affecting micro-businesses appear to involve the following:

2.7.1 Economic factors affecting micro-businesses

2.7.1.1 Taxpayers' level of income

As discussed above, according to Khurana and Diwan (2014), there is a higher possibility of self-employed personnel avoiding paying tax than salaried employees since the former receive

income from different sources (some of them work as full-time salaried employees at the same time operating businesses as self-employed). Micro-businesses are classified as part of self-employed businesses (Henley 2017). As such, Mariette and Martinez (2016) note that these self-employed businesses are usually managed by one person. Hence, self-employers can be seen as independent contractors (Meher and Ghatole 2020) with greater opportunities to evade tax.

2.7.1.2 Tax rate

Due to inconclusive findings regarding the impact of tax rate on tax compliance, researchers have been encouraged to continue to explore the relationship between these two variables (Ayuba, Saad and Ariffin 2016). SMMEs play a significant part in the country's economy and their tax rates are considered as being high. SARS (2021b) acknowledge that it is unrealistic that micro-businesses should pay similar tax rates as those of established businesses. This situation has resulted in two tax regimes which, as noted above, can be used by small businesses:

- ☐ Small business corporations; and
- ☐ Registered micro businesses who have the opportunity to elect for turnover tax.

When the business is registered for turnover tax, there is no need for detailed recordkeeping for deductible expenses. Consequently, turnover tax rates can be considered as being significantly lower than tax rates which apply under the standard tax system (SARS 2021b).

However, businesses are still failing to take up this support for reasons discussed further below and thus they are finding it difficult to obtain finance from financial institutions. This difficulty is therefore associated with the fact that micro-businesses are still not complying with tax (Ngalonkulu 2020).

2.7.1.3 The impact of tax audit on tax compliance

The term 'tax audit' as discussed above relates to the examination of financial and accounting records which include the examination of supporting documents of the taxpayer by the tax authorities. This helps to determine whether or not the taxpayer has correctly declared his or her tax position to the revenue authorities (SARS) (du Toit, 2019). Modugu and Anyaduba (2014) explain that tax authorities can enforce tax audits amongst SMMEs. SARS (2019) note the following:

- Micro-businesses (taxpayers) need to understand that they can be called for verification which is classified as face-value confirmation of the information provided by the taxpayers when declaring the information in the tax return (Lamprecht 2014);
- When the verification is conducted by SARS, it will require the comparison of the information in the tax return against accounting records that were presented by the taxpayer. This includes the use of supporting documents to ensure that information declared in the tax return is considered as being a fair and accurate reflection of the taxpayer's position towards tax. Once taxpayers have submitted their declaration to SARS, such declaration can be selected for verification (Terblanche 2016).

Pretorius (2018) indicates that the preparation of accounting records for the business is key when the business is called for verification or auditing. As such, Neneh (2016) notes that majority of micro-business owners fear the tax man (SARS) because many of these businesses fail to keep accounting records.

2.7.1.4 The impact of penalties and cash flows on tax compliance

Swistak (2016) states that there are certain challenges posed specifically for micro-businesses, such as lack of knowledge or capacity to comply with tax obligations. Furthermore, these micro-business owners may not be able to afford to pay for the services of a professional tax advisor. Due to the lack the knowledge of tax, micro-business owners can also commit mistakes unintentionally regarding tax calculation (Murshed and Saadat 2018).

Furthermore, Alshira'h and Abdul-Jabbar (2019) note that changes in market conditions can make it difficult for micro-businesses to comply with tax requirements. They are also more liable than larger businesses to experience temporary cash flow problems (Aladejebi 2018). Moreover, as noted above, micro-businesses may have difficulty in obtaining funding, such as accessing bank credit (Indrawan and Putra 2020).

Swistak (2016) points out another risk associated with micro-businesses – that they are generally sole traders operated by business owners. Micro-business owners use their own capital to start their businesses. They can therefore be sensitive towards unfair treatment by tax administrators and they can be tempted to evade tax (Aladejebi 2018). Swistak (2016) identifies certain actions that can be taken by micro- businesses to ensure that they do not pay tax. or that they have more opportunities for non-compliance as compared with larger businesses. These actions include the non-disclosure of cash transactions and of payment of

wages. The non-compliant actions of micro-businesses can result in the manipulation of sales transactions which affect tax, profit margins, taxable salaries and wages payable to the employees (Swistak 2016). By these means, they can hide their tax liability below the eligibility threshold with regards to presumptive tax (Oyewumi, Otusanya and Adeyeye 2020).

Micro-businesses are also prone to abusive actions by tax administrators when they try to enforce tax compliance (Swistak 2016). Such abusive actions may include excessive tax audits which penalize the taxpayer and encourage non-compliance (Murshed and Saadat 2018).

2.7.1.5 Compliance costs

Compliance costs can be regarded as those costs that are incurred by the taxpayer to comply with requirements laid down by tax law and revenue authorities (Matarirano, Chiloane-Tsoka and Makina, 2019). When a taxpayer stops paying tax, compliance costs necessarily disappear. Complying with tax regulations amongst micro-businesses has been consistently seen as the main constraint on their performance. This is based on the costs that micro businesses have to incur in order to become and remain compliant (Smulders et al. 2016). Matarirano, Chiloane-Tsoka and Makina (2019) claim that ensuring tax compliance forces micro-businesses to incur additional costs, such as non-productive time, taxpayers' efforts to understand tax procedures, submission and completion of tax returns to SARS, compilation of receipts, recording information and for employees responsible for taxable duties to be compensated or fairly paid. As noted above, the option to pay Turnover Tax is granted to micro-businesses to overcome much of this burden, but is often not taken up.

Atiase *et al.* (2019) reveal other compliance costs incurred by micro businesses, such as the payment made to external service providers, and the time spent by tax officials while conducting the inspection and tax audit. The time and money spent by the micro-business dealing with such compliant activities are opportunities lost which distract the entity from dealing with their most important activities (Matarirano, Chiloane-Tsoka and Makina 2019).

Smulders *et al.* (2016) state that compliance costs discourage business start-ups, reducing productivity, decreasing business resources, decreasing government revenue, and wasting economic resources. Furthermore, Gluckman and Turner (2018) argue that compliance costs may affect economic behaviour of individuals and businesses. As a result, Smulders *et al.* (2016) indicate that any decrease in compliance costs results in the enhancement of

productivity. Then, micro-businesses could apply resources to their most important activities, such as increasing employment capacity and the wage rate.

Therefore, overall, there is a higher risk of non-compliance with tax amongst micro-businesses (Swistak 2016).

2.7.1.6 Limited success of tax benefits granted to micro-businesses

Gluckman and Turner (2018) report that, as part of the tax benefits in South Africa, turnover tax (relief system) was introduced in 2009 with the aim of providing assistance to micro-businesses to deal with compliance costs. As mentioned above SARS (2017) suggests that, through the use of turnover tax, there are certain substantial benefits that are received by micro-businesses which decrease their administrative costs and enable them to focus on generating more profit and creating better job opportunities. Turnover tax was designed as a tax relief, but certain problems were still encountered. Schutte *et al.* (2019) highlight the following concerning information discovered by the Davies Tax Committee in 2014 on the effective use of turnover tax:

- There were 7 827 active micro-businesses that were registered for turnover tax on 04 July 2013; however
- A total of 139 micro-businesses provided unknown business addresses;
- Furthermore, 59 of the registered micro-businesses were considered dormant or undeveloped;
- 74 of these businesses were in estates;
- 345 were considered as being inactive; and
- 49 registered businesses were suspended.

Schutte *et al.* (2019) also concluded that micro-businesses failed to use government tax benefits and support programmes optimally. Battisti and Deakins (2018) claim that many micro-businesses are not aware of the available opportunities. SARS (2017) also found that there are generous tax benefits provided by simplified regimes, but these tax benefits have not altered or changed tax behaviour for micro-business owners significantly and they have generally failed to utilise these tax benefits to reduce their tax burden.

2.7.2 Non-economic factors which may affect micro-businesses

At the beginning of Chapter 2, it was explained that non-economic factors include psychological or behavioural theories (Randlane 2016). The following non-economic factors will be discussed with regard to micro-enterprises:

2.7.2.1 Taxpayers' attitude

Khurana and Diwan (2014) collected data from taxpayers that have been fined for evading tax and from those that have been honest with their tax obligations. Such data show that the attitude of taxpayers has an impact on explaining some part of self-reported tax evasion. However, this data provided an insignificant indication with regards to the prediction of taxpayers' behaviour. Additionally, it indicated the relationship between self-reported non-compliance and attitude of the taxpayers as also being significantly weak. Therefore, Khurana and Diwan (2014) conclude that there seems to be a complicated relationship between tax evasion and the attitude of the taxpayers.

Attitude is also important for power and trust dimensions. Taxpayers' trust in government could result in voluntary tax compliance (Gangl, Hofmann, and Kirchler 2015) – a positive attitude amongst taxpayers towards tax authorities could indicate that the use of power by tax authorities is viewed as legitimate. Chuenjit (2014) argue that the attitude that taxpayers have toward tax authorities can also be influenced with the way in which tax revenues are ultimately used by government.

With regards to the taxpayers in South Africa, in general, which includes micro-business owners, Ali, Fjeldstad and Sjursen (2014) suggest that their attitude is influenced by the extent of provision of public services by the government. This may affect micro-businesses quite markedly as they often operate in impoverished business areas.

2.7.2.2 Tax knowledge

Manual and Xin (2016) define tax knowledge as the taxpayer's level of knowledge regarding the tax laws of the country. Aspects of tax that need taxpayers' knowledge include tax rebates, tax relief, compiling tax returns, deductions, and business and self-employed tax (Oladipupo and Obazee 2016).

According to Manual and Xin (2016), the level of tax knowledge can be enhanced through improving the general education of the taxpayer. With reference to Fischer's model, taxpayers'

education is a demographic factor which influences tax knowledge, moral reasoning, non-compliance opportunity and taxpayers' attitudes. Manual and Xin (2016) found that obtaining tax knowledge had a significant impact on Malaysian tax compliance where a self-assessment system had been introduced. Furthermore, the ability of taxpayers to report taxable income, and claim relief or rebates, and calculate tax liability can be done through sufficient tax knowledge being provided to taxpayers (Oladipupo and Obazee 2016). Saad (2014) reveals ways to enhance tax awareness and provides guidelines regarding the filing of tax returns. However, such education is likely to be particularly weak amongst micro-businesses.

Manual and Xin (2016) also confirm that higher tax knowledge can be linked to higher tax compliance, and vice versa. Again, a survey conducted in Kampala's central division shows that low tax knowledge is associated with less compliance (Pitaloka, Kardoyo and Rusdarti 2018). Oladipupo and Obazee (2016) found that poor tax knowledge accompanied with inadequacy for record keeping has an influence on unintentional non-compliance. Again Manual and Xin (2016) mention that taxpayers equipped with sufficient tax knowledge can easily access their tax liabilities. On the other hand, the negative relationship between tax knowledge and tax compliance can also be reversed in that, by acquiring knowledge about audit processes and tax regulations, taxpayers are presented with more opportunities to evade tax (Manual and Xin 2016). Ali, Fjeldstad and Sjursen (2014) note that tax knowledge and awareness is greatly influenced or positively correlated with the attitude of the taxpayer towards tax compliance. In relation to micro-businesses this is discussed further below.

2.7.2.3 The influence of personal, social and national norms

While attitude plays a significant role in determining tax compliance behaviour, social norms can be regarded as the most important determinant for tax compliance according to Lapkin, Levett-Jones and Gilligan (2015). The behavioral intentions of the taxpayer can be directly connected to subjective norms. Johnson, Keune and Winchel (2019) indicate that behavioral norms can be grouped according to three different levels: individual, social and national.

Norms at an individual level relate to various accepted standards of how an individual should behave, including moral reasoning, authoritarianism, egoism (self-importance), dependency and personal values (Jimenez and Iyer 2016). Liu (2014) highlights the significant overlap between individual norms and factors such as the value system of the taxpayers and tax ethics. A situation where tax authorities emphasize the developing of taxpayers' moral reasoning

(developing the ethical awareness of the taxpayers) could lead to more voluntary tax compliance.

Regarding behavioral norms at the social level, Bobek, Hageman and Kelliher (2013) report that a particular group may accept tax evasion as being the norm. Therefore, based on the opinion of their reference group, a taxpayer may view non-compliance as being acceptable, and this could result in a higher chance of overall non-compliance amongst this group (Jimenez and Iyer 2016). However, the relationship between social norms and tax compliance can be viewed as complex. As a result, Liu (2014) indicates that while social norms will have an influence on the taxpayers' concurring behavior this may be difficult to determine. Furthermore, the impression amongst taxpayers that tax evasion can be regarded as petty crime can be viewed as a social norm which could be hostile to effective tax collection (Jimenez and Iyer 2016).

National norms can be viewed as a cultural standard that overlaps with the actual law of a particular country (Liu 2014). Jimenez and Iyer (2016) emphasize the importance of trust shown by taxpayers in government leaders accompanied with effective tax administration which could improve voluntary tax compliance. Such national norms will result in high tax compliance. Bobek, Hageman and Kelliher (2013) claim, however, that there seems to be a lack of any such national norm. These norms are also unlikely to be of significance amongst micro-business owners in South Africa.

2.7.2.4 The impact of theoretical foundations on tax compliance of micro-businesses

The following theories specify factors that drive the inter-individual variance or change regarding tax compliant behaviour (Ali, Fjeldstad and Sjørusen 2014).

2.7.2.4.1 Economic deterrence theory

As noted above, Kirchler, Kogler and Muehlbacher (2014) believe that taxpayers' decisions to comply are based on rational cost-benefit calculations that taxpayers make as to whether they will gain by complying with tax and the individual costs associated with non-compliance. This theory also focuses on the perceived probability of detection regarding non-compliance with tax and possible penalties associated with non-compliance. Tax administrators have adopted theoretical principles of economic deterrence when formulating strategies for tax enforcement. Economic deterrence theory suggests that taxpayers that perceive tax evasion as being difficult will be likely to show a more positive attitude towards tax compliance (Kirchler, Kogler and

Muehlbacher 2014). The circumstances in which micro-businesses operate would often allow them to feel that it is possible to get away with no-compliance.

2.7.2.4.2 Fiscal exchange theory

This theory focuses on benefits relating to individuals as taxpayers and as members of a certain population group and residents or citizens of the state. Taxation paid by taxpayers in relation to the public goods and services provided by government in return can be interpreted as involving a contractual relationship. Here, when taxpayers pay tax, they can automatically expect government to provide goods and services (Feld 2014). Therefore, positive benefits can increase the probability of voluntary tax compliance being achieved without emphasis on direct coercion. On the other hand, Ali, Fjeldstad and Sjørnsen (2014) believe that, if the system of taxation is being viewed as being unfair, tax evasion will be perceived as an attempt by taxpayers to amend their trade off with government. Ali, Fjeldstad and Sjørnsen (2014) claim that fiscal exchange theory suggests that the possibility of tax compliance can be improved. Unfortunately, in South Africa this theory could indicate further reasons for non-compliance until service delivery problems are seen as being addressed satisfactorily.

2.7.2.4.3 The effect of non-state actors as service providers

The relationship between many African taxpayers and their non-state providers may affect the willingness of the taxpayers to comply with government taxes. These non-state providers of public goods and services include donors, non-profit organizations such as NGO's, which provide health services to the residents, private schools and even criminal organizations which provide security and service protection (Furlan 2020). Ali, Fjeldstad and Sjørnsen (2014) found that the role of non-state providers and their influence of tax compliance has been explored in cross-country research and the influence of non-state actors on tax compliance has also been associated with the Nigerian vigilante group which offers security services to the urban areas. In these cases, the government as a non-actor in the provision of services will have less power to enforce or expect compliance. This theory could have resonance in many African countries, including South Africa. This links directly to equity theory (comparative treatment) discussed below.

2.7.2.4.4. Equity theory (comparative treatment)

Castro and Rizzo (2014) explain equity theory (comparative treatment) as concerned with the way in which individuals perceive the treatment they receive from the state. Taxpayers will base make their judgements on their perception about the state which also influences their perception towards fellow residents or citizens. Ali, Fjeldstad and Sjursen (2014) maintain that, when the state provides favourable treatment to a certain group, this will affect the state's relationship with citizens other than with those groups that are being treated favourably. This is not a matter of what individuals receive from the state, but it is the kind of treatment that is given to the person relative to those who have received additional favours from the state (groups in the wider national community). It can be expected that individual who believe they receive better treatment are more like to comply (Gberegbe and Umoren 2017). Such treatment by the state to taxpayers may include providing opportunities for wealth to certain groups of taxpayers, dependent upon their education, religion or ethnicity. Those excluded will be reluctant to pay tax to the state.

2.8 Factors selected for special focus (tax registration, accounts record keeping and production of financial statements) which could affect tax compliance amongst micro-businesses

The fourth objective of this study is to recommend an expanded tax compliance model that could be suggested to SARS to find solutions to improve tax compliance amongst micro-businesses. This section will discuss the following factors, which the literature suggested could be of special relevance to improving tax compliance amongst micro-businesses:

- Tax registration;
- Accounting record keeping; and
- Annual financial statements.

Ayuba, Saad and Ariffin 2016) focus on the importance of ensuring that the business has been registered for tax purposes, the submission of tax returns, and adherence to the time frames set by tax authorities. Secondly, micro-businesses must ensure reporting compliance in the same way as other businesses (unless they have opted for turnover tax as explained above). According to Kubicová and Valková (2016), reporting compliance means that tax liability for the business has been calculated accurately and that the necessary accounting records have been kept. Finally, micro-businesses, as with other businesses, must ensure filing compliance and

this can be achieved by keeping relevant documents for complete tax returns and ensuring that tax returns have been audited as this could detect any kind of fraud or mistake (Alm, Clark and Leibel 2016).

The following section will indicate how the requirements for tax registration, accounting record keeping and preparation of annual financial statements all influence tax compliance behaviour amongst micro-businesses.

2.8.1 Tax registration for micro businesses

In terms of how tax registration affects tax compliance amongst micro-businesses, the following will be discussed:

2.8.1.1 Registering the business as sole trader or partnership

According to Tax Tim (2021), and as discussed above, sole traders and partnerships are considered as small businesses. To manage small business tax and finances is easier than managing company tax. Consequently, when the taxpayer operates the business as a sole trader or partnership, there is no need to register the business with SARS as sole proprietorship and partnership because the income from these businesses is not separately taxed from the owner's income. Therefore, all the income and expenses from sole traders and partnerships are included in the owner's personal annual income tax return which includes any other income that the owners may have earned (Tax Tim 2020). Consequently, when one has already registered as an individual taxpayer with SARS, the sole trader or partnership business will also be automatically registered (Tax Tim 2021).

2.8.1.2 VAT registration

According to SARS (2021g), the taxpayer should only register as a VAT vendor when the annual turnover is expected to exceed R1 million during the 12-month period. This therefore excludes micro-businesses. Furthermore, the challenge regarding taxpayers having to register as a VAT vendor is very tricky and also time consuming. This is the reason why these taxpayers will need to rely on the assistance of a tax practitioner or accountant to complete such tax returns (Tax Tim 2021).

2.8.1.3 Employees' tax registration and obligation

SARS requires the employer to register to ensure the payment of PAYE, Unemployment Insurance Fund (UIF) and Skills Development Levy (SDL) (SARS 2021h). Furthermore, Tax Tim (2021) states that the employer has an obligation to pay PAYE if an employee earns income that is more than R87 300 (this relates to the 2022 tax year). Other relevant information relating to 2022 tax year is as follows:

- Taxpayers under the age of 65 have the first tax bracket which starts from R0 to R216 200; and
- All taxpayers under the age of 65 are entitled to an annual rebate of R15 714 for the 2022 tax year.

2.8.1.4 Registering the business for Unemployment Insurance Fund (UIF)

Micro-business owners employing people for more than 24 hours per month will be required to pay UIF to SARS on a monthly basis. UIF will be equivalent of 2% of the employee's salary (1% must be deducted from the salary of the employee while the other 1% will be contributed by the employer) (SARS 2021k). Furthermore, Tax Tim (2021) adds that there is another registration which needs to be done with the Department of Labour. This relates to registering the business by completing the U1 – 8 form and the UI – 19 form for registering new employees.

2.8.1.5 Registering for Skills Development Levy (SDL)

According to SARS (2021h), the Skills Development Levy (SDL) is imposed to inspire or encourage learning and development in South Africa. This type of tax is calculated on the employer's salary bill. Consequently, the funds that will be collected using the SDL will be used to advance or develop employees' skills. Tax Tim (2021) emphasizes that employers have the obligation to comply with SDL when the estimated salaries for all the employees has a total of more than R500 000 per annum (SDL is equal to 1% of total amount for salaries paid to the employees) – thus most micro-enterprises will not be affected.

2.8.1.6 Registering the business as a standard private company

In this study, micro-businesses also refer to companies such as close corporations (CCs) and cooperatives (SARS 2017). Such businesses will pay 'corporate tax' which is calculated at a standard rate of 28% (SARS 2021d).

2.8.1.7 Lack of registration amongst the micro businesses

Although there is a clear procedure that needs to be followed by businesses to register for tax purposes, SARS (2017) note that the type of micro-businesses that are the focus of this study are generally characterised by employing family members and sometimes they employ one or two paid employees who generally lack tax registration; they struggle to obtain business licences; struggle to operate under formal business provisions and they also lack accounting structures as noted above. However, this does not mean that micro-businesses do not generate sufficient income to qualify to pay tax (Kamdar 2015). According to SARS (2017), their frequent failure to register for tax can be seen as a sign that some of these businesses do not consider tax registration as a legal requirement. Furthermore, Smulders and Naidoo (2013) also believe that these businesses do not fear sanctions by tax authorities (although this finding is challenged by the current study). Williams and Martínez (2014) add that failure to register for tax can also be associated with the fact that they may not see registration as part of their moral obligations.

However, the lack of tax registration amongst micro-businesses can also be seen as the reason why some of these businesses do not succeed, since financial institutions will be very much more willing to provide finance to registered businesses (Tsuruta 2015).

2.8.2 Accounting record-keeping

According to Business Partners (2017), words such as ‘tax’ or ‘tax man’, ‘receiver’ and ‘SARS’ instil fear into many small business owners. However, it appears that what they fear the most is the fact that the tax process is a daunting one. In order to ensure that one’s taxes are in order, it is important to keep accurate accounting records for the business (Sibanda and Manda 2016). Rudzani and Charles (2016) find that many micro-business owners do not keep accurate accounting records. They may also fail to choose the kind of bookkeeping system that is suitable for their business and which complies with the regulations set by the government (Nyathi and Benedict 2017). Also, most micro-business owners will not be in a position to acquire the expertise of a qualified tax consultant who can get business financial records up to date, and ensure the efficient payment of taxes to SARS (Ndege and Park 2015).

Ndege and Park (2015) note that financial records also relate to business income and expenses. Consequently, financial records for the business must be kept with other documentation, such as the receipts, invoices, cancelled cheques and deposit slips (Business Partners, 2017). These records will support the entries that have been made in tax returns

(Rudzani and Charles 2016). Accounting records showing the assets and liabilities must be kept, including the records of undrawn profits, revaluation of fixed assets and various loans and deductible expenses in their tax returns. Fatoki (2014b) finds that there is a frequent failure amongst micro-businesses to keep accounting records for the register of fixed assets. Likewise, Cassar, Ittner and Cavalluzzo (2015) note that some micro-businesses lack detailed daily records for cash receipts and cash payments for transactions. Kenton (2020) adds the lack of accounting records for detailed credit purchases and sales. Again, the absence of such supporting documents amongst many micro-businesses makes it difficult to complete tax returns (Kraay and McKenzie 2014).

2.8.3 Preparation of annual financial statements and tax compliance amongst micro-businesses

There are different types of financial statements that must be prepared by businesses, such as a statement of profit or loss (income statement); statement of financial position (balance sheet); statement of changes in equity; cash flow statement and notes to the annual financial statements (Minnis and Sutherland, 2017). Naseri and Sharofiddin (2020) claim that some business owners prepare financial statements only to obtain funding from banks, or to obtain clearance certificates from SARS. Moreover, small business owners in general have been categorised as experiencing difficulties with the application of the provisions of the Company's Act or the use of an accounting framework which relates to the IFRS for SMEs (Mohamed, Yasseen and Omarjee 2019).

Berisha and Pula (2015) show that financial statements are beneficial since they are considered as being comparable, understandable, timely financial statements, verifiable, faithfully represented and relevant in terms of the framework. Gamayuni (2015) also notes that micro-businesses who apply for funding from investors will require their annual financial statements to be prepared first, while businesses who might be willing to grant a contract or tender to the business will want to evaluate it based on its annual financial statements (Naseri and Sharofiddin 2020). Furthermore, where the business needs to make critical management decisions with regards to a future growth path, such decisions will require that annual financial statements are available (Van Auken and Carraher 2013).

Although bookkeeping costs are generally high, there are several technological advances aimed at simplifying (streamlining) the accounting process (Shichkov 2016). These enable a

range of general bookkeeping processes to be carried out at relatively affordable rates. However, Faccia and Mosteanu (2019) find that such software has limitations, and is unable to generate a full set of annual financial statements (Rungasamy 2021).

2.9 Conclusion

This chapter explained the provisions of the Income Tax Act in relation to sole traders, partnerships and companies and how the corporate tax system operates in South Africa. Economic factors affecting tax compliance were highlighted as well as an overview of non-economic factors in terms of psychological and behaviour theories which may affect tax compliance behaviour amongst SMMEs, including micro-businesses. Additionally, this chapter analysed factors affecting tax compliance, as indicated in the Fischer's Tax Compliance Model and two additions to this model: the review of Fischer's tax compliance model: a proposal for Nigeria, and the Critical Review of Fischer's tax compliance: A research synthesis by Gerald Chau and Patric Leung. Factors affecting tax compliance amongst micro-businesses specifically were explained. Finally, factors selected for special focus as affecting tax registration, accounts record-keeping and production of financial statements by micro-businesses were considered. Thus each objective of the study was included in aspects covered in the chapter. The next chapter will discuss the research methodology that has been applied in this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter covered the principal existing research which has been conducted related to this topic. Fischer's tax-compliance model and subsequent developments of the model were explained as important for this research. This chapter will discuss the research methods and procedures, research design, target population, sample, sampling techniques, data collection, validity, reliability, and ethical considerations that are relevant to the study. The research methodology for the study was developed in alignment with the research objectives.

3.2 Research methodology

The researcher has used secondary data to address the first three research questions for this study. However, with regards to how the fourth research objective has been addressed, primary data was required. Methods selected were consistent with the primary focus areas of the research as follows:

- The emphasis for compliance amongst individuals and businesses in general is based on the fact that every taxpayer must comply with administrative, reporting and filing compliance. To be compliant, the business has to be registered for tax, ensure proper keeping of accounting records for the business, and must prepare annual financial statements. No recent study has been conducted on the impact of tax registration, accounting records keeping and preparation of annual financial statements amongst micro-businesses at eThekweni Municipality.
- The questionnaire for the study and the entire research methodology is based on assessing how tax registration, accounting records keeping and preparation of annual financial statements may affect tax compliance amongst micro-businesses within the broader context of tax compliance models and the wider literature on tax compliance already presented.

3.3 Research Design

According to Rahi (2017), the aim of research design is to provide a general plan of the research investigation. The research strategy chosen will provide a broad plan of how the research questions will be answered (Oliva 2019).

The study used descriptive research (Johnston, 2017). Descriptive research was suitable because it deals with a situation where there is a need to explain new concepts or phenomena (Johnston, 2017). As noted above, literature consulted for this study shows that no research has been conducted recently in South Africa on factors affecting tax compliance amongst micro-businesses. Descriptive research was therefore appropriate as the aim was to find additional facts required to expand the existing Fischer's Tax-compliance Model in order to find possible solutions to improving tax compliance amongst micro-businesses in South Africa. Opoku, Ahmed and Akotia (2016) note that descriptive research can also be used when the researcher is trying to increase or improve the understanding of a phenomenon. Opoku, Ahmed and Akotia (2016), adds that it is also suitable for finding different perspectives on a well-researched topic.

A descriptive survey research design enables one to provide understanding of the current conditions of the research area (Jagtap and Jagtap 2015). In a descriptive survey, a questionnaire can be used for collecting data (Rowley, 2014). Krosnick (2018) also explains that, in survey research, the questionnaire can be used to gather information from a large number of respondents who represent the population for the study. Therefore, the researcher used a questionnaire as the principal tool to collect the data required from micro-business owners.

Some of the aspects of the research design that were dealt with by the researcher in this study include the following:

3.3.1 The inclusion of the qualitative phase as part of the methodology for this study

The manner in which the qualitative phase of the methodology was included in this study is as follows:

- There are four research objectives set for this study – the quantitative part of the study was based on the last research questions. The researcher recommends the expanded tax compliance model that may be used by tax authorities to improve tax compliance amongst micro businesses. This specifically focuses on factors such as tax registration, accounting records-keeping, and preparation of annual financial statements. Therefore, the questionnaire for this study was based on this research objective.
- The first three research objectives for this study form part of the qualitative aspect. For such, the researcher has considered the following:
 - Application of the conceptual framework as set in the Fischer's Tax Compliance Model, to find the possible solution to improving tax compliance amongst micro

businesses. Therefore, it was important to analyse all the factors affecting tax compliance as indicated in the Fischer's tax compliance model. In this case, the researcher used journal articles, internet sources, and others to analyse factors affecting tax compliance, as indicated in the Fischer's tax compliance model.

- As part of the qualitative methodology for this study, the researcher built a suitable model to improve tax compliance behaviour amongst the micro businesses. Other tax-compliance models based on the Fischer's tax compliance model were also assessed. This showed the researcher what other researchers have achieved per the Fischer's tax model to improve tax-compliance behaviour. The researcher thus followed the example. Again, the researcher perused journals, articles and pertinent internet sources in searching for material.
- The researcher has explored certain factors which affect tax compliance behaviour amongst the taxpayers in general, as part of the qualitative methodology. The Fischer's tax compliance model covers most of the factors affecting tax compliance behaviour. However, tax compliance behaviour may differ from one group of taxpayers to another. Therefore, the tax-compliance behaviour for micro businesses had to be specific. The researcher thus relied on journal articles, internet sources, and others, to discover and explore possible factors which could influence tax compliance behaviour amongst micro businesses.

3.3.2 Understanding the design for the population under study

The population for this study was identified, thereafter approached for permission to administer the survey. The researcher ensured that businesses selected for this study met all the criteria for classification as micro businesses. The following has been done by the researcher to ensure that these requirements have been met:

3.3.2.1 Identification of the population for the study by the researcher

In identifying the population for this study:

- The researcher has followed the guidelines of the South African Revenue Services in terms of how the population for micro businesses can be identified. SARS (2017) reflects that the business can be classified as a micro business if such a business has an annual turnover not exceeding R1 million. This relates to businesses such as sole traders, partnerships, and companies (in this case the company can be called a micro business if it is classified as a close corporation or co-operative);

- The researcher had to follow SARS guidelines with regard to how the business can be classified as a micro business. The study focused on the areas of Umlazi township, Durban North, Durban City centre and Umbumbulu, which were randomly selected. Therefore, the main focus was to deal with sole traders, partnerships, and companies who are classified as micro businesses, and who meet all the requirements which are set by SARS.

3.3.2.2 The manner in which the population was approached to administer the survey

There are certain techniques applied by the researcher to approach the population when administering the survey.

- In this case the researcher had relied on information obtained from eThekweni Municipality on the number of micro businesses to be found in the selected areas of eThekweni Municipality. This relates to the businesses which are classified as sole traders, partnerships, and companies (close corporation and co-operation);
- The researcher was not biased in terms of selection of the businesses included as part of the study. The researcher understood that there are many other businesses which fall under the term micro businesses. Such businesses may not appear on the list supplied by eThekweni Municipality; however, such business owners are generating sufficient income to pay tax. The researcher had relied on the information supplied by eThekweni municipality in terms of possible micro businesses found in a particular area (i.e. Umlazi Township and Durban North). The researcher had acknowledged that other micro businesses which may not appear on the list supplied by municipality should also be included as part of the study.

3.3.2.3 Ensuring that businesses selected for the purpose of the study meet the criteria of micro businesses

For the purpose of this study, there are certain ways in which the researcher ensured that businesses selected met the criteria for micro businesses:

- Firstly, the questionnaire used in this study required the annual turnover for the micro business to be supplied. Businesses classified as micro businesses for the purpose of this study should have an annual turnover not exceeding R1 million (SARS, 2017);
- Furthermore, in the questionnaire used in this study, business owners were required to disclose whether or not they operated their businesses as sole traders, partnerships, or companies (this relates to close corporations and co-operatives) (SARS, 2017).

- These questions ensured that the researcher only included businesses which met the criteria for micro businesses, as set by SARS.

3.4 Research Methodology (Research Instrument)

Opoku, Ahmed and Akotia (2016) explain that research methodology can be defined as a process in which the researcher applies specific techniques during the research to assemble and evaluate required research information. Some of the most common tools used by researchers to gather information include surveys, questionnaires and interviews (Opoku, Ahmed and Akotia 2016). The goal of putting together such components of the research study is to improve, expand, or confirm existing knowledge. Once the knowledge has been expanded, it will be necessary to ensure that such knowledge is made available (Opoku, Ahmed and Akotia 2016). Data analysis then helps the researcher to draw conclusions or truths regarding a particular phenomenon that is being investigated (Opoku, Ahmed and Akotia, 2016).

In this study, the researcher used questionnaires to collect primary data, while secondary data were collected through the Internet, reference books and journals and these are discussed in Chapter 2.

Research approaches can be quantitative, qualitative or mixed-methods (Opoku, Ahmed and Akotia 2016). Factors such as the purpose of the study, the type of information that the researcher is looking for, and the availability of information that is required in the research, help the researcher to decide on the kind of research methodology which is suitable (Opoku, Ahmed and Akotia 2016). In this study, the researcher used a quantitative research approach. According to Goertzen (2017), quantitative research can be classified as a formal, or objective, or systematic way of gaining numeric (quantifiable) information about the world. Quantitative research does not only produce quantifiable information for the researcher, it also presents such information in numerical form (Heale and Twycross 2015).

Quantitative research is often used to explain or describe and test relationships within a study (Johnston 2017). It can also be used to indicate the cause of the relationships. Quantitative research was also appropriate as it assisted in reaching a wide spectrum of the owners of micro-businesses whose opinions were required. The quantitative research approach adopted in this study therefore facilitated the explanation of the effect of tax registration, accounting records keeping and preparation of financial statements on tax compliance for micro--businesses.

3.5 Population of the Study

Subramani (2013) defines population as the collection of individuals or objects on whom the researcher will be focusing. He/she must identify the target population (Levy and Lemeshow, 2013). For this study, the following is significant:

- Micro-businesses were selected as the target population for this study;
- The data on the definition and number of micro-businesses were obtained from the eThekweni Municipality;
- There are an estimated 20 000 businesses in eThekweni Municipality whose annual turnover does not exceed R1 million per annum and who therefore qualify as micro-businesses (Soni, Cowden and Karodia 2015) and who constitute the population of the study.

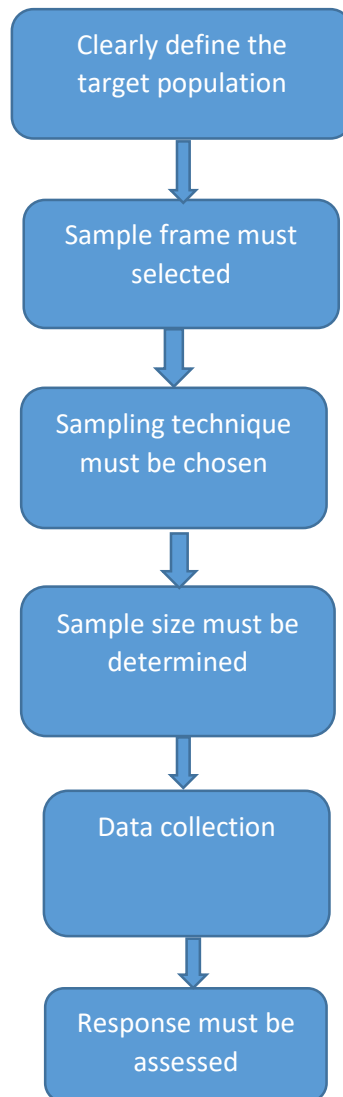
3.6 The sampling methods used in the study

According to Taherdoost (2016), it is normally impossible for a researcher to collect data from all cases. Therefore, a sample must be selected. In terms of how sample size should be defined, Shorten and Moorley (2014) note the following:

- A sample should consist of a group of people, objects or items extracted from the larger population;
- A sample should be representative of the population being studied;
- A sample (if appropriately selected) is representative of the entire population of the study and will enable the researcher to generalise the findings to the population.

Since the researcher could not collect data from the entire population, sampling was done to reduce the number of cases (Taherdoost 2016). Figure 3.1 shows steps that were followed by the researcher in this study in choosing a sample.

Figure 3.1: Research sampling technique selection



Source: Taherdoost (2016).

The following steps were followed in the selection of the sample:

3.6.1 Step 1: Defining the target population

According to Taherdoost (2016), the first step involves defining the target population. In this study, as explained, the target population consisted of all micro-businesses within eThekwini Municipality. These businesses had to meet the definition of micro-businesses as defined by SARS (Gluckman and Turner 2018).

3.6.2 Step 2: Sampling frame consideration

A sampling frame is a list of all the items that are in the population of the study. The population is classified as being general while the frame for the study is considered as being specific

(Taherdoost 2016). However, not all the sampling methods need the use of a sampling frame. Sharma (2017) highlights sampling methods that require the use of a sampling frame, for instance, simple random and stratified sampling methods. In this study the researcher did not use these sampling methods and the use of a sampling frame was not considered important.

Table 3.1 indicates the areas to which the sample for the study relates and the number of participants who were expected to complete questionnaires per research area, to ensure that the number of 392 participants, as specified in the indicative table, could be reached.

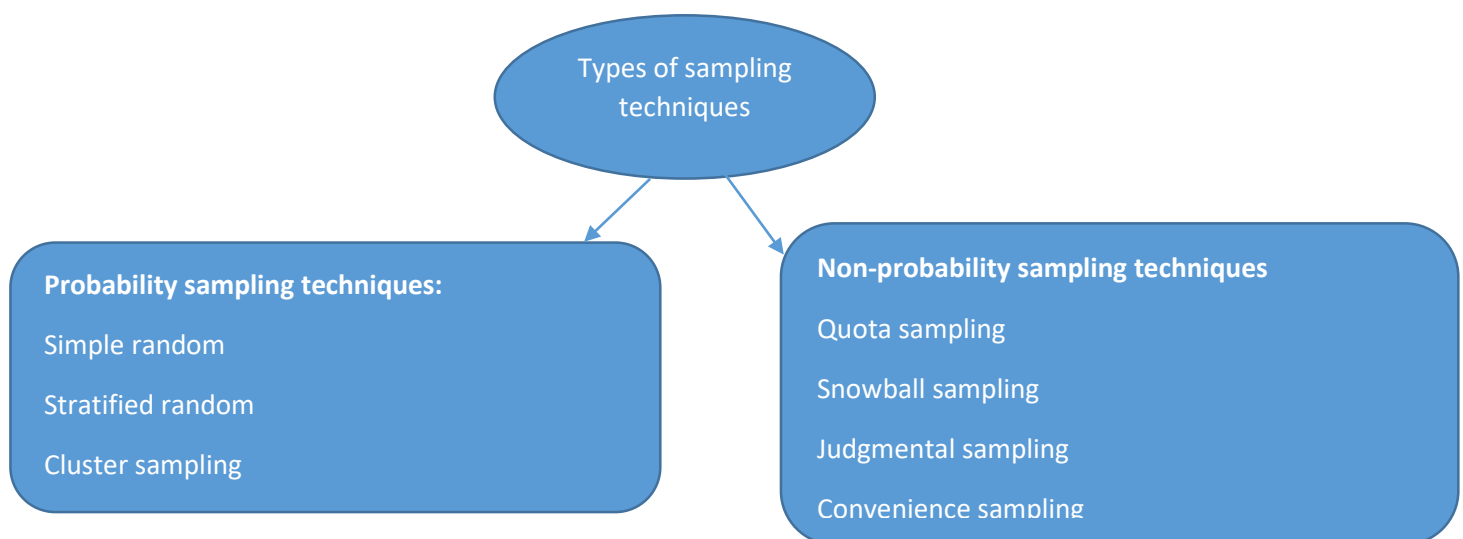
Table 3.1: Selection of participants

Research area	Suburbs (Durban North)	Township (Umlazi)	Rural area (Umbumbulu)	Town (Durban city centre)
Number of participants to ensure that the number of 392 could be reached	98	98	98	98

3.6.3 Step 3: Sampling technique selection

Taherdoost (2016) explains that sampling techniques can be divided into two main categories: probability or random sampling; and non-random, non-probability, sampling.

Figure 3.2: Different types of sampling techniques



Source: Taherdoost (2016)

3.6.4 Probability and non-probability sampling techniques

Probability sampling techniques provide all elements of the population with an equal chance of being selected as part of the sample. However, while probability sampling is free from bias, it is costly in terms of time and energy (DiMasi, Grabowski and Hansen 2016). As illustrated above, types of probability sampling include the following: simple random, stratified random, cluster sampling, systematic sampling, multi stage sampling.

None of these methods were deemed appropriate for this study, and instead a non-probability sampling technique, 'convenience sampling', was selected as being the most appropriate for this study, which covered a wide geographical area and where the willingness of respondents to participate was understood to be uncertain. Other types of non-probability sampling, including quota sampling, snowball sampling and judgmental sampling were deemed less appropriate as the targeted population was available to the researcher and any micro-businesses willing to participate were suitable as representative of the population.

3.6.5 Step 4: Sample size determination

The aim of the researcher was to select a reliable sample size.

In this study, Table 3.2 indicates the following:

- ☐ This 'indicative table' shows how to calculate the number of participants that were included in this study.
- ☐ In this study the population consists of approximately 20 000 micro-businesses.
- ☐ The numbers in the fifth row of the table are relevant.
- ☐ Results observed are considered as being real. This means that there is no error that caused by randomness (Optimezely. 2021).
- ☐ A total of 392 participants was needed for this study and this formed the sample size.

Table 3.2: Selection of sample

	At 95% confidence level			At 99% confidence level		
	The margin of error			The margin of error		
The population size for the study	5%	2.5%	1%	5%	2.5%	1%
100	80	94	99	87	96	99

500	217	377	475	285	421	485
1000	278	606	906	399	727	943
10 000	370	1 332	4 899	622	2 098	6 239
100 000	392	1 513	8 762	659	2 585	14 227
500 000	384	1 532	9 423	663	2 640	16 055
1 000 000	384	1 534	9 512	663	2 647	16 317

3.6.6 Step five: collection of data from participants

According to Taherdoost (2016), before data can be collected from the respondents it is important to follow all steps regarding the sample selection. Therefore, the following steps were followed:

- ☐ The target population was identified;
- ☐ The sampling technique also chosen;
- ☐ The sample determined;
- ☐ The final step involved the collection of data from micro-businesses in the selected areas of eThekweni Municipality.

3.6.7 Step 6: response rate assessment

The response rate is the number of respondents who completed the questionnaire divided by the total number of questionnaires that were distributed by the researcher to the participants (Van Mol 2017);

- ☐ For any survey that is being conducted, it is important to note that a response rate of 50% and above can be classified as being excellent and this relates to all circumstances. A high response rate is determined by motivating respondents to complete the survey (Trespalcios and Perkins 2016). In an online survey, a 20% response rate is considered as being good, a 30% response rate is excellent (Dessel 2013);
- ☐ This study required 392 participants to complete the questionnaire; 468 questionnaires were distributed to the respondents. A total of 392 participants completed the questionnaire resulting in a response rate of 83,76 %, which can be considered high.

3.6.7.1 The kind of respondents deemed suitable to complete the questionnaires

In relation to the kind of respondents required to complete the questionnaire in this study, the following were taken into consideration:

- The researcher understood the importance of ensuring that research objectives needed to be achieved. In this regard, it was important to find business owners who would have some understanding of the knowledge required by the research questionnaire.
- Therefore, the researcher needed to identify participants who had some understanding about tax information in terms of what is required by SARS to ensure that the business can comply, as well as being the owners of businesses which qualified as micro-businesses.
- Some micro-businesses in the study were using the services of qualified accountants for tax issues. In such cases, the researcher dealt directly with the accountants. However, in most of these businesses the researcher consulted the owners who provided the required information.

3.7 Collection of primary and secondary sources

The questionnaire was randomly distributed to micro-businesses in the areas selected for the study by the researcher and his research assistants.

3.7.1 The content of the questionnaire

A questionnaire has scientifically structured questions designed with the aim of gaining essential information from the respondents (Krosnick, 2018). In this instance it was important to use the questionnaire to uncover important information on the opinions of micro-business owners regarding the influence of tax registration, accounting records keeping and preparation of annual financial statements on tax compliance for their businesses. When collecting the data for a questionnaire, the researcher gathers the information without observing the behaviour of the respondents (Holt 2014).

The researcher designed a series of questions or statements to be answered by the respondents. Respondents can answer the questions by writing their answers or by selecting the answer from a list of pre-populated answers (Krosnick 2018). Respondents in this study had to select answers from a list of prescribed answers (Loza 2018).

3.7.2 Preparation of questions for the study

Some questions in this study were adapted from questions in previous research studies. However, the majority of the questions were specifically designed for this study. A questionnaire can have open-ended questions, closed-ended questions, or structured questions (Friborg and Rosenvinge 2013). The advantage of using open-ended questions is that they provide respondents with an opportunity to express their opinions on the phenomenon being discussed. However, in this study, closed-ended questions were used. For some questions respondents were required to answer by selecting 'yes or no'; while for others, respondents were required to indicate their answer by selecting from a Lickert scale: 'strongly disagree'; 'disagree'; 'neutral'; 'strongly agree' and 'agree'. When using closed questions, it is important to accommodate other responses that can be provided by the respondents. In certain sections, therefore, the respondents were provided with an opportunity to give a different response by selecting 'other' or 'please explain' (Krosnick 2018).

The questionnaire for this study consisted of two sections (See Appendix C):

Section A: This section dealt with biographical information of the respondents. The closed questions that respondents had to respond to in this section included: identifying the business location; indicating the kind of business ownership (this could be a sole trader, partnership, or a company); indicating the economic sector of the business (this could be farming, trading, transport, or other) and indicating how the business obtains finance for its daily operations.

Section B: This section consisted of closed questions regarding tax registration; accounting record-keeping and preparation of the annual financial statements. Table 3.3 indicates the structure of the questionnaire. The research instrument consisted of 15 items, with measurement at a nominal or ordinal level.

Table 3.3: The structure of the questionnaire

A	Biographical Data
B 5 – B 9	The impact of tax registration on tax compliance amongst micro-businesses
B10 – B 11	Accounting records keeping
B12 – B 15	Preparing financial statements amongst micro-businesses

Friborg and Rosenvinge (2013) define a closed question as a type of question where respondents will be required to choose one answer or, in some situations, respondents might be required to choose more than one answer. In this study, closed questions were used in both sections of the questionnaire. The reasons were as follows:

As some respondents find it difficult to give spontaneous answers, open-ended questions might not provide as good a response rate as closed-ended questions (Krosnick, 2018). The use of open-ended questions can also result in respondents providing answers that are not in accord with what the researcher was expecting, i.e., responses that do not relate directly to the study, or do not address the objectives of the study adequately. Sometimes also these responses from participants may not be understood by the researcher (Friborg and Rosenvinge, 2013). Therefore, the researcher chose to use closed-ended questions which enabled him to receive appropriate information from the research participants.

3.7.3 Pilot study

Hazzi and Maldaon (2015) explain that a pilot study provides an opportunity for the researcher to identify possible problems that may exist with the questionnaire design, before the collection of the data. Van Romburgh and Van der Merwe (2015) explain further that a pilot study provides insightful information which may result in the researcher modifying the research questions. In this study, a pilot study was conducted to determine whether the questionnaire required any changes, improvements, or refinements. The findings of the pilot study prompted the researcher to amend some terms. The pilot study was conducted with a random sample of eight participants in the following areas:

- ☐ Umlazi Township – 2 respondents;
- ☐ Durban North – 2 respondents
- ☐ Umbumbulu – 2 respondents;
- ☐ City Centre – 2 respondents.

3.7.4 The administration of the questionnaires

468 questionnaires were finally distributed to the micro-business owners of eThekweni Municipality. The researcher arranged door-to-door visits to ensure that all the questions on the questionnaire were understood by the research participants (Rowley 2014). Three assistants were employed by the researcher for the distribution of questionnaires. These assistants had completed their Diploma in Taxation and had some understanding of the taxation terms used in the questionnaire. Although the mother tongue of these three assistants is isiZulu, they also understand other Nguni languages, such Xhosa, Seswati, and Ndebele. They could also speak

and understand English very well. Although the language used in the questionnaire was English, the three assistants translated the English language to any Nguni language, when required. The researcher had a meeting with the three assistants and explained to them how the questionnaires were to be distributed. The meeting included ensuring that research assistants understood all the questions in the questionnaire.

The door-to-door visits enabled the researcher and the three assistants to explain to the respondents that the researchers did not work for SARS, and no punitive measures would be taken against anyone who answered the questions on taxation. Such fears could prevent some of these micro-business owners from revealing valuable information. The door-to-door visits also enabled the researcher to explain any difficult terms relating to taxation used in the questionnaire.

The researcher ensured that respondents were comfortable to answer the research questions (Holt 2014). A covering letter (Appendix A) as well as a letter of informed consent (Appendix B) were attached to the questionnaire. The first (Appendix A) informed the participants of the aim of the research study. The second letter (Appendix B) encouraged participants to participate in the research study. Participants were guaranteed anonymity, confidentiality, and non-traceability (Friborg and Rosenvinge, 2013). The researcher ensured that participants did not feel threatened in answering certain questions and were promised that their identities would not be revealed. The participants were also informed that the supervisor and the statistician were the only people who would have access to their information. Owing to the sensitive nature of the study, all the information provided by the participants was stored in a secure box far from their business premises.

3.7.5 The administration of the questionnaire: The contents of the covering letter

The following criteria were considered with regards to the design of the questionnaire: questions must be easy to understand; respondents must find it useful to participate in the research study; ambiguous questions must be avoided; and questions must be interesting (Rowley 2014). Therefore, the covering letter had to be constructed in such a way that it motivated the prospective respondent to respond, and removed any doubts regarding participation in the survey (Battle, Hutchings and Evans 2013). Participants were assured that the information they provided was confidential, thus encouraging them to answer the questions honestly (Gibson, Benson and Brand 2013).

3.7.5.1 Response rate received from participants

Table 3.4 indicates the overall response rate received from different areas for this research study:

Table 3.4: Response rate

Percentage of completed questionnaires received from Umlazi (township)	27,3%
Percentage of completed questionnaires received from Mbumbulu (rural)	26,5%
Percentage of completed questionnaires received from Durban North (suburbs)	25,5%
Percentage of completed questionnaires received from City Centre (Durban)	20,7%

Table 3.5: Analysis of the Response Rate received from the different areas of the research study

Analysis	Umlazi	Umbumbulu	Durban North	City centre	Total
Total completed questionnaires received per area	107	104	100	81	392
Targeted number of questionnaires to be distributed in each research areas was based on the research sample of $392/4 = 98$ per research area.	98	98	98	98	392

Total number of questionnaire that were finally distributed in each area	120	110	118	120	468
Number of questionnaires that were not completed in each research area	13	6	18	39	76

Regarding the distribution of the questionnaires in different areas of the research study, the following aspects were considered:

- ☐ The aim was to achieve 100% response rate from a sample size of 392 participants.
- ☐ There were certain areas where it was difficult to distribute questionnaires, thereby resulting in a poor response rate.
- ☐ Therefore, the researcher had to compensate for the poor response rate by distributing more questionnaires in areas where there was a good response rate.
- ☐ There was a poor response rate from the Durban City Centre. This is associated with the fact that owners of micro-businesses in this area were found to be particularly busy with their daily operating activities. Therefore, answering research questions was viewed as being too time consuming.
- ☐ Areas that were identified as having a good response rate were Umlazi Township, Umbumbulu and Durban North.
- ☐ The researcher intended to receive a total of 98 completed questionnaires from each of the different areas of the research study. However, due to a better response rate from Umlazi Township, Umbumbulu and Durban North, the researcher distributed more questionnaires to these areas.
- ☐ A total of 392 completed questionnaires were received from the different areas of the research study. Therefore, a 100% response rate was achieved. However, based on the total number of questionnaires distributed, an 84% response rate was achieved (392/468).

3.8 Data Analysis

According to Johnston (2017), data analysis can be defined as the situation in which information that has been collected by the researcher will be arranged in such a way that one can regard it as being useful for correctly analysing the data. This can be done by ensuring that the research plan has been correctly formulated, the research information is properly processed, and the data are accurately analysed (Cheng and Phillips 2014). In a quantitative study, data analysis is used as a system of ensuring that quantitative information is analysed using appropriate quantitative methods (Goertzen 2017) using some form of statistical analysis (Johnston, 2017). These statistics are used to assemble the research information. According to Kaushik and Mathur (2014), the importance of using descriptive analysis in the study is that it is able to describe the basic characteristics of the data information for the study. Descriptive analysis will provide a summary regarding the sample as well as measures for the study. Such graphic presentation used in descriptive analysis is characteristic of quantitative analysis.

When inferential statistics are used in the study, the statistician will not draw the information from the entire population for the study but from the sample which represents the entire population (Trafimow and MacDonald, 2017). Quantitative information should be summarised to provide understandable and meaningful information. The collected data were analysed using the Statistical Package for Social Scientists (SPSS) Version 26.0.

3.8.1 Tests

Some of the statistical tests used in this study were as follows:

3.8.1.1 Chi-Square test – this is a statistical test which is used to determine whether or not the experimental results (observed) are aligned with the hypotheses. Furthermore, this test is used to measure whether or not there is an agreement between actual counts and expected counts. The assumption will be based on the null hypotheses. As such, the Chi-Square test is considered as non-parametric test (Statistics Solutions 2021);

3.8.1.2 KMO and Bartlett's Test – These statistics ensure that sampling adequacy can be achieved. They indicate the capability of sampling for the study by taking the percentage of the so called 'variance' of the variables which might have resulted from the underlying or primary factors. The analysis that has been made can be regarded as being useful in the data for the study (Ramdani 2018);

3.8.1.3 Rotated Component Matrix – This kind of statistic is called the loadings whereby it provides the 'most important output' for the principal component analysis. The rotated

component matrix will include the estimates of correlations, and such estimates of correlations will be done between each variable and between the estimated components for the study (Singh, Katiyar and Verma 2014).

3.9 Reliability and validity

3.9.1 Reliability

According to Heale and Twycross (2015), reliability in a quantitative study can be defined as the way in which one is consistent with regard to measurements. Consistency can be maintained because the assumption is that the instrument being used in the measurement always measures identically, given the same conditions and the same subject. Heale and Twycross (2015) state that a research study is reliable if the research instrument used on a number of occasions still produces the same results. Thus, when measuring reliability, the instrument should provide consistent results – however this does not assure that answers being received from research participants are valid.

In this study, the researcher used a coefficient of reliability which is called the Cronbach's alpha. Cronbach's alpha is designed to measure internal consistency to indicate the closeness of the relationship of a set of items when they are viewed as a group. A reliability coefficient of 0.60 or higher is considered 'acceptable' for a newly developed construct (Taber 2018).

3.9.2 Validity

According to Heale and Twycross (2015), to ensure validity, it is important that adequate sampling procedures, appropriate statistical tests and reliable measurement procedures have been used. Heale and Twycross (2015) explain that the validity of the study helps to measure the relationship between the concept being used in the study and what is known as the indicator. The validity, crucially, has the potential to indicate to the researcher whether the study conducted has actually measured what the researcher was intending to measure, or whether it has measured something else (Bolarinwa 2015).

3.9.2.1 Construct validity

According to Waterhouse, London and Gillberg (2016), to ensure construct validity, the researcher must have measured key concepts of the study accurately. This can be done by ensuring that the instrument aligns with theoretical concepts that the researcher is trying to measure. Thus the questionnaire must cover key concepts of the study. Waterhouse, London and Gillberg (2016) define construct validity as the degree to which an experiment measures what it purports to be assessing. In this study, there is an assumption that certain factors may

impact on tax compliance amongst micro-businesses. This involves key factors such as tax registration, accounting record keeping and preparation of financial statements. These factors form the core of the study. Heale and Twycross (2015) suggest that factors such as intelligence and motivation have a direct impact on construct validity.

3.10 Ethical Considerations

The use of ethical considerations ensures that the researcher follows certain standards when conducting the research study. Ethical considerations aid the researcher to follow good and professional procedures (Roberts 2015).

Ethical clearance to conduct this study was granted by the Faculty Research Committee (FRC) at DUT. The research proposal was approved. The following information was included in the letter of information and the consent which all participants received [see appendix A]:

- ☐ The approval of the research topic;
- ☐ information about the supervisor and co-supervisor;
- ☐ the purpose of the study;
- ☐ whether the research study posed any risks or discomfort to the research participants;
- ☐ benefits of the study were clarified;
- ☐ participants were given the right to withdraw from the study should they wish to do so for any reason without penalty;
- ☐ research participants were assured that information they provided would not be accessed by anyone except the researcher, the statistician and the supervisor;
- ☐ it was indicated that this research would not pose any danger or possibility of injury to the research participants.

3.11 Summary

This chapter discussed the quantitative method which was adopted for the study, the research design, the population, the sample selection and the design of the questionnaire which was the primary research instrument employed. The data collection methods were also explained and data analysis methods discussed, along with the ethical considerations which the researcher observed throughout the research process. A descriptive analysis of the research findings will be presented in Chapter 4.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The previous chapter discussed the methodology used by the researcher to collect the data for this study. This chapter will present the results, and discuss the findings, of the study. The questionnaires were the primary tool used to collect data and these were distributed to micro-business owners within eThekweni Municipality. The data collected from the responses were analysed with SPSS version 26.0. The results will be presented by descriptive statistics in the form of graphs, cross-tabulations and other figures.

4.2 Alignment of data analysis with research objectives

The data have been analysed in alignment with the following objectives:

Research objective 1: To analyse factors affecting tax compliance as indicated in the Fischer's Tax Compliance Model as a base for finding possible solutions to improve tax compliance amongst micro-businesses. In Chapter 2, through the use of secondary data, these factors have been highlighted as follows:

- ☐ Demographic variables;
- ☐ Non-compliant opportunities;
- ☐ Attitude and perceptions of taxpayers; and
- ☐ Tax structure or tax system.

Research objective 2: To assess the suitability of other existing expanded tax compliance models which are based on the Fischer's model to improve tax compliance behaviour. Again, through the use of secondary data these models were identified as follows:

- ☐ A review of Fischer's Tax Compliance model: A proposal for Nigeria; and
- ☐ A critical review of Fischer tax compliance model: A research synthesis.

Research objective 3: To evaluate or explore factors affecting tax compliance amongst micro-businesses and to provide evidence from other studies to confirm their validity. Secondary data has highlighted the following factors:

- ☐ Economic; and
- ☐ Non-economic factors.

Research objective 4: To recommend an expanded tax-compliance model to improve tax compliance amongst micro-businesses in eThekweni. As regards this objective, the following

specific focus was selected as being most relevant to this study of the tax behaviour of micro-business owners. Respondents were required to respond to statements concerning their appreciation of the following:

- Taxpayers must comply with three different types of compliance: administrative, reporting, and filing compliance (This is in line with Fischer's Tax Model which also emphasizes the importance of these three different types of compliance);
- This entails that the business needs to register for tax purposes, ensure proper keeping of the accounting records, and prepare annual financial statements;

The questionnaires for this study were therefore designed to assess the opinions of micro-business owners about their tax registration, accounting record keeping and preparation of the annual financial statements. The analysis of the results from the study would indicate the opinion of the micro-business owners towards these factors thus enabling conclusions to be drawn as to their relevance to an expanded model of tax compliance which would accommodate the additional aspects of tax compliance relevant to this group of South African taxpayers.

4.3 Reliability statistics

The two most important aspects of statistical precision are reliability and validity. Reliability is computed by taking several measurements of the same subjects. As explained in Chapter 3, a reliability coefficient of 0.60 or higher is considered 'acceptable' for a newly developed construct. The table below reflects the Cronbach's alpha score for all the items that constituted the questionnaire.

Table 4.1 Cronbach's Alpha Scores

Section	Number of Items	Cronbach's Alpha	Mean Inter-Item Correlation
B5 – B9	4	0.315	0.200
B12 – B15	4	0.924	0.757

The reliability scores for the highlighted sections exceed the recommended Cronbach's alpha value (0.924). This indicates a degree of acceptable, consistent scoring for these sections of the research.

The remaining section has lower values that have acceptable inter-item correlation values, which indicate a degree of consistency (0.315) (Royal and Hecker 2016).

Table 4.2: KMO and Bartlett's Test

Section	Name	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity		
			Approx. Chi-Square	df	Sig.
B5 – B9		0.505	74.752	6	0.000
B12 – B15		0.820	1347.815	6	0.000

The KMO and Bartlett's Test results indicates the following:

- The Kaiser-Meyer- Olkin Measure of Sampling Adequacy with regards to tax registration is 0.505 (greater than 0.50) which is the requirement for Kaiser – Meyer – Olkin Measure (This relates to B5 to B9 of Table 4.2 above);
- The Kaiser- Meyer – Olkin measure of Sampling Adequacy with regards to the preparation of financial statements amongst the micro businesses is 0.820, which is higher than 0.50 (This relates to B12 to B15 of the table 4.2 above);
- The Bartlett's Test of Sphericity sig. value with regards to tax registration is 0.00 which is less than 0.05, which is considered as acceptable (This relates to B5 to B9 of table 4.2);
- The Bartlett's Test of Sphericity sig. value with regards to the preparation of annual financial statements amongst the micro businesses is 0.00 (less than 0.05) which is considered as acceptable (This relates to B12 to B15 of the table 4.2);
- Therefore, these results indicate that the data for this study is suitable to perform a factor analysis.

Tables 4.3 and 4.4 refer to the Rotated Component Matrix for questions B11-B14 and questions B17-B20, respectively.

Table 4.3: Rotated Component Matrix (This relates to questions B11 – B14)

B11 – B15	Component	
	1	2
I consider tax registration as being a legal requirement	0.768	0.275
I fear to be sanctioned by tax authorities when my business is not registered for tax purposes	0.727	-0.345
I consider the registration for tax as part of my “moral reason”	-0.025	0.943
The type of my business compels me to register my business on time	0.551	-0.055

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

- a. Rotation converged in 3 iterations.

Table 4.4: Rotated Component Matrix (This relates to questions B17 – B20)

B17 – B20	Component 1
Financial statements can assist the business on the day-to-day running of the business	0.908
Preparing financial statements can make it easy for my business go get financial assistance from financial institutions	0.844
Preparing financial statements can help to improve by business operations (taking the business to another level)	0.913
Other users can also benefit from financial statements of the business (investors cannot make the right decision without having financial statements of the business)	0.953

Extraction Method: Principal Component Analysis

a. 1 component extracted

- ☐ The principle component analysis was used as the extraction method, and the rotation method was Varimax with Kaiser Normalization. This is an orthogonal rotation method that minimizes the number of variables that have high loadings on each factor. It simplifies the interpretation of the factors;

The statements that constituted all sections except one section (specified below) loaded perfectly along a single component. This simply means that statements measure a single construct, in other words they are related to measuring the same phenomenon.

Table 4.4, consists of sections (B17-B20) that were loaded perfectly along the single components. This indicates that statements perfectly measured what they intended to measure.

4.4 Presentations of Findings per Question

In this study, the research findings will be discussed in the sequence shown in the questionnaire. The questionnaire for this study comprised the following sections:

- Section A consisted of the demographic variables; and
- Section B consisted of factors which can be relevant to SARS when considering possible solutions to improve tax compliance amongst micro-businesses.

4.4.1 Section A: Presentation of Biographical Data

This section summarises the biographical information of the respondents. Descriptive statistics were used in presenting the data (William 2020). This provides a means of analysing the data. Such statistics comprise certain methods of organising and summarising the research information (Kaushik and Mathur 2014). In this study, the biographical issues that were integrated include: the areas in which the micro-business owners operate; the kind of business ownership applying to each respondent; the business sector to which the business belonged and how finance was obtained for their daily business operations.

Table 4.5 and Figure 4.1 indicate the business areas of respondents.

Table 4.5: Location of your Business within eThekweni Municipality

		Frequency	Percentage
Valid	Suburbs	100	25,5
	Rural areas	104	26,5
	Townships	107	27,3
	City centre	81	20,7
	Total	392	100

Figure 4.1: Location of your Business within eThekweni Municipality

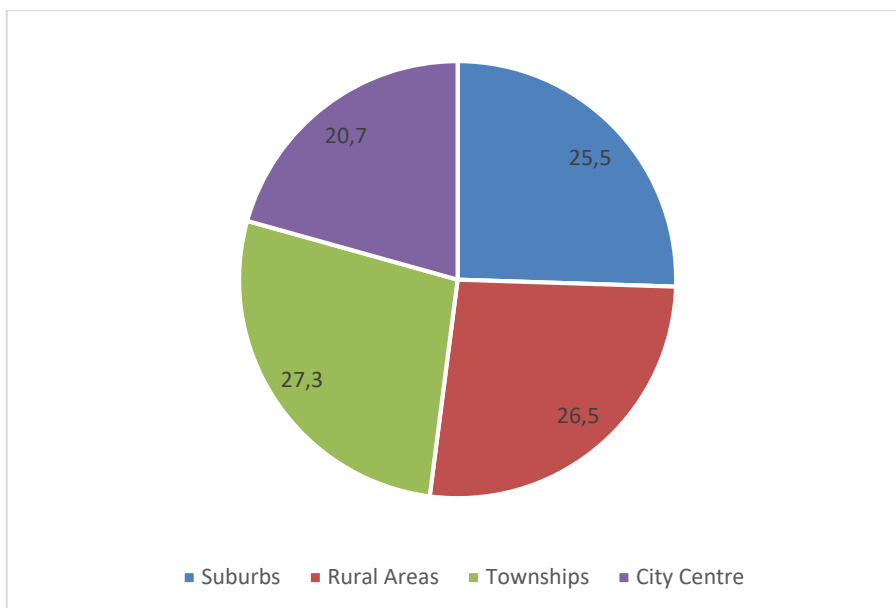


Table 4.5 and Figure 4.1 show an approximately equal representation of micro-businesses within eThekweni Municipality. This finding suggests that micro businesses can be found in all

areas of South Africa. 25.5% of research participants from the suburbs were surveyed: 26.5% from rural areas, 27.3% from townships, and 20.7% from the city centre. In township area micro-business owners have contributed towards development in the accommodation and tourism sectors which make a significant contribution to the Gross Domestic Product of the country (Mtshali, Mtapuri and Shamase 2017). Korevaar (2020) states that, in an effort to assist businesses to comply with their tax obligations, it is important to consider the kind of business ownership. As discussed above, the term ‘micro-business’ relates to those businesses with an annual turnover not exceeding R1 million. Such businesses may be sole traders, partnerships or companies (close corporations and cooperatives) (SARS 2017). Table 4.6 and Figure 4.2 reflect the kind of business ownership to which these micro-businesses belonged.

Table 4.6: Type of business ownership

		Frequency	Percentage
Valid	Sole trader	318	81.1
	Partnership	73	18.6
	Company	1	0.3
	Total	392	100

Figure 4.2: Type of business ownership

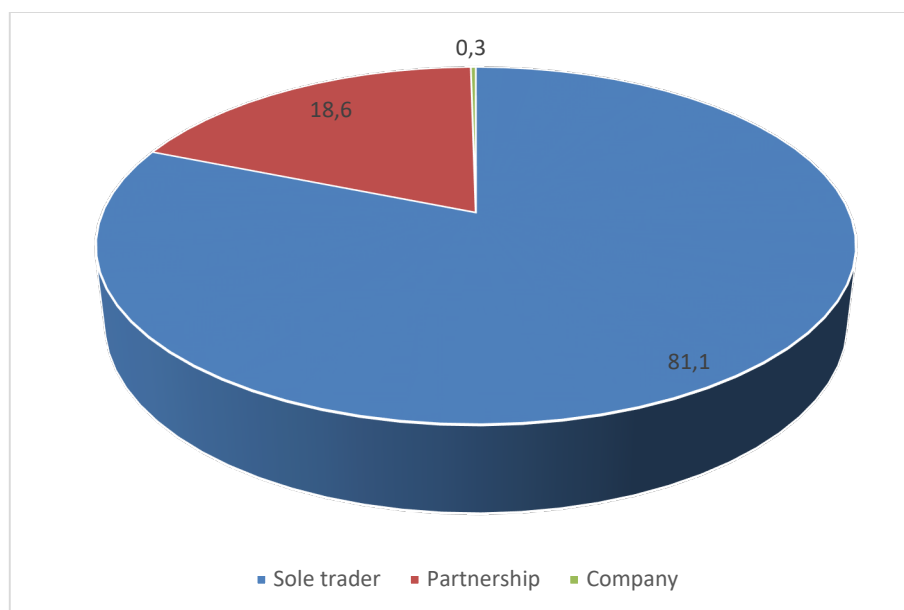


Table 4.6 and Figure 4.2 show that the great majority of micro-business owners surveyed in this study were operating as sole traders (81.1%), while 18.6% were operating as partnerships; only 0.3% operated as companies. SARS (2021L) indicates that it is understandable that the

majority of micro-business owners operate as sole traders, because most of them start up a business for survival purposes and it is easier to start as a sole trader than starting a company. To start a company there are many procedures that need to be followed for the company to be registered.

The main sectors in which the responding micro-business owners belong must be considered. This helps to determine the most suitable approach to be used by tax authorities to improve tax compliance in a particular sector, for instance, it can be difficult to deal with micro-businesses in the taxi industry (Cramer and Krueger 2016). Table 4.7 illustrates the business sectors to which the participating businesses belonged:

Table 4.7: Micro Business Sector

		Frequency	Percentage
Valid	Agricultural sector	7	1.8
	Manufacturing industry	66	16.8
	Transport industry	40	10.2
	Trade industry	238	60.7
	Financial industry or service	21	5.4
	Real-estate industry	8	2.0
	Hospitality industry	8	2.0
	Artisan sector	4	1.0
	Total	392	100.0

This shows that 60.7% of the respondents were involved in trading; 16.8% were from the manufacturing industry; 10.2% were from the transport industry; 5.4% were from the financial or service industry; 2% were from the real-estate industry; 2% were from the hospitality industry; 1.8% were from the agricultural sector; and 1% of the respondents were artisans. These results are in line with the findings of Business Tips (2013) that the majority of micro-business owners are attracted to trading, where starting a business is not complicated. Rajgopau (2020) indicates that these most frequently include *spaza* shops that sell refreshments such as cold drinks, and fast food such as burgers. Some micro-business owners operate out of their garages, selling products such as fruit, vegetables and beverages while others sell clothes.

SARS (2021L) note that, when tax authorities try to assist businesses to comply with their tax obligations, they should also consider how these businesses acquire and manage cash required to finance their daily operations. Such daily operations include purchasing goods on credit from suppliers, selling goods on credit to customers, paying salaries to their employees, keeping accounting records for the business, and other daily activities (Fatoki, 2014b). Therefore, these businesses must have sufficient cash. Some will borrow cash from the bank or other financial services. Table 4.8 and Figure 4.4 reflects how the responding micro-business owners obtain cash for their daily operations.

Table 4.8: Financing daily operations of the business

		Frequency	Percentage
Valid	Contribution by the owner	17	4.3
	Through leasing	1	0.3
	Combination of owners' equity and total liability (Long-term and short-term liabilities)	116	29.6
	Combination of total liabilities and leasing	3	0.8
	Combination of owners' equity, total liabilities and leasing	255	65.1
	Total	392	100

Figure 4.3: Financing daily operation of the business

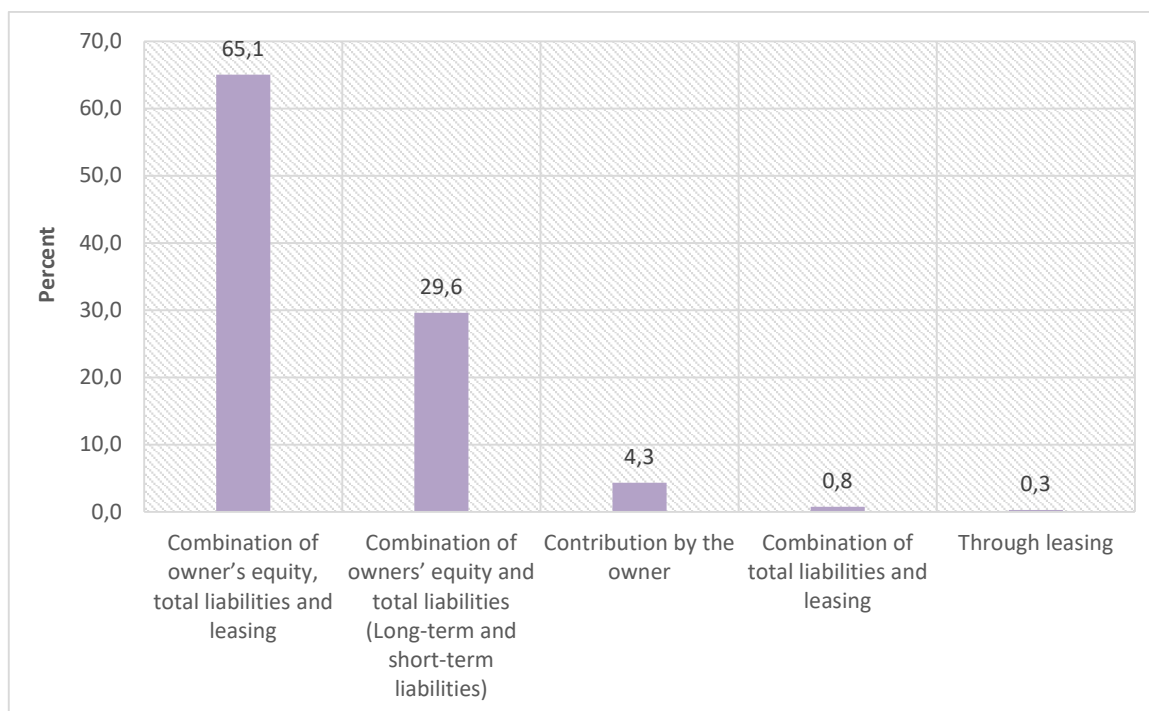


Table 4.8 and Figure 4.3 show that 65.1% of the respondents obtain finance through a combination of owners' equity, total liabilities and leasing; 29.6% through a combination of owners' equity and total liability (long-term and short-term liability); 4.3% through owner's contribution; 0.8% through a combination of total liability and leasing; and 0.3% obtain finance only through leasing. The importance of leasing in the context of acquiring assets for the daily operations of a business can affect micro-businesses in the following manner:

- Some micro-businesses may not have sufficient cash to purchase a particular asset or property required for the business. Instead of purchasing it, micro-business owners can lease an asset for a certain period of time (Fatoki 2014a). This includes leasing assets such as land and buildings (Garg and Phayane 2014);
- The lease can play an important role in the business because some micro-business owners may be required to use a particular property for a certain number of years. After the period of the lease has elapsed, the entity may not be willing to keep the property or asset because the business may be relocating (Fatoki 2014a); and
- The lease agreement can also provide some advantages to the lessee in the sense that the lessee may be able to afford to pay instalments to the lessor more easily than actually purchasing the asset or property (Karwowski 2018).

Bushe (2019) argues that since the majority of the micro-businesses rely on total liability to finance their daily operations, it is important that they keep accounting records and also prepare annual financial statements. This plays a major role in the decisions of financial institutions to provide financial assistance to the business or not (Bhattacharya and Londhe, 2014)

4.4.2 Factors which Improve Tax Compliance amongst Micro Businesses

Fischer's Tax Compliance Model stressed the importance of complying with the following three aspects of compliance:

- **Administrative compliance** – Micro-businesses can demonstrate administrative compliance by ensuring that the business has been registered for tax purposes, has submitted tax returns on time, and ensured that they have adhered to the time frames set by tax authorities (Cooper and Strydom 2018);
- **Reporting compliance** – this involves understanding how to calculate tax liability, including an understanding of how to keep all necessary accounting records for the business (Mukhlis, Utomo and Soesetio 2015); and
- **Filing compliance** – Filing compliance means that they must file relevant documents for completion of tax returns, ensuring that these have been audited to detect any kind of fraud or mistake (Kogler, Mittone and Kirchler 2016).

The following results indicate the perception of micro-business owners towards tax registration, accounting record keeping and preparation of annual financial statements.

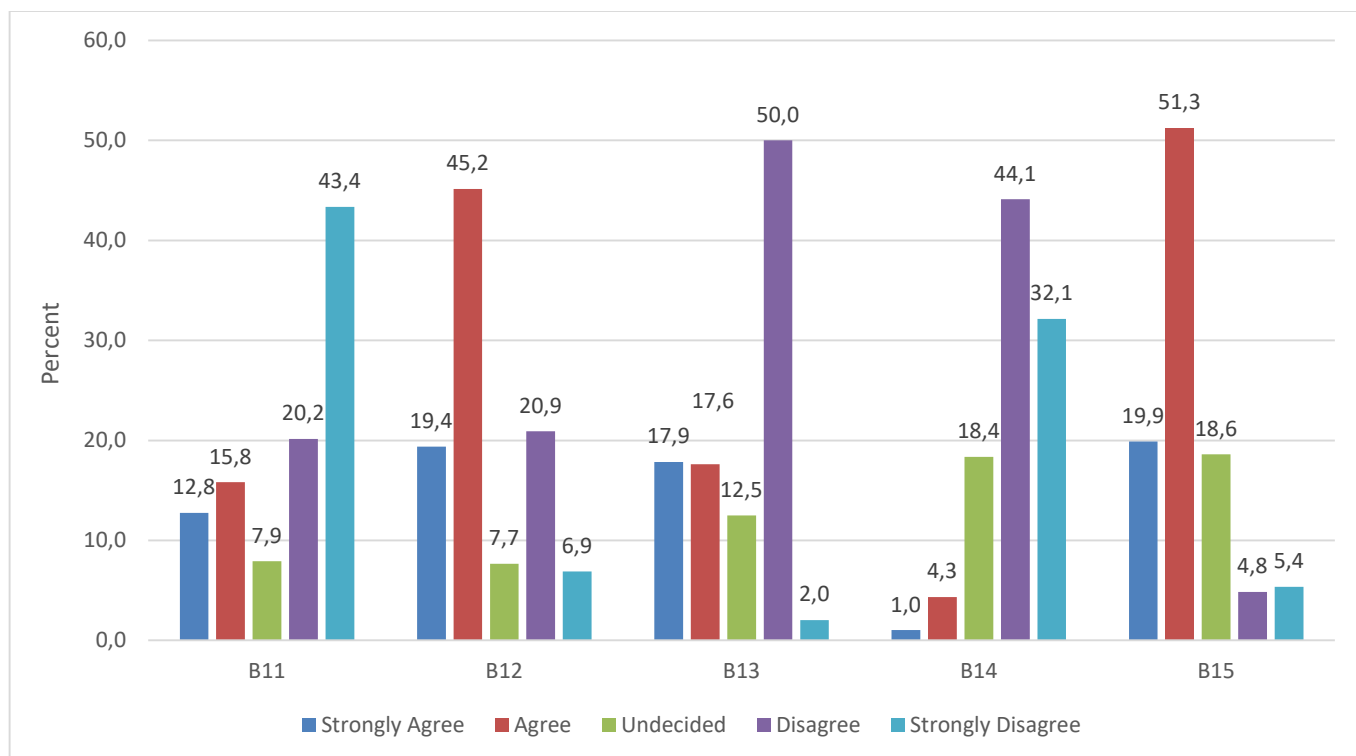
4.4.2.1 Tax registration

As discussed above, any employer or taxpayer who generates sufficient revenue to qualify to pay tax must register for tax purposes (Junpath, Kharwa and Stainbank, 2016). The South African government collects most of its tax revenues through personal income tax. Therefore, those micro-businesses that qualify to pay tax should register for tax purposes as the income generated through their businesses should be subjected to normal tax (Pieterse, Gavin and Kreuser 2018). Viviers and Groenewald (2019) point out that, as already noted, although Turnover Tax provides benefits to micro-businesses, many small businesses are not registered for it, which means that they are required to comply with income tax, Value Added Tax (VAT) and capital gains tax (VAT is not relevant to micro-businesses as noted above). However, Smulders and Naidoo (2013) emphasise (again as already discussed) that it can be very difficult to comply with all these taxes because small businesses may not only lack the money, but it can also prove to be an administration burden taking valuable time from their normal business operations. Fatoki (2014b) suggests that some businesses may deliberately not register their businesses even if they qualify to do so (this can ensure that there is no administrative burden for the business but it can be regarded as tax evasion). Table 4.9 and Figure 4.4 show the results of the data analysis from participating micro-businesses towards tax registration.

Table 4.9: Tax registration amongst participating micro-businesses

		Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree		Chi Square
		Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	p-value
I consider tax registration as being a legal requirement.	B11	50	12.8%	62	15.8%	31	7.9%	79	20.2%	170	43.4%	0.000
I fear to be sanctioned by tax authorities when my business is not registered for tax purposes.	B12	76	19.4%	177	45.2%	30	7.7%	82	20.9%	27	6.9%	0.000
It is easy to gain access to funding from financial institutions when the business has been registered for tax purposes.	B13	70	17.9%	69	17.6%	49	12.5%	196	50.0%	8	2.0%	0.000
I consider registering for tax part of my "moral reasoning".	B14	4	1.0%	17	4.3%	72	18.4%	173	44.1%	126	32.1%	0.000

Figure 4.4: Tax registration amongst the micro-businesses



B11- I consider tax registration a legal requirement

Table 4.9 and Figure 4.4 indicate the results for question B11 which relates to the tax registration. 43.4% of the respondents strongly disagreed that they consider tax registration a legal requirement; 20.2% disagreed; 15.8% agreed; 12.8% strongly agreed; and 7.9% were undecided.

According to SARS (2017), considering tax registration as a legal requirement means that taxpayers must understand that tax registration is enforced by the tax law of South Africa. Therefore, the fact that 63% of the respondents indicated that they do not consider tax registration as a legal requirement (they either disagreed or strongly disagreed) means that these business owners do not recognise the fact that tax registration is enforceable by the laws of South Africa.

B12- I fear to be sanctioned by tax authorities when my business is not registered for tax purposes

The results from sub-question B12 indicate that 65% of the respondents either agreed or strongly agreed that they fear to be sanctioned by tax authorities when their businesses are not registered for tax purposes; 20.9% disagreed that they fear sanctions; 7.7% were undecided; and 6.9% strongly disagreed.

The fact that 65% of the respondents indicated that they fear sanctions by tax authorities, while 63% of the participants from the previous statement do not consider tax registration as a legal requirement, indicates that many micro-business owners may lack a full understanding in terms of what is expected of them in order to comply with tax and this may be owing, or partly owing, to a lack of specific tax compliance knowledge (Manual and Xin 2016).

B13- It is easy to access funding from financial institutions when the business has been registered for tax purposes

Table 4.9 and Figure 4.5 indicate the results of question B13 which relates to tax registration. Some 50% of respondents disagreed that it is easy to access funding from financial institutions when the business has been registered for tax purposes; 17.9% strongly agreed; 17.6% agreed; 12.5% were undecided; and 2% strongly disagreed.

The fact that half of the respondents disagreed that it is easy to have access to funding from financial institutions when the business has been registered for tax, indicates that some business owners do not understand that financial institutions are a lot more likely to provide finance for a registered business (Crawford and Power 2015). Tsuruta (2015) recognises the seriousness of businesses not having access to finance from financial institutions, so preventing them from performing important business activities, including ensuring that sufficient stock is available to sell to customers which makes the business profitable, and ensuring that creditors or suppliers are paid on time.

B14- I consider registering for tax a part of my “moral reasoning”

Table 4.9 and Figure 5 indicate the results of question B14 which show that 44.1% of the respondents indicated that they disagreed that registration for tax was part of their moral reasoning; 32.1% strongly disagreed; 18.4% were undecided; 4.3% agreed; and 1% strongly agreed. It is notable that the great majority (over 75% or three-quarters of the respondents) did not feel any moral obligation to pay tax.

While moral reasoning is part of ethics – that is, the feeling that there is an ethical obligation to pay tax which each business owes to the government – that is something different from ‘tax morale’ – or the atmosphere of being positive about tax payments. According to Williams and Martínez (2014), tax morale can be defined as the willingness of the taxpayers or individuals to pay tax. Furthermore, tax morale can be influenced by different factors, which include the fact that taxpayers may feel motivated or not motivated to pay tax. Lisi (2015) suggests some of the factors which influence tax morale, such as satisfaction with public services and expenditures

by the state, and the trust that taxpayers have in government, including perceptions concerning corruption.

4.4.2.1.1 Chi-Square analysis with regards to tax registration

The analysis of the Chi-Square test will indicate any significant relationship between each set of hypotheses. However, first it is important to note how these hypotheses were set up in Chapter 1:

First set of hypotheses:

- ☐ H0: There is no difference in the agreement levels relating to business owners considering tax registration as part of a legal requirement; and
- ☐ H1: There is a difference in the agreement levels relating to business owners considering tax registration as part of a legal requirement.

Second set of hypotheses

- ☐ H0: Micro business owners do not fear the sanction or punishment that can be imposed by tax authorities against non-compliance taxpayers; and
- ☐ H1: Micro business owners fear the sanction or punishment that can be imposed by tax authorities against non-compliant taxpayers.

Third set of the hypotheses:

- ☐ H0: Micro business owners do not think that it is easy to get access to funding from financial institutions when the business is registered for tax; and
- ☐ H1: Micro business owners think that it is easier to get access to funding from financial institutions when the business is registered for tax.

Fourth set of the hypotheses:

- ☐ H0: Micro business owners do not consider tax registration as part of their moral reasoning; and
- ☐ H1: Micro business owners consider tax registration as part of their moral reasoning.

Table 4.10 shows the Chi-Square test indicating Chi-Square value, degree of freedom (df) and significant values (Asymptotic Significance):

Table 4.10: Chi-Square Test regarding tax registration for micro businesses

Chi-Square Test			
Tax registration (statements used in this study)	Chi-Square	Df	Asymp.sig
B11: I consider tax registration as a legal requirement	149.403	4	0.000
B12: I fear to be sanctioned by tax authorities when my business is not registered for tax	187.821	4	0.000
B13: It is easy to get access to funding from financial institution when the business has been registered for tax purposes	252.668	4	0.000
B15: I consider the registration for tax as part of my moral reason	262.26	4	0.000

With regards to the table of p values above, the following conclusions can be drawn:

- **First set of hypotheses:** The conclusion can be drawn based on the table of p-values above that there is a significant difference (since $p < 0.05$). This means that valid conclusions can be drawn and thus that the conclusion can be drawn from the results that the majority of micro-business owners do not consider tax registration as a legal requirement;
- **Second set of hypotheses:** In relation to the table of p-values above, the conclusion can be drawn that there is a significant difference (since $p < 0.05$). This means that the conclusion can be drawn from the data that the majority of micro-business owners do fear to be sanctioned by tax authorities when their businesses are not registered for tax;
- **Third set of hypotheses:** Again, in view of the table of p-values above, the conclusion can be drawn that there is a significant difference (since $p < 0.05$). This means that conclusions can be drawn from the data that a similar proportion of business owners think it is easier to get access to funding from financial institutions when the business is registered for tax than those who do not (52% disagree with the statement).
- **Fourth set of hypotheses:** Taking into consideration the table of p-values, the conclusion can again be drawn that there is a significant difference (since $p < 0.05$). This means that valid conclusions can be drawn from the data that respondents strongly disagreed that their moral reasoning led them to the payment of tax. Over 76% either disagreed or strongly disagreed with the statement.

These hypotheses were formulated to support the main research variable for this study which probes how tax registration, and the perceptions about it, affect tax compliance amongst micro-businesses.

4.4.2.2 Accounting record-keeping

Kenton (2020) explains that proper keeping of accounting records involves ensuring that the accounting processes have been properly followed. This involves employing a qualified bookkeeper or accountant to keep accounting records for the business. Gartenstein (2019) notes that accounting information kept by the accountant or bookkeeper will also be used to calculate the tax liability for the business. Therefore, when accounting records have not been kept properly by a qualified accountant, figures used to calculate the tax liability will often be based on the wrong information (Kenton 2020). Table 4.11 and Figure 4.5 reflect the qualifications of the people responsible for accounting record-keeping amongst the micro businesses surveyed in this study:

Table 4.11: Highest qualification of the person who keeps the accounting records of the business

		Frequency	Percentage
Valid	Senior certificate (only matric)	135	34.4
	Bookkeeping certificate	181	46.2
	National Diploma in Accounting	37	9.4
	Degree in Accounting	22	5.6
	Professional Accounting qualification (CA, CIMA, professional accountants and CIS)	17	4.3
	Total	392	100

Figure 4.5: Highest qualification of the person who keeps accounting records for the business

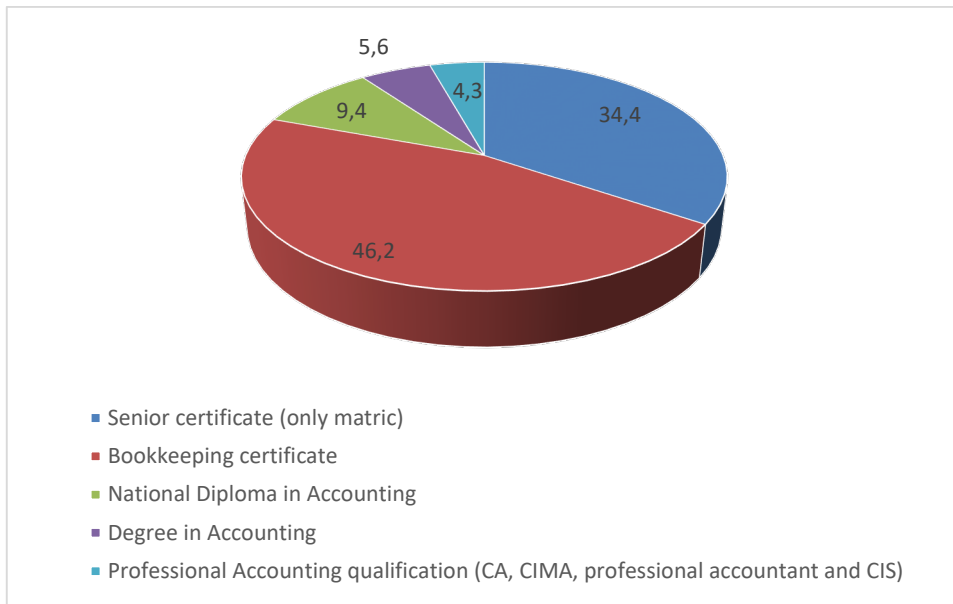


Table 4.11 and Figure 4.5 show that 46.2% of the respondents indicated that the highest qualification of the person they employ in their business to keep accounting records was only a bookkeeping certificate; 34.4% employed those with only senior certificates; 9.4% employed those with a national diploma in accounting; only 5.6% employed someone with a degree in accounting; and only 4.3% of the respondents indicated that their accountant had a professional accounting qualification.

However, as discussed above, these businesses may find it difficult to employ a qualified accountant or bookkeeper on account of the expense involved (Van den Barselaar 2020). The literature shows that it is important to have adequate personnel to keep accounting records, but this is closely related to the size of the business (SARS 2017). A micro-business will not require more than one person in this role. However, it is necessary in any business to ensure that accounting records are kept correctly (Zotorvie 2017).

4.4.2.2.1 Chi-Square test analysis regarding the accounting record keeping

One of the objectives set out in Chapter 1 related to the impact of accounting record keeping on tax compliance amongst micro-businesses (Muthayan 2020). Therefore, in support of this research objective, the following hypotheses were formulated:

First set of the research hypotheses

- H0: Having sufficient personnel to keep accounting records for the business is not regarded as matter of importance amongst micro-businesses; and

- H1: Having sufficient personnel to keep accounting records for the business is a matter of importance amongst the micro-businesses.

Second set of the research hypotheses

- H0: Having personnel fully qualified to keep accounting records for the business is not a matter of importance amongst micro-business owners; and
- H1: Having personnel fully qualified to keep accounting records is regarded as a matter of importance amongst micro-businesses.

Table 4.12 shows the Chi-Square test indicating Chi-Square value, degree of freedom (df) and significant values (Asymptotic Significance) for the above sets of hypotheses:

Table 4:12: Chi-Square Test regarding accounting records keeping

Chi-Square test regarding the accounting records keeping (Based on the individual statements)			
Accounting records keeping used in this study	Chi-Square	df	Asymp.sig
The people in business or organization that are expected to keep accounting records	13 474	2	0.001
The highest qualification of the person in your business or enterprise that is expected to keep accounting records	285 653	4	0.000

With regards to the table of p values above, the following conclusions can be drawn:

- **First set of the research hypotheses:** The table of p-values shows that there is a significant difference since $p < 0.05$. This means that the null hypothesis is incorrect and that the conclusion can be drawn that having sufficient people to keep accounting records for the business is a matter of importance amongst the micro-business owners, although the statistics point to the fact that underqualified people are often employed in this role.
- **Second set of research hypotheses:** With regards to the table of p-values, there is a significant difference since $p < 0.05$. This means again that the null hypothesis is incorrect and that having fully qualified personnel to keep accounting records is a matter of importance amongst micro-businesses. Again however the reality reflected is that underqualified people are frequently employed in this role. It can be concluded from this that tax compliance amongst micro-businesses will be affected by this.

4.4.2.3 Preparing annual financial statements for the business

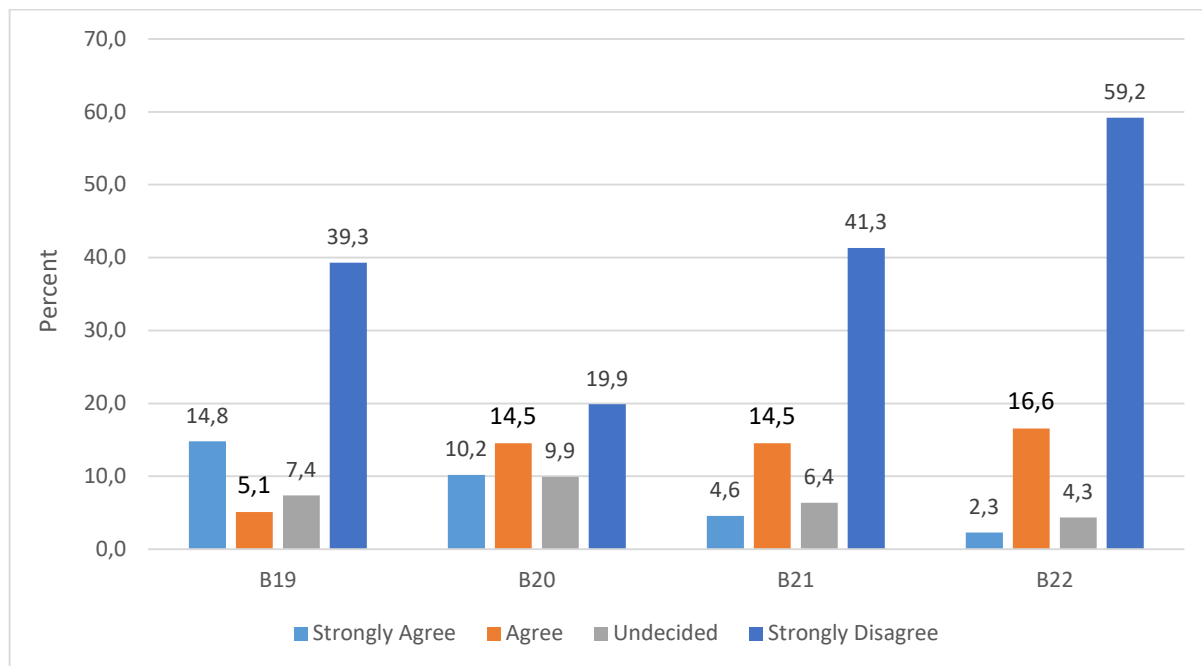
Kenton (2020) found that some business people confuse the process of keeping accounting records for the business with preparing annual financial statements. Murphy (2020) defines financial statements as reports that have been prepared by the entity or management of the company and that the aim of preparing such reports is to present the financial performance of the business at a particular time. It is important that the financial statements for the business be complete. This includes preparing a statement of profit or loss; a statement of financial position; a statement of changes in equity; notes to the annual financial statements and a cash flow statement (Murphy, 2020). Failure to complete financial statements may result in the entity being guilty of not complying with its tax obligations as information in the statements will be used as the basis to calculate tax liability (Van den Barselaar 2020).

Table 4.13 and Figure 4.6 reflect the perceptions of the respondents regarding the preparation of the annual financial statements for their businesses

Table 4.13: Preparing Annual Financial Statements for the Business

		Strongly Agree		Agree		Undecided		Disagree		Strongly Disagree		Chi Square
		Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	p-value
Financial statements can help day-to-day running of the business	B19	58	14,8%	20	5.1%	29	7.4%	131	33,4%	154	39,3%	0.000
Preparing financial statements can help to improve my business operations (taking the business to another level)	B21	18	4,6%	57	14.5%	25	6.4%	130	33,2%	162	41,3%	0.000

Figure 4.6: Preparing Financial Statements for the business



B19- Financial statements can help the day-to-day running of the business

Table 4.13 and Figure 4.6 indicate the results of question B19 which relates to preparing financial statements for the business. The results of the study show that 39,3% of the respondents strongly disagreed that financial statements can help the business on the day-to-day running of the business; 33,4% disagreed; 14,8% strongly agreed; 7,4% were undecided; and 5,1% agreed.

Therefore, the fact that 39,3% of the respondents strongly disagreed and 33,4% disagreed, indicates that the great majority of micro-businesses owners do not see how financial statements can benefit their businesses on a daily basis (Murphy 2020: 1). This finding also indicates that most of the respondents are not aware of how financial statements can benefit different users, such as investors, SARS, business managers and others (Van den Barselaar 2020). For example, that creditors or suppliers of goods and services will rely on the financial statements of the business to decide how much credit they would be willing to grant to the business in order to ensure, for instance, that the business has sufficient stock to sell to customers (Ross 2020).

B20- Preparing financial statements can help to improve my business operations (taking the business to another level)

Table 4.13 and Figure 4.6 indicate the results of question B20 which relates to the preparation of financial statements for the business. The results of the study show that 41,3% strongly

disagreed that preparing financial statements can help to improve their business operations; 33.2% disagreed; 14.5% agreed; 6.4% were undecided; and 4.6% strongly agreed.

It therefore appears that the great majority of the respondents did not see, for instance, that accounting information for the business presented in the statement of profit and loss can be effectively used to generate more profit. The improvement of business operations can also have a positive impact on the tax compliance for the business. When the business is doing well and generating sufficient profit in each financial year, the users of financial statements, such as money lenders, suppliers of goods and services and customers will be interested in such a business (Van den Barselaar 2020). This can help it generate more cash which could be used to hire a professional accountant to keep accounting records and to pay its tax liability (Naicker and Rajaram 2018).

4.4.2.3.1 Chi-Square analysis regarding the preparation of annual financial statements

In Chapter 1, the following research hypotheses were formulated regarding the preparation of annual financial statements amongst micro-businesses in eThekweni Municipality:

First set of the research hypotheses:

- H0: Micro-business owners do not believe that financial statements can assist the business in the day-to-day running of the business; and
- H1: Micro-business owners believe that financial statements can assist the business in the day-to-day running of the business.

Second set of the research hypotheses:

- H0: Micro business owners do not believe that annual financial statements can assist in improving business operations (taking the business to another level); and
- H1: Micro-business owners believe that annual financial statements can assist in improving business operations (taking the business to another level).

Table 4.14: Chi-Square Test regarding the preparation of annual financial statements

Chi-Square test prepared regarding the preparation of annual financial statements			
Statements used in this study	Chi-Square	df	Asymp.sig
Financial statements can help the business on the day to day running of the business	188 128	4	0.000
Preparing annual financial statements can help to improve my business operations (taking the business to another level)	211 852	4	0.000

The following conclusions can be drawn based on the above p-values:

- **First set of the research hypotheses:** The p-value in Table 4.14 shows that there is a significant difference ($P < 0.05$). This means that the null hypothesis is invalid and the conclusion can be drawn from the statistics that a large majority of micro business owners (72,7%) do not believe that financial statements can help the business in the day-to-day running of the business.
- **Second set of the research hypotheses:** the p-value shows that there is a significant difference ($P < 0.05$). Again this confirms hypothesis H1 so that valid conclusions can be drawn from the data and that again the great majority of micro-business owners (74,5%) do not believe that preparing annual financial statements can assist in improving business operations (taking the business to another level).

4.5 Summary

Analysis of the research findings indicated a very significant variance between the opinions of the micro-business owners and many of the facts concerning tax compliance discussed in the literature review. This may indicate that this group of taxpayers can be viewed as requiring an additional theoretical lens in understanding their tax compliance behaviour. In terms of how tax registration influences tax compliance amongst the micro-businesses who were involved in this study, the following are noted:

- The majority of the respondents indicated that they do not consider tax registration as a legal requirement. This may indicate a lack of knowledge and understanding of the tax laws of the country – or perhaps a reluctance to acknowledge them. This can be linked to the theory of education being a significant aspect of tax compliance.
- Approximately 60% of respondents indicated that they do fear the sanctions that can be imposed by tax authorities when the business is not registered for tax. This could indicate that extending tax audits could be an efficient means of gaining more tax revenue from these businesses, or, more positively, that communications between these taxpayers and the tax authorities should be improved with better support offered to micro-businesses.
- Just over half (52%) of the micro-business owners indicated that they do not believe that it is easy to get access to funding from financial institutions when the business is registered for tax, although the literature confirms that this is the case. This again could indicate a lack of education impacting upon tax compliance.

- Three quarters of the respondents do not consider tax registration as a moral obligation. This can be linked to the extended tax compliance model in that it relates to both cultural values (social norms and ethical values) and to the significance of attitudes and perceptions in understanding tax compliance.

Furthermore, the findings indicate that many micro-businesses are employing people who do not have appropriate qualifications to keep accurate accounting records. Many have only a bookkeeping certificate, and others have only a Grade 12 certificate, although the importance of keeping accurate records is emphasised in the literature.

The final chapter will present the research conclusions and make recommendations. It will also provide some suggestions with regard to further research that could be conducted on this topic.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter 4 presented the findings of the study. This chapter will present conclusions and make recommendations drawn from the study. There were certain limitations encountered by the researcher in the course of undertaking the study and these will be explained and used as a way of suggesting improvements to the study in terms of suggestions for future research.

5.2 Overview of the study

Public policy makers and researchers are focussing on non-compliance issues globally (Jimenez and Iyer 2016). While many research studies have been conducted regarding factors affecting tax compliance amongst individuals and businesses, only limited research has been conducted in developing countries such as South Africa (Mekonen 2015). Tehulu (2016) indicates that, although tax theories highlight factors which affect tax compliance amongst individuals and businesses, other scholars have suggested that the reasons behind non-compliance with tax may include factors that are not covered in the basic Fischer's model and this encourages continued searching for more factors which may provide insights into improving tax compliance. It remains possible, however, that these additions can be still further improved to reflect a particular tax behavior amongst a particular group of taxpayers (micro-business owners in South Africa). In this regard the South African government has made an effort to improve tax compliance amongst micro-businesses by introducing 'Turnover Tax' which reduces the administrative burden on these businesses. As explained above, the intention was to allow micro-businesses to focus more on profit-making and contributing towards reducing the level of unemployment, and less on tax compliance measures. However, this provision has not been used optimally and some business owners are not even aware that such opportunities are available to them (Schutte et al. 2019). *Up to now, however, no study has dealt specifically with probing the impact of the key aspects of effective tax compliance (tax registration, accounting records keeping and preparation of annual financial statements) by micro-business owners as a way to provide insights into tax compliance behaviour amongst this specific group of taxpayers. This study aimed to fill this gap.*

5.3 Research Objectives

The aim of the study was therefore to expand the existing Fischer's Tax-compliance Model, and its successor models, to find solutions that might be suggested to SARS to improve tax compliance amongst South African micro-businesses.

The next section will discuss how the research objectives have been achieved:

5.4 Research Objective 1: To analyse factors affecting tax compliance as indicated in Fischer's tax model as a basis for finding possible solutions for SARS to effect an improvement in tax compliance amongst micro-businesses. This research objective was based on the following aspects of secondary data:

5.4.1 Demographic variables: Demographic variables in Fischer's Tax Compliance Model include age, gender and education level of the taxpayer.

5.4.2 Non-compliance opportunities:

Fischer's model identifies non-compliance opportunities, such as income level and income source. At higher levels of income there may be a greater incentive to avoid tax, while self-employed income or additional income may be more easily concealed by the taxpayer. While the former is not relevant to the group under investigation the latter (self-employment) is.

5.4.3 Attitude and perceptions

In terms of attitude and perceptions, Fischer's Tax Compliance Model highlights factors such as fairness of the tax system, and the influence of their peers on taxpayers. While the South African tax system is likely to be deemed fair or equitable in general terms, the use made of taxpayers' money may be seen as problematic. The known existence of corruption within government and the prevalence of non-delivery of government services are likely to influence all taxpayers negatively concerning payment of tax, and this may go on to affect the peers of those who feel this negativity.

5.4.4 Tax structure or tax system:

Fischer's Tax Compliance Model suggests that factors, such as complexity of the tax system, probability of detection, penalties imposed and tax rates, also influence tax compliance. As the complexity of the South African tax system is recognised, this may serve to negatively affect tax compliance particularly amongst the less educated business owners and those with under-qualified personnel responsible for their accounting systems.

Thus, overall, the Fischer's model can be seen as relevant and useful for understanding the behaviour of micro-business owners in eThekweni Municipality. However, it is *still insufficient for explaining aspects of their behaviour where these appear to differ from other groups*.

5.5 Research Objective 2: To assess the suitability of other existing expanded tax compliance models, which are based on the Fischer's Tax Compliance model, to improve tax compliance behaviour.

The following expanded tax compliance models, developed by the expansion of the Fischer's Tax Compliance model, were then assessed:

- Fischer's tax compliance model: A proposal for Nigeria;
- Fischer tax compliance model: A research synthesis.

While the addition of emotional intelligence as a factor affecting tax compliance, as indicated in the 'proposal from Nigeria' is not precisely identifiable as significant from the data collected in this study, the overall negativity around tax compliance would suggest that such a factor is unlikely to weigh with the respondents in this study, emotional intelligence being concerned with empathy towards the other parties in a relationship. Such empathy with tax officials and tax authorities is likely to be absent, and the data suggests that it is absent, amongst the targeted group of taxpayers. This however could alert the tax authorities to the existence of this issue and to find ways to address it.

The significance of cultural issues which is added in the 'research synthesis' may be considered as relevant, for instance where the empirical data showed that the great majority of taxpayers recognised no moral obligation to pay tax. This could be seen as inherited from the apartheid era where defiance of authorities was seen as a legitimate strategy, now reinforced in some places by the experience of non-delivery of services.

Therefore, the suitability of the second expanded model – the research synthesis is helpful in some ways in further explaining the attitude and behaviour of the targeted group of taxpayers within developing countries – but *it is also insufficient to provide a complete picture*.

5.6 Research Objective 3: To evaluate or explore factors affecting tax compliance behaviour amongst micro-businesses, and to provide evidence from other studies to confirm their validity as factors. To satisfy this objective, both economic and non-economic factors were evaluated.

As discussed above both economic and non-economic factors have relevance to the targeted group of taxpayers, but again *without being able fully to explain their lack of compliance*.

5.7 Research Objective 4: To recommend an expanded tax-compliance model that could be suggested to SARS to find possible solutions to improve tax compliance amongst micro-businesses in South Africa.

This is the final research objective for this study. It has been achieved as follows:

- The previous chapters have shown that micro businesses are similar to other taxpayers in the sense that they have an obligation to comply with tax regulations, and their behaviour can be linked to similar motivations and considerations.
- Consequently, the conceptual framework set up in the Fischer's Tax Compliance Model and the additions to it, were identified as relevant to finding solutions to improve tax compliance amongst the micro-businesses in this study.
- The following key additional factors were then investigated to establish further insights into micro-businesses' compliance with administrative, reporting and filing requirements: their approaches to tax registration; accounting records keeping and preparing annual financial statements. This investigation is considered as the core of the study as there is no other study that has dealt with the impact of this group of key variables on tax compliance for micro-businesses in South Africa. The literature indicates the impact of these factors on tax compliance in general, while the results of the empirical study revealed in a significant way the specific impact of these factors on tax-compliance amongst the micro-businesses in the study.

Based on the literature review (the secondary data) and on the results of the empirical study (the primary data) it is therefore important to finally reflect on the impact that these factors appear to have on tax compliance behaviour for the micro-businesses which were targeted.

It should be noted that the evidence provided in the literature review matched the results of the empirical study regarding the impact of tax registration, accounting records keeping and preparation of annual financial statements amongst micro-businesses *wherever negative aspects* such as the administrative burden placed on these taxpayers, the lack of sophisticated tax knowledge amongst micro-business owners, or the low levels of expertise amongst their accounting personnel. *The nature and extent of these issues being applicable to the group targeted was however unknown until revealed in the present study.*

5.7.1 Tax registration

- The results of the empirical study indicated that half of the respondents disagreed that it would be easier to get access to funding from financial institutions if the business were registered for tax. This indicated a significant lack of awareness of these proven benefits. The lack of access to finance amongst micro-businesses has a known and serious negative impact on the successful running of the business as discussed above.

- The results of the empirical study also indicated that three quarters of the respondents disagreed that tax registration is part of their moral reasoning/ moral obligations. The term 'moral reason' relates to taxpayers having to make a decision whether it is right or wrong to pay tax (Cvrlje 2015). That the micro-business owners surveyed in this study indicated clearly that they did not consider tax registration as part of their moral reasoning, demonstrates a lack of tax ethics amongst these taxpayers, since they appear to be unaware that paying tax is the right thing to do (Bobek, Hageman and Kelliher 2013). The lack of good tax ethics amongst micro-businesses will also have a negative impact on tax compliance and may be indicative of a general feeling of negativity towards tax compliance which is evident from the responses obtained.
- The results of the empirical study also indicated that three quarters of the respondents failed to see tax registration as a legal requirement, which means that taxpayers may not understand that there can be serious consequences for not registering the business for tax purposes (SARS 2017). However, failure to register a business is considered as tax evasion, which is part of non-compliance (Korndörfer, Krumpal and Schmukle 2014). The empirical evidence indicated that the majority of respondents did however fear the consequences of non-compliance.

5.7.2 Accounting records to the business

- The results of the empirical study indicated that 46.2% of micro-business owners were using the services of accountants with only a bookkeeping certificate while 34,4% had only a matric certificate, and that only 5.6% had a degree in accounting. In this regard the literature review showed that employing highly qualified accountants is expensive and probably beyond the budgets of most micro enterprises (Keevy and Mare 2018; Grimm and Paffhausen 2015). While extensive and up-to-date tax knowledge is needed if any business is to comply with the full range of taxes, a less qualified person could be able to keep accurate records for the appropriate payment of Turnover Tax. Awareness of this does not appear to have been sufficiently made known to micro-business owners.

5.7.3 Annual financial statements

- 45.4% of respondents disagreed that preparing annual financial statements makes it easier to obtain assistance from financial institutions. The lack of accurate financial statements, or not preparing annual financial statements at all, will often result in financial institutions not being prepared to provide financial assistance (SARS 2017). This was either unknown to the respondents or its significance was not appreciated.

- Over 70% of respondents disagreed that preparing financial statements can help to improve the business (taking the business to another level). The concept of ‘users of financial statements’ can also relate to the business managers who will use the information from the financial statements to improve their business operations (Crawford and Power 2015). This also was either not considered or not understood as relevant by the respondents.

5.8 Recommendations or strategies to improve tax compliance amongst the micro businesses

5.8.1 Strategies to improve tax registration amongst micro businesses

Based on the results of the empirical study and the related literature reviewed, the following strategies are recommended to improve tax registration amongst micro businesses:

- Tax authorities should re-consider the penalties imposed on micro-business owners who qualify to pay tax but fail to register their businesses for tax purposes. It seems like the current sanctions that are imposed by tax authorities are not adequate to enforce tax registration amongst micro business owners, although the respondents indicated that they do fear to be sanctioned by tax authorities when their businesses are not registered for tax purposes. Therefore, SARS should evaluate the effectiveness of current sanctions imposed on micro-businesses who default or fail to register for tax purposes. SARS should be aware that stricter or more consistent sanctions may have an effect on tax registration amongst micro-businesses, along with better communication strategies.
- The results of the empirical study have also shown that 44.1% of the respondents do not consider tax registration as part of their moral obligation. Therefore, as part of strategy to improve tax compliance, SARS should find ways to communicate tax ethics to micro-business owners. It is also important that government leaders should set an example by using tax revenues effectively which links to the need for anti-corruption measures to be seen as effective, along with service delivery improvements.

5.8.2 Strategies to improve accounting record-keeping amongst micro businesses

Based on the results of the empirical study and related literature review, the following strategies are recommended to improve accounting record keeping amongst micro businesses:

- SARS should emphasize to micro-business owners the importance of using highly qualified personnel to keep accounting records for their businesses if at all possible in order to keep accurate accounting records and ensure that they comply with tax.
- While the literature confirms that these professional people possess knowledge and experience which can assist the business to comply with tax obligations and improve profit margins, as well as being of assistance to taking a micro-business to the next level, it also acknowledges the difficulties on the ground for very small businesses to afford such services.
- As part of the strategy to improve tax compliance amongst micro-businesses, SARS could therefore arrange a series of workshops with micro-business owners to show them how the preparation of financial statements will assist the business, how they will benefit the following: investors (potential and existing), SARS, business managers, debtors and creditors, and employees of the business and how annual financial statements can make it easier to obtain financial assistance from financial institutions. For example, when the business has applied for a loan, the financial institution will check the financial statements for that particular business before granting such a loan. The financial institution will also check information relating to profit of the last two financial years and the long-term and current liabilities. Workshops could also show how financial statements can improve their business operations as well as how they will enable tax compliance. Business incubators could be used more effectively by the government to give direct mentorship and financial aid to these businesses to overcome the shortcomings identified here.
- SARS should therefore find ways (as in the workshops and support for 'business incubators' mentioned in the point above) to increase the awareness of these businesses through better communication, improving the relationship existing between their own personnel and micro-business owners and particularly they should emphasise the value of registering for Turnover Tax. As argued above this could enable less highly qualified, and thus more affordable, accounting services to be employed by these small businesses.

5.8.3 The use of the three selected factors for adding theoretical insights relevant to micro-businesses

The results of the empirical study, supported by the literature review, therefore crucially showed that tax compliance amongst micro-businesses is influenced more strongly in the case of these taxpayers than others by the three key factors of tax registration, accounting records keeping,

and preparation of annual financial statements selected by the researcher for investigation. *New evidence was therefore provided by the primary data to elucidate this.*

5. 9 Achieving the Aim of this Study

The aim of this study was to expand the existing theoretical tax-compliance model to improve tax compliance amongst micro businesses. Principles applied in the Fischer's tax-compliance model were used, elaborating on how micro-businesses can be affected by factors indicated in the model. There were also additional factors identified as having an impact on tax compliance amongst micro- businesses. Fischer's model indicated the following factors which affect tax compliance:

- ☐ Demographic variables which include the age, gender and education level;
- ☐ Non-compliant opportunity which include factors such as income level, income source and the occupation;
- ☐ Attitude and perceptions of the taxpayer, namely, the fairness of the tax system and peer influence; and
- ☐ Tax structure or the tax system which includes the complexity of the tax system, the probability of detection, penalty or interest and tax rates.

The model for Nigeria added a consideration of emotional intelligence, and the 'research synthesis' added cultural aspects which were also of relevance to the current study.

This study has also indicated how the following economic and non-economic factors that are linked to the Fischer's tax compliance model can have an impact on tax compliance amongst micro-businesses:

Economic factors

- ☐ Taxpayers level of income;
- ☐ Tax rate;
- ☐ Tax audit;
- ☐ Fines;
- ☐ Penalty;
- ☐ Compliance costs; and
- ☐ Tax benefits.

Non-Economic factors

- ☐ Taxpayers' attitude;

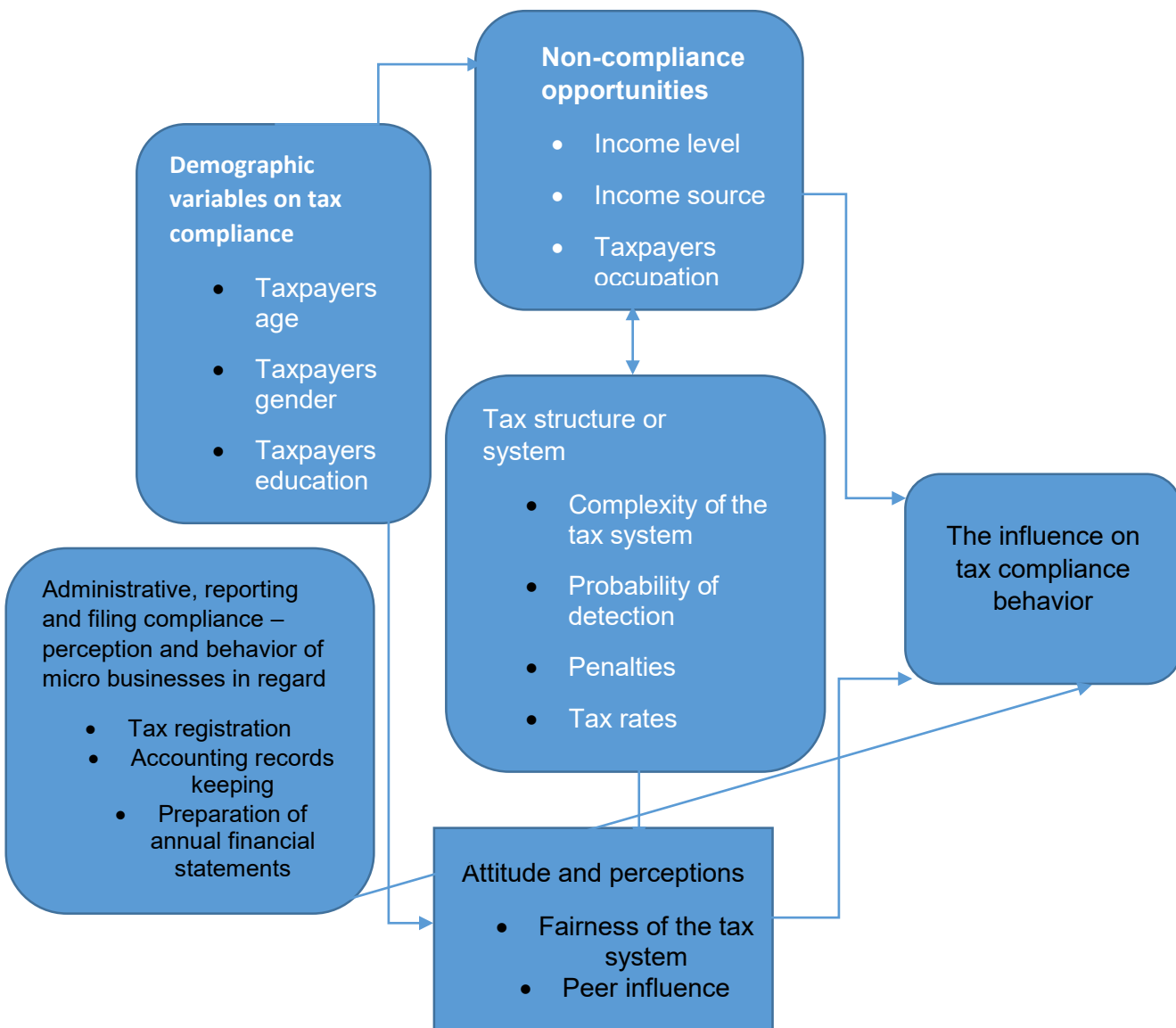
- Tax knowledge;
- The influence of personal, social and national norms;
- The impact of theoretical foundations on tax compliance which include the following theories for tax compliance:
 - Economic deterrence theory;
 - Fiscal exchange theory;
 - Non-state actors as service providers;
 - Social influence;
 - Comparative treatment (equity theory); and
 - Political legitimacy.

As a result of the findings it is therefore clear that the factors identified in the original Fischer's Tax Compliance Model as well as those added by models specific for developing countries are useful for understanding the behaviour of micro-businesses in eThekweni. In addition, the new insights provided by the specific focus of this study on the approaches adopted by micro-businesses as regards:

- Tax registration;
- Accounting record-keeping; and
- Preparing annual financial statements;

enable the development of a combined, and further expanded, model of value to SARS in understanding and supporting tax compliance issues relevant to this group of taxpayers. '*An expanded tax-compliance model to improve tax compliance amongst micro businesses*' has therefore been developed as an outcome of this research and is shown in Figure 5.1 below.

Figure 5.1 Illustration of an expanded tax-compliance model for improving tax compliance amongst micro-businesses: This expanded model should be applied to encourage micro-businesses to comply with tax.



The above model thus adds new knowledge to the body of existing knowledge on tax compliance with specific relevance to micro-enterprises.

5.10 Implications for Further Research

Further investigations could be made on the following issues regarding tax compliance amongst micro-businesses:

- The sample targeted was fairly small, given the large numbers in the entire population of micro-businesses in South Africa, and there could therefore be more factors affecting

income tax compliance amongst micro-businesses that may be found through using a larger sample selected from a different province or provinces.

- Further research could be conducted into the lack of uptake of Turnover Tax, and eliminating the weaknesses in tax registration and tax knowledge pinpointed specifically amongst micro-enterprises in this research. This could involve research into government and SARS' support for developing informative workshops, and the improvement of the business incubator system, aimed at increasing the tax knowledge of micro-businesses along with improving financial and other aid to this sector.
- Finally, a new direction is suggested by this research in the light of the negativity towards the current system displayed overall in the findings of the empirical study. An investigation could be conducted into the overall value of tax which is, and can potentially be, collected from micro-enterprises as opposed to small and medium enterprises with a view of *investigating the value of a policy of tax exemption for micro-enterprises*. This might prove positive in view of the relatively small proportion of the tax budget currently accounted for by micro-enterprises, and the positive impact of encouraging and supporting start-up companies which might result, and which has been a strong policy objective of all recent South African governments.

5.11 Value of the Study

This study will make a contribution to the academic body of knowledge and could assist micro-businesses and tax authorities in developing countries to identify factors that could lead to improved tax compliance. Micro-businesses could better understand the impact of not registering their businesses, along with a failure to keep proper accounting records or to prepare annual financial statements. Improved relations and communications between this group of taxpayers and the tax authorities could result from the implementation of the recommendations made.

This study is relevant to South Africa which is classified as a developing country. The use of some of the factors that are suggested as having an impact on improving tax compliance amongst micro-businesses which face specific challenges in this country, can increase the amount of tax revenues collected overall in South Africa. An improved tax compliance system will allow the government to collect increased tax revenues to deal with the most important services, such as the shortage of housing, health-care infrastructure, hospitals, clinics, schools, and road infrastructure. The final recommendation for further research into the possible value of making micro-businesses tax-exempt, could however trigger a more radical approach which may be indicated by the current serious economic situation in the country.

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LETTER OF INFORMATION

Title of the Research Study: An Expanded Tax Model to improve tax compliance amongst micro businesses in eThekweni.

Principal Investigator/s/researcher: Sipho Mkhwanazi (Masters of Accounting: Taxation)

Co-Investigator/s/supervisor/s: Dr L Jali (Doctor of Business Administration) and Mrs R Ronald (M Com Taxation)

Brief Introduction and Purpose of the Study: The Government of South Africa uses tax revenues collected from individuals and businesses to deliver services to the citizens of the country. There are many small businesses in South Africa that could contribute in the country's economy if they all complied with their tax obligations, but the level of non-compliance amongst micro-businesses has been increasing. Tax models assist in improving tax compliance by providing a better understanding of the problem. This researcher is using Fischer's tax compliance model to assist in understanding tax compliance issues amongst micro-businesses.

Outline of the Procedures: Only micro businesses with a turnover income not exceeding R1 million per annum are requested to participate in the study. The research participants are micro-business owners operating within eThekweni Municipality. You will be asked to complete a questionnaire. This will take approximately 15 minutes to complete and any questions that are not clear to you will be explained by the researcher or his assistant. isiZulu-speaking respondents can discuss the questions in their home language. The questionnaire will be completed at a place convenient to yourself.

The researcher understands that taxation is a sensitive issue, and some taxpayers do not respond positively when they are asked questions about tax. However complete anonymity is assured as explained below. The researcher is not connected in any way with SARS.

Risk or Discomforts to the Participants: There will be no risks or discomforts associated with participation in this study.

Benefits: It is hoped that indirect benefits will result for micro-business owners if the recommendations of the study are made known to the tax authorities who may be influenced to improve the situation of tax compliance for micro-business owners.

Reason/s why the Participant May Be Withdrawn from the Study: If some participants decide not to participate in the research study there will be no penalty imposed on them for withdrawing at any stage.

Remuneration: No remuneration will be provided to the research participants.

Costs of the Study: There are no additional costs to be paid by the research participants. The researcher has made arrangements to visit the business location of participants to ensure that they will not have to pay any travelling costs.

Confidentiality: The research participants are assured that the collected data will not be made available to anyone except the researcher and his supervisors. Your responses will remain completely anonymous. You will not be asked to give your name.

Research-related Injury: This research study will not pose any threat, danger or harm to the participants.

Persons to Contact in the Event of Any Problems or Queries: Should it happen that any problems arise during the research process the following persons can be contacted:

Supervisor: Dr L Jali (Telephone: 031 373 6712; Cellphone Number:083 340 7263); Researcher: Sipho Mkhwanazi (Telephone:031 373 5677; Cellphone:073 030 6225);The Institutional Research Ethics Administration (031 373 2375)

Complaints can be reported to the Director: Research and Postgraduate Support Dr L Linganiso on 031 373 2577 or researchdirector@dut.ac.za.

Appendix B



CONSENT

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, _____ (Name of Researcher), about the nature, conduct, benefits and risks of this study-Research Ethics Clearance Number: _____.
- I have also received, read and understood the above written information (Participant Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerized system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during the course of this research which may
Relate to my participation will be made available to me.

_____	_____	_____	_____
Full Name of Participant Thumbprint	Date	Time	Signature /Right

I, _____ (Name of researcher) here with confirm that the above participant has been fully
Informed about the nature, conduct and risks of the above study.

_____	_____	_____
Full Name of Researcher	Date	Signature
_____	_____	_____
Full Name of Witness (If applicable)	Date	Signature



APPENDIX A

**DURBAN UNIVERSITY OF TECHNOLOGY
DEPARTMENT OF TAXATION AND AUDITING
RESEARCH QUESTIONNAIRE DIRECTED TO MICRO BUSINESSES**

Dear Sir/ Madam

The main purpose of this survey is to “investigate factors affecting tax compliance by micro businesses of Ethekewini Municipality”. The results of this survey will be used as part of the study being undertaken. This survey ensures that the requirements of the Master’s Degree in Taxation under the School of Accounting and Informatics at Durban University of Technology will have been fulfilled. Your contribution in completing the questionnaire will be appreciated. Your response in giving your honest opinion will make a significant contribution to the findings of the current study. I confirm that any information provided by you will be regarded as confidential: it will only be used for academic purposes. Your assistance in the completion of the questionnaire will be greatly appreciated. Thank you.

SECTION A: DEMOGRAPHIC UNIQUENESS OR CHARACTERISTICS

1) Please indicate the location of your business within eThekweni Municipality (Place a cross (X) in the appropriate box).

a) Suburbs	
b) Rural Areas	
c) Townships	
d) City Centre	

2) Which one of the following best describes your business or enterprise which you operate within eThekweni Municipality? (Place a cross (X) in the appropriate box).

a) Sole trader	
b) Partnership	
c) Company (Close corporation or co-operatives)	

3) Please indicate the sector in which your business or enterprise belongs (Place a cross (X) in the appropriate box).

a) Agricultural sector	
b) Manufacturing industry	
c) Transport industry	
d) Trade industry	
e) Finance industry or service	
g) Real-estate industry	
h) Hospitality industry	
i) Artisan sector	
J) If not one of the above, please indicate the sector in which your business belongs.	<div></div> <div></div> <div></div>

4) Please indicate how your business obtains finance for daily operations (Place a cross (X) in the appropriate box).

a) Contribution by the owner	
b) Long-term and short-term borrowings	
c) Through leasing	
d) Combination of owners' equity and total liabilities (long-term and short-term liabilities)	
e) Combination of owner's equity and leasing	
f) Combination of total liabilities and leasing	
g) Combination of owner's equity, total liabilities, and leasing	
h) Other: please specify	

SECTION B: FACTORS TO IMPROVE TAX COMPLIANCE

Place a cross (X) in the appropriate box for each of the following statements regarding tax registration:

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
05) I consider tax registration a legal requirement.					
06) I fear to be sanctioned by tax authorities should my business not be registered for tax purposes.					
07) It is easy to obtain access to funding from financial institutions when the business has been registered for tax purposes.					
08) I consider the registration for tax as part of my "moral reasoning".					
09) My business type compels me to register my business on time.					

10) Please indicate the number of employees in your business or company who must keep accounting records for the business. Place a cross (X) in the appropriate box:

a) 0 – 2 employees	
b) 3 – 5 employees	
c) 6 – 10 employees	
d) 11 – 20 employees	
e) Over 20 employees	

11) Please indicate the highest qualification of the person in your business or enterprise who keeps accounting records for your business.

a) Senior Certificate (matric)	
b) Bookkeeping Certificate	
c) National Diploma in Accounting	
d) Degree in Accounting	

e) Professional Accounting qualification (CA, CIMA, professional accounting, and CIS)	
f) Master in Accounting degree	
g) PhD in Accounting	

Place a cross (X) in the appropriate box for each of the following statements:

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
12) Financial statements can help the day-to-day running of the business.					
13) Preparing financial statements can make it easy for my business to obtain financial assistance from financial institutions.					
14) Preparing financial statements can help to improve my business operations (taking the business to another level).					
15) Other users can also benefit from financial statements of the business (investors cannot make the right decision without having financial statements for the business).					

END OF QUESTIONNAIRE

Thank you for your support and time in completing the questionnaire

126 Sandown Village

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3610

09.06.21

Proof of Editing

This is to confirm that the above dissertation by Mr Sipho S Mkhwanazi has been formally edited for language by Dr Jane Skinner, who is a qualified teacher of English with several years' experience in editing academic theses, dissertations and journal articles.



Dr Jane Skinner

(083 658 5952)

CHI-SQUARE TESTS

	Chi-Square	df	Asymp. Sig.
I consider tax registration as being a legal requirement.	149,403	4	0,000
I fear to be sanctioned by tax authorities when my business is not registered for tax purposes.	187,821	4	0,000
It is easy to get access for funding from financial institutions when the business has been registered for	252,668	4	0,000
I consider the registration for tax as part of my "moral reason".	262,26	4	0,000
The number of employees in your business or organizations that are expected to keep accounting records	13,474	2	0,001
The highest qualification for the person in your business or enterprise that is expected to keep accounting	285,653	4	0,000
Financial statements can help the business on the day-to-day running of the business.	188,128	4	0,000
Preparing financial statements can help to improve my business operations (taking the business to another	211,852	4	0,000