



The impact of the iLembe District Municipality business incubation programme on  
the tax compliance of small and medium-sized enterprises

Submitted in fulfilment of the requirements of the degree of

Master of Accounting

In the Faculty of

Accounting and Informatics

at the Durban University of Technology

Bahle Magwaza (Student Number: 20608605)

Date Submitted: November 2023

Supervisor: Professor LJ Stainbank  
D COM

Date: November 2023

Co-Supervisor: Dr. LF Jali  
DBA

Date: November 2023

## DECLARATION

I, Jeffrey Bahle Magwaza, declare that this dissertation is a representation of my own work 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 All information cited from published or unpublished works has been acknowledged.

Signature

5 November 2023

.....

.....

APPROVED FOR FINAL SUBMISSION

Supervisor's name: L J Stainbank

Date: 6 November 2023

Qualifications: D COM

Co-supervisor's name: Dr L.F. Jali

Date: 6 November 2023

Qualifications: DBA

## ACKNOWLEDGEMENTS

Firstly, I would like to thank the Almighty God who has made it possible to write this dissertation. I also want to thank my supervisors, Professor Stainbank and Dr. Jali, who provided continued guidance, assistance, encouragement, patience, and support throughout the study. I would also like to express my heartfelt gratitude to both my supervisors, friends, and family for your consistent encouragement. Profound gratitude goes to the management of iLembe District Municipality and iLembe Business Incubator that gave me permission to conduct the research.

## ABSTRACT

The purpose of the study was to investigate the impact of the iLembe District Municipality business incubation programme on the tax compliance of small and medium-sized entities (SMEs). The study used a positivist philosophy and an exploratory design. The target population was 1 005. A questionnaire was administered electronically to a sample of 278 SMEs.

The findings highlight the varied range of support services that business incubators in South Africa provide to SMEs which are critical for their survival, growth, and long-term success. Factors affecting SMEs' tax compliance were penalties, tax complexity, record keeping, and compliance costs for both incubated and non-incubated SMEs. Record keeping and documentation was perceived as the factor that most affects compliance amongst the businesses under incubation ( $m = 3.99$ ), while tax penalties was perceived as the factor most affecting compliance for SMEs not in the incubator ( $m = 4.01$ ). The findings also indicate that SMEs under incubation tend to hold more favourable attitudes towards the benefits of tax compliance compared to SMEs not under incubation. This finding highlights the significance of business incubators in increasing SMEs' tax compliance, resulting in a more tax compliant SME sector in the iLembe District Municipality

The study recommends that business incubators ought to collaborate with the South African Revenue Service and other government agencies to develop policies that will enhance SMEs' tax compliance in the iLembe Municipality District. It also recommends that business incubators hire service providers, consultants, or incubator staff who are knowledgeable and skilled in SME development, and particularly in tax compliance. Finally, the study highlights the critical role of business incubators in improving SMEs' tax compliance and overall success, emphasising the need for targeted support, education, and collaboration. Incubators play a critical role in the iLembe District Municipality's entrepreneurial landscape by providing comprehensive services and targeted efforts that not only assist tax compliance but also stimulate growth, innovation, and economic development.

Key words: SMEs, Tax Compliance, Business Incubators, Incubation, KwaZulu-Natal

## Table of Contents

DECLARATION .....	ii
ACKNOWLEDGEMENTS .....	iii
ABSTRACT .....	iv
LIST OF TABLES .....	ix
LIST OF FIGURES.....	x
ACRONYMS .....	xi
CHAPTER ONE .....	1
INTRODUCTION.....	1
1.1 Background.....	1
1.2 Problem statement .....	2
1.3 Aim, objectives, and research questions .....	5
1.4 Organisation of the study .....	6
1.5 Summary.....	7
CHAPTER 2 .....	8
LITERATURE REVIEW .....	8
2.1 Introduction .....	8
2.2 Defining an SME .....	8
2.2.1 International approaches to defining an SME .....	8
2.2.2 South African approaches to defining an SME.....	10
2.2.2.1 National Small Business Act's definition of an SME .....	10
2.2.2.2 Income Tax Act definition of an SME .....	10
2.2.2.3 Summary of definitions of SMEs .....	11
2.3 Importance of SMEs.....	11
2.4 The role of business incubators.....	14
2.5 iLembe District Municipality Business Incubation Programme .....	16
2.5.1 iLembe District Municipality .....	16
2.5.2 The iLembe District Municipality Business Incubation Programme.....	18
2.6 Tax compliance.....	19
2.6.1 Factors influencing tax compliance.....	22
2.6.1.1 Tax complexity.....	23
2.6.1.2 Tax knowledge .....	23
2.6.1.3 Compliance costs.....	24

2.6.1.4 Perceived opportunity .....	25
2.6.1.5 Record-keeping.....	25
2.6.1.6 Tax penalties .....	26
2.7 Contribution to the literature .....	27
2.8 Conceptual framework .....	28
2.9 Summary of literature and alignment to the research questions .....	29
2.11 Summary .....	33
CHAPTER THREE .....	34
RESEARCH METHODOLOGY .....	34
3.1 Introduction .....	34
3.2 Research design .....	34
3.2.1 Research philosophy .....	35
3.2.2 Research approach .....	37
3.2.3 Research strategy.....	38
3.2.3.1 Qualitative research strategy.....	38
3.2.3.2 Quantitative research strategy .....	39
3.2.3.3 Mixed method research strategy .....	39
3.2.3.4 Research strategy for the study .....	39
3.2.4 Time horizon .....	40
3.3 Target population.....	40
3.4 Sampling .....	40
3.5 Measuring instrument.....	41
3.5.1 Content and layout.....	41
3.5.1.1 Likert scale .....	42
3.5.1.2 Closed-ended questions.....	42
3.5.1.3 Open-ended questions .....	42
3.5.2 Covering letter .....	50
3.5.3 Pre-testing .....	51
3.5.4 Distribution of the questionnaire .....	51
3.6 Data analysis.....	52
3.6.1 Descriptive statistics .....	52
3.6.2 Inferential statistics .....	52

3.6.2.1 Binomial test.....	53
3.6.2.2 One sample t-test.....	53
3.6.2.3 The Mann-Whitney U test.....	53
3.6.2.4 Wilcoxon signed rank test. ....	54
3.7 Response rate.....	54
3.8 Validity and reliability.....	54
3.9 Anonymity and confidentiality.....	56
3.10 Ethical considerations.....	56
3.11 Summary.....	57
CHAPTER FOUR.....	58
PRESENTATION AND DISCUSSION OF FINDINGS.....	58
4.1 Introduction.....	58
4.2 Demographics.....	58
4.2.1 Gender of respondents.....	58
4.2.2 Age of respondents.....	59
4.2.3 Level of education.....	60
4.2.4 Business ownership.....	61
4.2.5 Position in business.....	62
4.2.6. Experience in business.....	63
4.2.7 Industry classification.....	63
4.2.8 Summary of respondents' demographics.....	65
4.3 The support structures which the iLembe District Municipality business incubator provides to SMEs concerning tax (objective 1).....	65
4.3.1 Business Incubation.....	65
4.3.2 Types of support from the incubator.....	66
4.3.3 Benefits of the incubator's non-financial support services.....	67
4.3.4 Benefit of tax programs provided by incubator.....	70
4.3.5 Effectiveness of the incubation programme in promoting tax compliance ...	73
4.3.6 Tax compliance of the business after joining the incubator.....	73
4.3.7 Improvements the iLembe District Business Incubator must implement to promote SME tax compliance in the district.....	74
4.3.8 Summary of results for objective 1.....	76

4.4 The factors influencing tax compliance of SMEs in iLembe District Municipality (Objective 2).....	77
4.4.1 Tax compliance .....	77
4.4.2 Factors affecting tax compliance. ....	81
4.4.3 Factors influencing tax honesty regarding tax compliance. ....	83
4.4.4 Tax compliance challenges .....	86
4.4.5 Summary of responses to objective 2.....	89
4.5 Benefits of tax compliance to SMEs in iLembe District Municipality (Objective 3) .....	90
4.5.1. Benefits of tax compliance .....	91
4.5.2 Benefits of compliance.....	93
4.5.3 Summary of responses to objective 3.....	97
4.6 Summary.....	97
CHAPTER FIVE .....	100
CONCLUSION AND RECOMMENDATIONS .....	100
5.1 Introduction .....	100
5.2 Summary of chapters .....	100
5.3 Discussion of findings.....	101
5.4 Contribution of the study .....	103
5.5 Limitations of the study.....	104
5.6 Recommendations .....	104
5.7 Recommendations for further research.....	106
5.8 Overview of the dissertation .....	106
REFERENCES.....	108
ANNEXURES .....	126
APPENDIX A: LETTER OF INFORMATION .....	126
Supervisor: APPENDIX B: CONSENT LETTER .....	126
APPENDIX C: QUESTIONNAIRE .....	128
APPENDIX D: ETHICAL CLEARANCE LETTER .....	136

## LIST OF TABLES

Table 2.1: Numerical definition of SMEs in South Africa.....	10
Table 2.2: Summary of literature and alignment to the research questions.....	29
Table 3.1: Types of research philosophies.....	36
Table 3.2: Types of research approaches.....	37
Table 3.3: Response Rate .....	54
Table 4.1: Gender.....	59
Table 4.2: Age (years).....	60
Table 4.3: Level of education .....	61
Table 4.4: Business ownership .....	62
Table 4.5: Position in business .....	62
Table 4.6: Years of business experience .....	63
Table 4.7: Industry classification .....	64
Table 4.8: Business incubation .....	65
Table 4.9: Non-financial support services provided by the incubator .....	66
Table 4.10: Benefits of the incubator's non-financial support services .....	68
Table 4.11: Benefit of tax programmes provided by incubator .....	72
Table 4.12: Effectiveness of the incubation programme in promoting tax compliance.....	74
Table 4.13: Tax compliance of the business improved after joining the incubator....	74
Table 4.14: Suggestions to be implemented to promote SME tax compliance.....	75
Table 4.15: Tax compliance.....	78
Table 4.16: Factors affecting tax compliance.....	83
Table 4.17: Factors influencing tax honesty regarding tax compliance.....	85

Table 4.18: Tax compliance challenges.....	87
Table 4.19: Complying with tax obligations benefits the business.....	91
Table 4.20: Benefits of complying with tax obligations.....	93
Table 4.21: Perceptions about benefits of tax compliance.....	96

## LIST OF FIGURES

Figure 2.1: Geographic Location of iLembe District Municipality.....	15
Figure 2.2: Conceptual Framework .....	28
Figure 3.1: Research Onion .....	35

## ACRONYMS

DTI	Department of Trade and Industry
EU	European Union
FRC	Faculty Research Committee
GDP	Gross Domestic Product
IASB	International Accounting Standards Board
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
JSE	Johannesburg Stock Exchange
KZN	KwaZulu-Natal
LED	Local Economic Development
NSBA	National Small Business Act
PAYE	Pay As You Earn
SARS	South African Revenue Service
SME	Small and Medium-sized Enterprise
SBDC	Small Business Development Corporation
SEDA	Small Enterprise Development Agency
SPSS	Statistical Package for the Social Sciences
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax
WTO	World Trade Organisation

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Small and medium-sized enterprises (SMEs) are often referred to when the economic situation of South Africa is being discussed (Zhou and Gumbo 2021). Politicians view SMEs as a tool for wooing voters while economists view SMEs as the panacea to an improved economic performance (Herrington and Kew 2016). Many scholars have studied the subject of SMEs from diverse perspectives and the subject continues to be of interest to various stakeholders in the public and private sector (Asare, Gopolang and Mogotlhwane 2012; Ayandibu and Houghton 2017; Anye and Makebo 2019; Bailey 2019).

Eichfelder, and Hechtner (2018) examined the cost of tax compliance for SMEs in the United Kingdom (UK), Fatoki (2014) studied the causes of SME failure in South Africa, while Bushe (2019) examined the general challenges facing South African SMEs. Al Busaidi, Bhuiyan and Zulkifli (2019) explored the challenges faced by SMEs in an effort to adopt information communication technologies (ICT) and Ayandibu and Houghton (2017) examined the role of SMEs in the development of local economies. In an attempt to address SME failure in KwaZulu-Natal (KZN), Steinman (2020) discussed how government policies could be implemented to create a conducive environment for the growth of small enterprises to foster change in local communities.

Despite the fact that SMEs play a pivotal role in any economy, they still face the challenge of being tax compliant and remaining compliant (Matarirano, Chiloane-Tsoka and Makina 2019a). Compliance to tax laws imposes additional costs that do not add value to the SMEs (Matarirano, Chiloane-Tsoka and Makina 2019b). The costs associated with compliance have been cited as one of the reasons why SMEs are failing (Matarirano *et al.* 2019a). BDO (2016) refers to tax compliance as “a degree to which a taxpayer complies (or fails to comply) with the tax rules of the country, for example by declaring income, filing a return, and paying the tax due promptly.”

Evidence provided by the Small Business Institute (2018) states that “many SMEs face a tax-related regulatory burden and that navigating through all the tax requirements

can be a daunting task.” Tax is levied on profits made by taxpayers, which includes individuals, companies, and trusts.

Freedman and Crawford (2011) explored the taxation of small, owner-managed businesses and potential avenues for improving the tax system by promoting greater simplicity and reducing distortions; this would foster efficiency and equity across all business sectors, particularly benefiting small enterprises. One potential avenue would be a business incubator. This study is based in the iLembe District Municipality and examines the effectiveness of a business incubation programme in promoting and ensuring tax compliance of SMEs. One of the primary objectives of incubation programmes is to provide support and development for small businesses to become sustainable and financially viable.

## 1.2 Problem statement

Since 1995, when the Small Business Development Corporation (SBDC) implemented the initial form of business incubation, SMEs in South Africa have been actively promoted (Khuzwayo 2015). Developing countries are often faced with “barriers in implementing programs and activities” that promote tax compliance (Wahabu 2017). However, developing countries could promote tax compliance through the implementation of business incubators to support and train SMEs on how to comply with tax laws and regulations. The level of tax compliance of SMEs is critical in reaching the needed tax revenue of any country, thus the importance of tax compliance programmes. Nevertheless, scholarly discourse argues that the regulatory demands imposed on enterprises, specifically SMEs, are perceived as onerous and have the potential to impede their expansion and attainment of favourable outcomes (Hansford and Hasseldine 2012).

A mission of the South African government is to put small enterprises in the centre of the economy. However small enterprises may not realize that one of the fundamental keys to access opportunities is through tax compliance (Dlamini 2022). Currently, in South Africa, a business cannot access many opportunities if they are non-compliant with their tax obligations. The government measures this through different platforms (such as the Central supplier database, eFiling and other regulatory bodies). These institutions and bodies help businesses to remain compliant as government departments require small businesses to register with them to prove their compliance.

Thus, these systems help small businesses to remain tax compliant if they want to do work for government and obtain government procurement opportunities. It is therefore essential that SMEs are tax compliant to contribute to the South African economy through creating employment opportunities and paying tax.

Both the State of the Nation Address (Government of South Africa 2018) and the budget speech by the Department of Finance (Treasury 2018) highlighted that there is a problem with small businesses not complying with tax regulations. In 2014, the Government introduced a Department of Small Business Enterprises to address the low levels of sustainable entrepreneurship amongst small businesses in South Africa.

This current study is based in the district of iLembe Municipality. The Goshen Entrepreneurship Hub (2018) revealed that the district of iLembe Municipality consists of 1 005 small businesses that are registered on the iLembe District Municipality's SME database. When the registered SMEs were classified according to business stages, growth and revenue, the study revealed that 58% of the businesses generated less than R100 000 p.a., 29% of businesses generated revenue between R100 001 to R1 000 000, 3% of businesses generated revenue between R1 000 001 to R10 000 000 and 1% of businesses generated revenue over R10 000 000. This has had a huge impact on the local economic development of the district.

The Goshen Entrepreneurship Hub (2018) also revealed that over 78% of small businesses within iLembe District Municipality were non-compliant with tax through the review of the central supplier database, the Municipal Supplier Portal and other procurement portal systems and that this prevents small businesses accessing opportunities. The Goshen Entrepreneurship Hub (GEH) (2018) corroborated research by the Global Entrepreneurship Monitor (GEM) (2017) that over 60% of small businesses do not comply with tax through various issues, one of which is the lack of tax knowledge and understanding of tax compliance. The above review indicates that there is a problem with tax compliance by SMEs worldwide (Global Entrepreneurship Monitor 2017) and in South Africa (Government of South Africa 2018). As small business owners lack the basic understanding of tax and how tax works, the South African President, Cyril Ramaphosa, in his state address to the nation, announced that the government was to establish business incubators to assist SMEs to develop and grow their businesses.

The notion of business incubators is a relatively recent phenomenon within developing economies, and evidence suggests that fostering partnerships and collaborations is an essential requirement for a business incubator to make substantial contributions to the advancement of SMEs (Lose 2016). Ndabeni (2014) highlighted that the viability of incubation programs hinges on financial sustainability, innovative creativity, a sound legal policy framework, and facilitating access for SMEs. As such, business incubators should actively aid SMEs in addressing compliance matters, especially those pertaining to tax compliance. Given the existing gaps in the current body of literature, investigating the iLembe District Municipality business incubator's role in fostering tax compliance among SMEs becomes imperative. Tax compliance among SMEs in South Africa remains a persistent challenge, hindering their access to opportunities and contributing to revenue shortfalls for the government. While efforts have been made to promote tax compliance through business incubation programmes, there is a need to examine the effectiveness of existing policy measures and identify additional strategies to address this issue comprehensively.

Despite the implementation of business incubation programmes and various policy initiatives aimed at promoting tax compliance, SMEs continue to face significant barriers in meeting their tax obligations. These challenges persist due to factors such as limited awareness of tax regulations, inadequate support structures, and complexities in navigating compliance procedures. Additionally, the lack of integration between existing policy efforts and business incubation programmes highlights ongoing gaps in addressing tax compliance among SMEs effectively.

While existing literature acknowledges the importance of tax compliance for SMEs and highlights the role of business incubators in supporting their development, there remains a gap in understanding the holistic impact of policy measures on enhancing tax compliance. Current research primarily focuses on the benefits of business incubation programmes without adequately addressing broader policy frameworks and their implications for tax compliance. Therefore, there is a need for further investigation into the alignment between policy initiatives, business support structures, and tax compliance outcomes to inform more effective strategies.

### 1.3 Aim, objectives, and research questions

The aim of the study is to investigate the impact of the iLembe District Municipality business incubation programme on the tax compliance of SMEs.

To achieve the above aim, the following objectives are set:

- To establish the support structures which the iLembe District Municipality business incubator provides to SMEs concerning tax,
- To determine the factors influencing tax compliance by SMEs in iLembe District Municipality, and
- To determine the benefits of tax compliance to SMEs in iLembe District Municipality.

The following research questions are based on the objectives of this study.

SMEs within the iLembe District Municipality are asked to provide their opinions on:

- What support structures does the iLembe District Municipality business incubator provide to SMEs concerning tax?
- What are the factors influencing tax compliance by SMEs in iLembe District Municipality? And
- What are the benefits of tax compliance to SMEs in iLembe District Municipality?

### 1.4 Significance of the study

The study sheds light on the potential of business incubation programmes to improve tax compliance among SMEs, emphasising the importance of governments in recognising and supporting such activities. These initiatives aid the growth and economic development of SMEs by providing support beyond tax compliance, including marketing, sales, and financial management. This study investigates the importance of business incubation in improving tax compliance, developing entrepreneurship, and driving long-term economic growth in the iLembe District Municipality. This current study makes a significant contribution to the expanding corpus of knowledge in the realm of tax compliance. Moreover, the study aims to

provide information which may be pertinent for future investigations focusing on tax compliance, particularly those centred on enhancing tax compliance among SMEs.

### 1.5 Organisation of the study

This dissertation is organised into five chapters as outlined below:

#### Chapter one: Introduction

Chapter one is the introduction and provides the rationale for the study. It provides the background of the study, identifies the research problem, provides the motivation for the study as well as the aim, objectives, and research questions.

#### Chapter two: Literature review

Chapter two focuses on a review of the existing literature regarding tax compliance by small businesses and gives a theoretical overview of the implications of tax non-compliance.

#### Chapter three: Research methodology

Chapter three describes the research design and methodology employed in this study, the development of the sampling plan, the selection and design of the data collection instrument, the data collection procedure, the distribution of the questionnaires, the data analysis, and an assessment of the reliability and validity of the research.

#### Chapter four: Presentation and discussion of findings

Chapter four presents and discusses the results obtained by analysing the data provided by the respondents in the iLembe District Municipality.

#### Chapter five: Conclusions and recommendations

Chapter five discusses the study's findings, as well as the study's limitations. Recommendations for future research on the adoption or implementation of business incubators to assist SMEs in better understanding tax and improving tax knowledge and compliance in South Africa are provided.

## 1.6 Summary

The background of the study was covered in this chapter, along with the research problem, research objectives, research questions and the organisation of the study. The next chapter discusses the literature review of the study.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Introduction

The purpose of this study is to investigate the influence of the iLembe District Municipality's business incubation programme on SMEs' tax compliance. This literature review provides the necessary background to the study. This chapter first defines the term SME and the importance of SMEs. After this, the role of business incubators is discussed before focusing on the business incubator in the iLembe District Municipality. The chapter next focuses on tax compliance and the factors affecting tax compliance. Empirical literature on the topic at hand is included in the discussion where appropriate. The contribution which this study makes to the literature is then provided, after which a conceptual framework is illustrated, and a summary table is presented showing the alignment of the literature to the research questions.

#### 2.2 Defining an SME

The biggest challenge in defining small scale entrepreneurship is in finding a general definition of an SME (Nieuwenhuizen 2019). There is no clarity around the meaning of a small enterprise as it is generally used subjectively (Mukorera 2016). The lack of a common definition of the term has complicated attempts to understand what it means to be a small business (Anastasia 2015). According to Anastasia (2015), "the large variation in definitions and classification of SMEs has compounded the efforts by researchers in trying to reach a common framework to delineate the actual meaning of these enterprises." Having said that, this does not stop academics from defining SMEs. It simply means that there are numerous definitions based on one's place of departure and geographical location.

##### 2.2.1 International approaches to defining an SME

The acronym SME, denoting small and medium-sized enterprises, is frequently used within the purview of the European Union (EU), the United Kingdom (UK), and other international institutions, including the International Labour Organisation (ILO), the World Bank, the World Trade Organisation (WTO), and the United Nations (UN) (Gopaul 2019). In the United States of America (USA), the term "small and medium businesses" for SMEs takes precedence (Berisha and Pula 2015). In the African

context, the abbreviation MSME commonly represents micro, small, and medium-sized enterprises (Ombongi and Long 2018); however, in South Africa, the acronym SMME is used for small, medium, and micro-enterprises (South Africa NCR 2011). For this study, SME is used to specifically denote small businesses.

Since there is no universal definition of SMEs, definitions vary from country to country (Anastasia 2015; Berisha and Pula 2015; Rudzani and Manda 2016). Rudzani and Manda (2016) were pioneers in the endeavour to define SMEs by classifying the definitions into two main categories: economic and numerical delineations. This seminal work laid the groundwork for subsequent investigations into the role of SMEs in the context of global economies (Pratt and Virani 2015). From an economic perspective, SMEs are characterised by single independent ownership and a limited market share. On the other hand, the numerical perspective of SMEs encompasses the sizing of the small company sector and its substantial contributions to a country's GDP, employment, and exports (Rudzani and Manda 2016).

The UK uses criteria for an SME similar to the EU in that enterprises are classified based on three factors: the number of full-time employees, annual revenue, or asset worth (Gopaul 2019). The EU numerical definition of SMEs is shown in Table 2.1.

<b>Table 2.1: EU numerical definition of SMEs</b>			
Company Category	Employees	Turnover	Balance Sheet Total
Micro	<10	<£ 2 million	< £2 million
Small	<50	< £10 million	< £10 million
Medium-sized	<250	< £10 million	< £10 million
Source: Pohludka and Štverková (2019)			

A qualitative approach to defining an SME was taken by the International Accounting Standards Board (IASB). The IASB defined SMEs as organisations that are not accountable to the public and have a choice as to whether to publish financial statements to external users or not (IASB 2009; Van Wyk and Rossouw 2009; Jermakowicz and Epstein 2010). The IASB issued the International Financial Reporting Standards for SMEs (*IFRS for SMEs*) in 2009 (Warren, Carter and Napier

2019). It was argued that comparable accounting reporting standards were needed for the benefit of both small and large enterprises (Aboagye-Otchere and Agbeibor 2012).

Aboagye-Otchere and Agbeibor (2012) argued that there are no prescribed quantified size criteria that determines which entities would fit the standard. The challenge of defining a small business and stipulating the criteria that differentiate small, medium and micro-sized enterprises is also found in South Africa (Soni, Cowden and Karodia 2015). Definitions which are found in South Africa for SMEs are discussed next.

## 2.2.2 South African approaches to defining an SME

### 2.2.2.1 National Small Business Act's definition of an SME

In response to the need for clarification surrounding the categorisation of SMEs, the South African government enacted the National Small Business (NSB) Act of 2004 with the aim of providing a definitive framework for defining SMEs (Lekhanya 2016). The Act categorises small businesses into the following classes using quantitative criteria:

<b>Table 2.2: Numerical definition of SMEs in South Africa</b>			
Enterprise size	Number of Employees	Annual Turnover	Gross Assets, Excluding Fixed Assets
Micro	Fewer than 5	Less than R150 000	Less than R100 000
Very Small	Fewer than 10 to 20, depending on Industry	Less than R200 000 to R500 000, depending on Industry	Less than R150 000 to R500 000 depending on industry
Small	Fewer than 50	Less than R2m to R25m, depending on Industry	Less than R2m to R2.4m, depending on industry
Medium	Fewer than 100 to 200, depending on Industry	Less than R4 million to R50m, depending on Industry	Less than R2m to R18m, depending on industry
Source: NSB Act 102 of 1996			

### 2.2.2.2 Income Tax Act definition of an SME

SMEs are also defined for tax purposes (Matarirano *et al.* 2019a). Section 12E (4) of the Income Tax Act (Government of South Africa 1962) of South Africa defines a small

business as an entity whose owners are natural persons and whose turnover does not exceed R20 million.

### 2.2.2.3 Summary of definitions of SMEs

Despite the fact that there are numerous definitions of SMEs and a lack of consensus on what the definition should be, SMEs play an important role in the development of any given economy (Naicker and Rajaram 2019).

## 2.3 Importance of SMEs

Small enterprises continue to hold a crucial strategic position in driving socio-economic development owing to their role in addressing key issues like unemployment, poverty, and sluggish economic growth (Hyder and Lussier 2016). Schumpeter (1934), an early economist, underscored the significance of small business entrepreneurship, asserting that they contribute significantly to a country's economic growth and development (Mukorera 2016). Schumpeter further argued that due to their small size, SMEs are more agile in terms of innovation. Throughout history, the world has witnessed economic upheavals like the Great Depression of 1945 and the Global Financial Crisis of 2008 (Serricchio, Tsakatika and Quaglia 2013), and more recently, the COVID-19 pandemic (Bruwer, Hattingh and Perold 2020).

Research has shown that SMEs have been utilised as a catalyst for rapid economic recovery during crises (Cowling, Liu and Zhang 2018). Gupta, Guha and Krishnaswami (2013) highlighted the globally recognised significance of the SME sector in contributing to the socio-economic development of any given economy. Adeyele and Omorokunwa (2017) observed that SMEs are acknowledged as pivotal drivers of the objectives of impoverished and developing countries due to their ability to swiftly mobilise idle funds, generate employment, and adapt to evolving customer needs.

In Africa's Sahel and Sub-Saharan regions, SMEs possess substantial economic potential to stimulate growth and alleviate the grip of poverty on society (Gonsalves and Rogerson 2019). Consequently, numerous governments have acknowledged the formidable role of SMEs as fundamental building blocks for their economic development (Lekhanya 2016; Ayandibu and Houghton 2017; Cowling *et al.* 2018; Naicker and Rajaram 2019). The significance of SMEs is underscored by the active

involvement of various governments in their promotion (Naicker and Rajaram 2019). Numerous EU countries and Japan have acknowledged the importance of SMEs, as demonstrated through the implementation of policies aimed at enhancing their competitiveness, as noted by Miles (2013) and Laurentiu (2016). Moreover, certain governments have successfully established award-winning e-procurement portals, effectively increasing the participation of SMEs in state procurement while simultaneously reducing the cost and time required for conducting business with the government (Herrington and Kew 2016).

In the Kenyan context, SMEs constitute a substantial portion of the private sector (Osano 2019). The Kenyan government has implemented various measures to reduce businesses' operating costs, aiming to enhance the competitiveness of Kenyan commodities in both domestic and international markets (Osano 2019). Mukorera (2016) contends that despite Zimbabwe's economic and political turmoil, SMEs have shown resilience, providing sustenance to the impoverished population.

In 1994, the ANC government faced the formidable challenge of remedying the consequences of apartheid in South Africa (Naicker and Rajaram 2019). The nation grappled with a racially divided society characterised by high poverty levels, inequality, and an aggrieved and undereducated black majority (Kunene 2014; Matarirano *et al* 2019a). To address apartheid's legacy, especially poverty, policies were enacted with a focus on SME development, spearheaded by various departments, notably the Department of Trade and Industry (DTI), to support and sustain SME growth (Dikgwatlhe 2014; Nieuwenhuizen 2019).

The South African government views the SME sector as vital for fostering local entrepreneurship and promoting the use of domestic raw materials, technologies, and labour (Worku 2013). DTI statistics indicate that SMEs contribute more than 40% to South Africa's GDP and employ over half of the private sector workforce (Small Enterprise Development Agency (SEDA) 2018). Globally, SMEs are estimated to generate up to 80% of new jobs, underscoring their critical role in the national economy (Worku 2013). It is important to recognise that SMEs are diverse, existing across various sectors and stages of growth.

Lewis and Churchill (1983) put forward a comprehensive five-stage growth cycle for enterprises, encompassing existence, survival, success, take-off, and resource maturity. Maas and Herrington (2006) took a different stance, suggesting that enterprise growth occurs in only two stages: start-up and established phases. This conflicting perspective on the lifetime evolution of SMEs underscores the necessity for customised interventions aimed at enhancing SME performance.

In order to ensure proper support for SMEs throughout their entire lifespan, the South African government has implemented a range of interventions, such as grants, subsidies, and human capital development (Bureau for Economic Research (BER) 2016). Additionally, the adoption of incubation approaches has become widespread not only in South Africa but also globally. These incubation programmes play a pivotal role in fostering the growth and success of small businesses by providing them with opportunities to initiate and expand their operations (Marques, Caraça and Diz 2003; SEDA 2018).

## 2.4 Theory of Planned Behaviour

A theory that explains aspects of a person's psychological and behavioural research is often used as a reference to explain why a particular person is behaving is the Theory of Planned Behaviour (Damayanti, Subekti, and Baridwan 2015). This theory states that attitudes influence behaviour through a rigorous decision-making process and planning (Anwar 1995). Behavioural intention represents a person's motivation in the sense of her or his conscious plan, decision, or self-instruction to exert effort to perform the target behaviour. These are usually tapped by items assessing likelihood of intending to perform the behaviour. Someone will do a certain action when he looks at it positively, believing that other people want him to do, and believe that he is able to do.

In the context of tax compliance, the theory suggests that individuals are more likely to comply with tax laws when they have positive attitudes toward compliance, perceive social pressure to comply, and believe they can fulfil their tax obligations (Ajzen 2020). Researchers use the theory of planned behaviour to identify these factors and develop interventions aimed at promoting tax compliance, such as educational programmes to improve tax literacy, enforcement strategies to enhance perceived deterrence, and

initiatives to foster a culture of tax honesty (Taing and Chang 2021). By understanding the psychological factors underlying tax compliance behaviour, policymakers and tax authorities can design more effective strategies to promote voluntary compliance and reduce tax evasion.

A weakness of the theory is that it assumes that humans are rational and use the information in decision making by thinking there is certainty in the future (Achmat 2013). It is also weak in explaining the relationship between behaviour and behavioural intentions of tax compliance (Damayanti, Subekti, and Baridwan 2015). Achmat (2013) also criticised this theory as it has a high disparity between intentions with behaviour. Ajzen (2005) also revealed that the intention would be consistent with their behaviour when the environment provides sufficient motivation and opportunity. Kouthouris and Spontis (2005) suggest interrupter factors that explain the link between intentions and behaviour. Damayanti and Supramono (2012) state that the tax compliance behaviour is driven by the taxpayer's perception of the government. Applying this theory to assess the impact of the iLembe District Municipality business incubation programme on SMEs' tax compliance could involve conducting surveys or interviews with participating SMEs to assess their attitudes, subjective norms, and perceived behavioural control related to tax compliance before and after their involvement in the programme. This data could then be analysed to determine whether the programme has influenced these factors and ultimately improved tax compliance among participating SMEs.

## 2.4 The role of business incubators

The genesis of incubators can be traced back to their historical origins in North America and Western Europe. The practice of business incubation has since evolved into a worldwide phenomenon, gaining prominence as a key component of comprehensive policy endeavours aimed at nurturing innovation, entrepreneurship, and business growth in economies undergoing transition and in developing nations across the global South (Gonsalves and Rogerson 2019). Hervas-Oliver, Sempere-Ripoll, Boronat-Moll and Estelles-Miguel (2020) highlighted that within the EU, business incubation actively promotes the dissemination of innovation, facilitates networking opportunities, and encourages partnerships with established organisations.

Early studies on business incubation are rooted in the work of Campbell (1985) who developed the first model of business incubation and introduced the concept of value addition (Ayatse, Kwahar and Iyortsuun 2017). Campbell provided an overview of the key principles and components of company incubation. He advocated that business incubators provide not just physical infrastructure and facilities, but also a variety of support services, mentoring, and networking opportunities to help startups and small enterprises develop (Campbell 1989). This comprehensive approach intended to increase the odds of success of the fostered enterprises. Campbell's concept established the contemporary company incubation industry, and his ideas have inspired the creation of incubation programmes around the world (Campbell 1989). His work emphasised the significance of fostering an environment in which entrepreneurs can thrive, learn, and create, so contributing to economic progress and employment creation. Smilor (1987) extended the Campbell model but emphasised the external support system and neglected the internal aspects of the firm. Hackett and Dilts (2004) introduced the holistic '*black box*' model which emphasised the internal as well as the external factors of incubation (Ayatse *et al.* 2017).

Business incubators are organisational entities established to support the survival of innovative startup ventures and facilitate the entrepreneurial process (Lose 2016). These incubators are designed as institutional arrangements to aid nations in their industrialisation efforts by bolstering the SME sector, with the aim of accelerating the growth and success of nascent businesses (Ayandibu and Houghton 2017). The primary objective of business incubators is to foster the growth of organisations and enterprises until they become self-sustaining and profitable, providing guidance and support throughout their business journey (Madlala 2018). As a result, business incubation reduces startup capital and administrative costs, allowing entrepreneurs to concentrate on their core business while receiving operational assistance and one-on-one mentoring (Lose 2016). The incubator concept was thus implemented to support clients' development journeys and ensure the sustainability and growth of their businesses.

Franco, Haase and Rodini (2020) carried out an exploratory study in Portugal and England and revealed that incubators foster an environment for innovation and promote the internationalisation of SMEs. By granting entrepreneurs access to

advanced technologies, business incubators enable them to operate their companies more efficiently and competitively (Lose 2016). These interventions are intended to focus incubators' efforts on supporting innovative and fast-growing startup businesses which are expected to have a substantial impact on the local economy (Masutha and Rogerson 2014; Khuzwayo 2015). Incubation facilities and programmes, as noted by Khuzwayo (2015), are tailored to ensure the survival and successful development of startup enterprises. Masutha and Rogerson (2014) assert that successful ventures often arise from networking opportunities, business tools, and problem-solving support provided by these incubators. Enhanced coherence and compatibility between 'incubators and incubated businesses' are linked to a decrease in corporate tax evasion. This mutual alignment serves to mitigate financial limitations and diminish the extent of corporate tax circumvention, as indicated in the research conducted by Wen, Zhang, Li, Tian, Chen, and Wu in 2023.

The concept of business incubation is relatively new and developing in South Africa. Black owned business entities have been prioritised as “a way of reversing the legacy of apartheid” (Lose 2016). It has been widely adopted in various provinces of South Africa. Incubators have therefore become paramount in the development of rural SMEs in districts like iLembe in KZN which continue to struggle due a plethora of factors like access to finance and poor education which therefore impacts on small businesses' ability to comply with regulatory requirements like labour laws, health and safety, and corporate tax among others (Cele 2015).

As the focus of this study is on SMEs in iLembe District Municipality, the next section describes the iLembe Incubator Programme.

## 2.5 iLembe District Municipality Business Incubation Programme

The iLembe business incubation programme is based in iLembe District Municipality. Its physical locality and socio-economic features are discussed next.

### 2.5.1 iLembe District Municipality

The iLembe District Municipality is located on the eastern coast of KZN and represents the smallest amongst the province's district municipalities (iLembe.gov.za). Most of its rural inland areas consist of tribal authority regions engaged in subsistence farming.

iLembe comprises four local municipalities: Mandeni, KwaDukuza (formerly Stanger), Maphumulo, and Ndwedwe. Situated between Durban and Richards Bay, the district is bordered by the Tugela River, which historically served as the boundary between former Colonial Natal and the Kingdom of Zululand, making it significant for historical and cultural events. KwaDukuza serves as the economic centre of iLembe, and its southern border is adjacent to the Unicity of Durban, connected to Richards Bay by a coastal highway, providing access to both harbours for commercial purposes (iLembe.gov.za). Despite being home to major corporations like Tongaat Hulett (GEH 2017), the iLembe district continues to confront the triple challenges of underemployment, unequal income distribution, and severe poverty.



Figure 2.1: Geographic location of iLembe District Municipality

Source: <http://www.kznonline.gov.za>

KwaZulu-Natal Province (2017) estimates that the district has one of the lowest labour absorption ratios and the income inequality ratio is above the provincial average. GDP figures from KwaZulu-Natal Province (2019) treasury show that the district's contribution to the provincial figure is low. SMEs are regarded as a key vehicle to develop and transform the economic landscape of iLembe district to address the aforementioned challenges (iLembe District Municipality 2020). The municipality of iLembe has a mandate to create SMEs and thus generate opportunities for new employment and foster their growth (GEH 2017).

The previous discussion provided the necessary background to this study. The next section addresses the literature which is relevant to the first research question: What support structures does the iLembe District Municipality business incubator provide to SMEs concerning tax?

### 2.5.2 The iLembe District Municipality Business Incubation Programme

The iLembe incubator programme has offices in KwaDukuza and Ndwedwe that are designed to help small businesses. The small businesses are pooled together into small groups that have the same business interests to have discussion forums and assist one another (Dlamini 2018). The incubator helps in the implementation of various programmes such as helping SMEs to access markets and providing business knowledge of business including the tax system to promote tax compliance (iLembe District Municipality 2020). SMEs in the iLembe incubator also receive non-financial help from SEDA in the form of training to hone entrepreneurial skills and network with other SMEs (Steinman 2020). Botha, Van Vuuren and Kunene (2015) noted that technical training in the iLembe incubator has been expanded to train the trainer as well.

Post-incubation support is also given to successful graduates once the SMEs have gone through the whole process of incubation (Madlala 2018). Businesses in the district are also offered technical training tailor-made for their type of business as well assistance in the negotiation of proper and affordable facilities for them to thrive (Steinman 2020).

Just like any other small businesses in South Africa, SMEs in the iLembe trading zone are daunted by the need to include the financial aspects in any business plan (Dlamini 2018). SEDA provided financial assistance to help the SMEs to cover start-up and operational costs (Botha *et al.* 2015). However, many small businesses lack collateral to access loans from the banks thus the assistance from SEDA through the incubator is vital. The Goshen Enterprise Hub (2018) argues that the iLembe incubator programme has the potential to help in the development of a successful Enterprise and Supplier Development facility. SMEs in the district are largely expected to play a leading role in the economic development through compliance with statutes such as income tax. However, SMEs in the district still struggle with tax compliance especially

corporate tax (Goshen Enterprise Hub 2018). For this reason, this study investigates the factors influencing tax compliance by SMEs in the district of iLembe as its second research question with a focus on SMEs in and out the incubator.

The next section discusses tax compliance in general.

## 2.6 Tax compliance

Tax compliance refers to the voluntary and complete adherence to the law when it comes to tax obligations (Atawodi and Ojeka 2012). Proper legislation has to be put into place for SMEs to abide by the law and become compliant (Atawodi and Ojeka 2012). The tax compliance of SMEs depends on the knowledge of tax laws by their managers or owners (Atawodi and Ojeka 2012). Tax compliance is also influenced by economic motives such as profit maximisation and the probability of detection and fines (Maseko 2014). This makes it very difficult for policy makers to come up with legislation that is favourable to all.

In the UK, tax regulations favour big organisations because they benefit from the temporary retention of collected taxes. SMEs on the hand do not enjoy such privileges (Hansford and Hasseldine 2012). Compliance costs are actually considered as regressive for SMEs in the UK and results in 'dead' costs due to limited resources at the disposal of SMEs (Hansford, Hasseldine and Howorth 2003; Chittenden, Kauser and Poutziouris 2005; Wilson, Williams and Kemp 2012). Chittenden *et al.* (2005) argued that the introduction of new payment plans and the increase in income tax among other changes have increased compliance costs among UK SMEs while bringing some relief to individuals. Successive administrations in the UK that have come up with policies to grow and develop SMEs have produced mixed results. Policy makers should not ignore the burden placed on SMEs (Hansford and Hasseldine 2012).

Australian SMEs are also burdened by the costs of tax compliance. Lignier and Evans (2012) showed that SMEs incurred internal and external costs in a bid to be compliant. Simplified laws and tax exemptions would benefit SMEs and help them grow beyond three years. Rawlings (2011) investigated how social networks influence tax compliance by SMEs in Australia. SMEs that were investigated lacked audit data due to financial constraints thus the study could not independently verify self-reported

claims of compliance or non-compliance (Rawlings 2011). Rawlings (2019) also found out that most of the SMEs that were compliant regarding the payment of taxes used external consultants to prepare their tax returns.

Tran-Nam (2015) also noted that SMEs are heavily burdened by cost of compliance some of which are unavoidable. Ponorică and Al-Saedi (2015) concurred with this and argued that the government should come up with a new legislative framework that suits SMEs and avoid comparing SMEs with large organisations. Research indicates that the non-tax compliance behaviour of SMEs in New Zealand is influenced by the cultural values of their owners (Wahabu 2017). Hansford and Hasseldine (2012) and Fauziat (2020) found that small business taxpayers lacked sufficient tax knowledge to comply with the tax law and that small businesses, the self-employed and individuals in general, represent the highest percentage of tax evaders.

Tax compliance, both for natural persons and corporations, represents a legal obligation, denoting the degree to which taxpayers adhere to the tax laws and regulations established by the governing authorities (Kalidin 2017). In the context of South Africa, non-compliance among taxpayers has been identified as a primary contributor to the tax gap, which refers to the discrepancy between the actual tax collected and the tax that should ideally be collected (Bruckner 2016). Given that SMEs form a substantial portion of the business landscape in the South African economy (Naicker and Rajaram 2019), their compliance with tax laws and regulations plays a pivotal role in augmenting government revenue through tax payments (Matarirano *et al.* 2019a). Nevertheless, studies have pointed out that tax regulations can appear onerous and inequitable to SMEs due to their limited access to resources (Atawodi and Ojeka 2012). Non-compliant behaviours observed among SMEs include delayed or non-payment of withheld taxes, under reporting income, and claiming non-allowable deductions (Atawodi and Ojeka 2012).

Although SMEs have shown an increased awareness of the significance of tax compliance, they continue to face challenges in adopting a proactive approach towards fulfilling their tax obligations (Newman, Mwandambira, Charity and Ongayi 2018; Newman and Nokhu 2018). As a result, alternative strategies and corrective measures are required to address this issue effectively (Goshen Enterprise Hub 2018). Small business owners are classified as a high-risk group concerning tax compliance,

given their potential inclination to engage in tax avoidance practices within the informal sector (Kalidin 2017). Numerous scholars have extensively researched tax compliance and evasion in relation to individuals and corporations (Pope and Jabbar 2008; Maffini 2013; Azrina Mohd Yusof, Ming Ling and Bee Wah 2014). Many factors influencing taxpayer attitudes and behaviour identified in the literature are also likely to impact the compliance level of SMEs (Mohamad, Zakaria and Hamid 2016).

The Income Tax Act No. 58 of 1962 outlines the procedures and requirements for computing taxable income, including income and deduction elements specified in Section 1 and Sections 10 to 24 of the Income Tax Act (South Africa 1962). Income tax serves as a primary revenue source for governments to finance various public expenditures and regulate economic activities for the welfare of citizens (Mohamad *et al.* 2016). Corporate income tax holds particular significance, representing the highest tax borne by companies operating in South Africa (Olla 2016). SMEs are obligated to register for income tax and file income tax returns regardless of whether they have an income tax liability for the assessment year (Olla 2016). Tax evasion has been linked to dishonest financial reporting, affecting total tax receipts by either inflating or deflating claimed expenses in South Africa (Mohamad *et al.* 2016).

SMEs face significant challenges in understanding the intricate and burdensome tax law rules, requiring them to allocate their limited resources and skills towards staying abreast of continuous revisions (Smulders, Stiglingh, Franzsen and Fletcher 2017). Previous research has highlighted that the tax process tends to induce stress among SMEs, primarily due to the complex nature of income tax returns (Sitharam and Hoque 2016)

A considerable number of SMEs in South Africa have been found to understate taxable income or overstate tax deductions, reflecting potential non-compliance behaviours (Kalidin 2017). Consequently, significant resources and time are invested in pursuit of compliance, resources that could be better utilised to foster the survival and growth of SMEs (Naicker and Rajaram 2019). SMEs often perceive tax compliance as time-consuming and financially burdensome, leading some of them to operate informally by avoiding business registration (Naicker and Rajaram 2019).

The compliance requirements associated with Value Added Tax (VAT) and the tax administrative requirements of the South African Revenue Service (SARS) exert substantial pressure on SMEs (Atawodi and Ojeka 2012). Additionally, SMEs grapple with challenges in effectively managing the tax process due to limited capacity (Naicker and Rajaram 2019). Such compliance-related costs further deplete the already limited resources available to South African SMEs. To alleviate the compliance burden and actual tax payments, the South African government has introduced tax concessions for SMEs (Junpath 2014; Junpath, Kharwa and Stainbank 2016). However, it is important to note that compliance costs have a greater negative impact on small businesses compared to larger enterprises, and these costs appear to rise over time (Matarirano *et al.* 2019a)

Studies have shown that the costs related to record-keeping and employing professionals were found to be cumbersome and thus disincentivised SMEs from filing their tax returns (Kalidin 2017). SME owners are also concerned as proceeds collected by the government could be misused or abused (Junpath 2014; Kalidin 2017). Research by Junpath (2014) and Long and Miller (2017) indicate that the majority of small firms find tax compliance burdensome, and that the government must explore and execute new tax relief efforts to ease some of the tax compliance burdens faced by small businesses. SMEs lack formality in terms of business registration, VAT registration, official business premises, and accounting procedures (Khuzwayo 2015). Thus tax compliance of SMEs depends “on knowledge of tax laws by managers or owners of SMEs” (Wahabu 2017).

### 2.6.1 Factors influencing tax compliance.

Literature has identified internal and external factors affecting SMEs' tax compliance (Matarirano *et al.* 2019b; Musimenta, Naigaga, Bananuka and Najjuma 2019). Kamleitner, Korunka and Kirchler (2012) argued that as small business owners have to 'self-assess' and 'self-report' and pay taxes out of their pockets, this increases the temptation for non-compliance and the need for more knowledge about taxes to comply with tax rules. The identification of important tax compliance factors may be valuable to tax authorities in improving future tax policy and total tax compliance (Inasius 2019). The following section examines how factors such as tax complexity,

tax knowledge, compliance costs, perceived opportunity, record keeping, and tax penalties influences tax compliance.

#### 2.6.1.1 Tax complexity

In the realm of tax compliance research, the term "complexity" pertains to the substantial burden imposed on taxpayers in terms of record keeping, completion of tax forms, and other activities required for compliance (Abdul and McFie 2020). Abdul and McFie's (2020) study identified four primary sources of complexity, namely, policy complexity (referring to the number of taxes that taxpayers must comply with at different levels), statutory complexity (involving the clarity and length of the income tax law), administrative complexity (assessing the ease of complying with tax administrative requirements), and compliance complexity (evaluating the ease of adhering to the stipulated tax requirements).

Newman *et al.* (2018) highlighted that tax complexity arises due to the increased sophistication in tax legislation, leading to challenges in navigating through legal and procedural intricacies related to taxation. Consequently, this complexity may create uncertainty among small firms regarding their compliance status (Saad 2014). Pope and Jabbar (2008) emphasised that significant changes to existing tax laws or the introduction of new assessment systems contribute to increased complexity. To mitigate tax compliance concerns for SMEs, outsourcing to tax professionals has been recognised as a relatively trouble-free option. However, this approach often leads to higher tax compliance expenses. Tax complexity is thus considered one of the factors influencing tax evasion (Abdul and McFie 2020).

#### 2.6.1.2 Tax knowledge

According to Naicker and Rajaram (2019), small business owners must possess comprehensive knowledge regarding diverse compliance measures and requirements to ensure accurate tax payments. Wahabu (2017) highlights the complexity of tax systems, emphasising the crucial nature of tax knowledge. Wahabu (2017) further asserts that educating business owners about tax matters is essential to prevent misinterpretations of intricate tax laws, as these laws are often too convoluted for individuals without specialised knowledge. Ndlovu and Schutte (2022) suggests that possessing tax knowledge may enhance the likelihood of SMEs achieving their profit objectives. Given the constant changes in legal and procedural aspects related to

taxes, SMEs face a significant burden, making tax knowledge a potential solution to mitigate non-compliance issues. To cope with knowledge deficiencies, SME owners often resort to acquiring tax knowledge or hiring experts, may lead to increased compliance with tax regulations (Olla 2016).

#### 2.6.1.3 Compliance costs

Tax compliance costs refer to the expenses borne by taxpayers in fulfilling their obligations as mandated by the tax law and revenue authorities (Matarirano *et al.* 2019a). These costs extend beyond the actual tax payment and are independent of any inherent distortion costs associated with the tax system. Eliminating the tax would lead to the elimination of these compliance costs (Eragbhe and Modugu 2014). Studies have shown that compliance costs play a crucial role in influencing tax evasion or non-compliance behaviour, particularly among SMEs (Mohamad *et al.* 2016). Tax compliance is considered one of the most time-consuming and challenging regulatory aspects for SMEs, as it comprises a significant portion of their overall regulatory compliance costs and resource allocation (Marandu, Mbekomize and Ifezue 2015). Enhanced compliance practices can reduce the expenses related to forced compliance and unplanned audits by authorities. The magnitude of compliance costs tends to increase in proportion to the number of tax audits a business undergoes, the complexity of tax rules, the frequency of tax return filings, and the involvement of multiple government levels in tax collection (Mayombe 2018).

Compliance costs may have an impact on the growth of businesses, with the size of the firm being a determining factor. For instance, when a small firm crosses a turnover or size-related threshold affecting the tax burden, compliance costs may undergo significant changes (Smulders *et al.* 2017). Small firms must incur various specific fees to fulfil tax requirements, increasing the owner's time devoted to ensuring compliance, expenditures on necessary documentation and record-keeping, communication, travel, and the engagement of tax specialists and consultants (Smulders *et al.* 2017; Naicker and Rajaram 2019). Non-compliance incurs additional tax compliance costs, arising from disorganised record-keeping and inadequate financial knowledge among enterprise owners, both of which can be alleviated through increased compliance practices.

#### 2.6.1.4 Perceived opportunity

Owners of small businesses are often ranked high risk when it comes to tax compliance because they have many opportunities to be delinquent (Ndlovu and Schutte 2022). Opportunity is a critical determinant in small business tax compliance, and it is influenced by the owner's personal tax attitudes. SMEs receive gross amounts where taxes are not deducted from source and if sources of income are not subject to automated 'third-party reporting' present opportunities to evade taxes. The actual opportunities to evade tax increase intentional and un-intentional propensity to avoid taxes (Kamleitner *et al.* 2012). The business owners who come across opportunities to dodge taxes are more likely to evade taxes (Kamleitner *et al.* 2012).

Perceived opportunities, such as the belief that tax evasion will go undetected or that there is a low risk of being caught, can increase tax non-compliance among SMEs in South Africa (Dlamini 2022; Biru 2020). When the chance of tax evasion arises, persons with a propensity against engaging in such practises may accidentally exhibit involuntary non-compliant behaviour (Kamleitner *et al.* 2012). SMEs may view tax evasion as a means to increase profits and gain a competitive advantage in the market.

Corruption and bribery can also be factors that increases tax non-compliance among SMEs in South Africa. Some SMEs may perceive that paying bribes to tax officials is an easier and less costly way to avoid paying taxes than complying with tax regulations (Biru 2020). To promote tax compliance among SMEs in South Africa, the government should simplify the tax system, provide tax education and training for SMEs, increase the risk of detection and penalties for non-compliance, and promote a culture of transparency and accountability in the tax system (Dlamini 2022; Biru 2020; Obaid, Ibrahim and Udin 2020). Studies indicate that among these measures to reduce perceived opportunities among SMEs, penalties should be implemented to discourage other players from non-compliance (Obaid *et al.* 2020; Swistak 2016).

#### 2.6.1.5 Record-keeping

Pope and Jabbar (2008) found that the lack of proper records led small businesses to fail to comply with business taxation requirements. Eichfelder and Vaillancourt (2014)

documented that “record-keeping and return preparation” have been identified as the most time-consuming activities relating to tax compliance. SMEs spent one third of their time preparing tax returns while two thirds of their time was spent collecting receipts and related record-keeping (Eichfelder and Vaillancourt 2014). This is a major cause for concern because small businesses do not have the resources to hire the necessary expertise to avoid noncompliance with tax requirements.

#### 2.6.1.6 Tax penalties

Failure to submit an income or excise tax return within the specified timeframe leads to the imposition of a tax penalty (Oladipupo and Obazee 2016). Tax penalties can be incorporated into the legislative framework of any nation as a means of deterring potential offenders. According to Oladipupo and Obazee (2016), a tax penalty is a punitive measure enforced by tax laws in response to engaging in prohibited actions or failing to fulfil required obligations, such as submitting a tax return late or providing inaccurate or under reporting information. Highlighting the significance of penalties in deterring undesired behaviours, Obaid *et al.* (2020) argue that they serve as crucial measures to discourage noncompliance.

Swistak (2016) contends that tax penalties should be designed to influence taxpayer behaviour, preventing noncompliance, and promoting compliance in the future. For tax penalties to have an impact on taxpayer conduct, they must be perceived as equitable and inescapable. The assurance of detection and punishment is essential for encouraging taxpayer compliance (Swistak 2016). If authorities are too lenient, taxpayers may find non-compliance advantageous, while excessive strictness may be perceived as oppressive and unacceptable. Therefore, adhering to tax laws becomes imperative for business owners (Bărbuță-Mișu 2011). Furthermore, tax penalties can contribute to the establishment and promotion of social norms. When other taxpayers perceive tax penalties as fair, the imposition of penalties conveys a message of fairness and reward to compliant SMEs. Simultaneously, it sends a clear message that paying taxes is the correct and expected behaviour (Swistak 2016).

To conclude this section on factors influencing tax compliance, it can be noted that many studies have been devoted to the study of why SMEs find it difficult to be tax compliant. As this current study focuses on the tax compliance of SMEs both within

and out of a business incubator, the contribution which this study makes to the literature is discussed next.

## 2.7 Contribution to the literature

This study contributes to the literature by investigating the impact of business incubators on SMEs' tax compliance. As the impact of this business incubator on tax compliance has not been investigated before, using respondents both in and outside the incubator may provide new insights into both the role of an incubator and tax compliance. The study may help policy makers and the business community to better understand the importance of business incubators and implement policies that are in favour of business incubators by putting in measures that address any problems faced by implementing business incubators. The study may also help in developing a comprehensive theory of increased tax compliance through incubation.

The study may help business professionals and government representatives prioritise the advantages of tax compliance to entrepreneurial activities in starting new businesses. The study is important for business incubators and SMEs because it motivates entrepreneurs to enrol in incubation programmes to develop their entrepreneurial skills, which may increase the growth and survival rate of business ventures. Additionally, because SMEs gain from tax incentives, this may encourage them become tax compliant.

## 2.8 Conceptual framework

The figure below highlights the conceptual framework of the study.

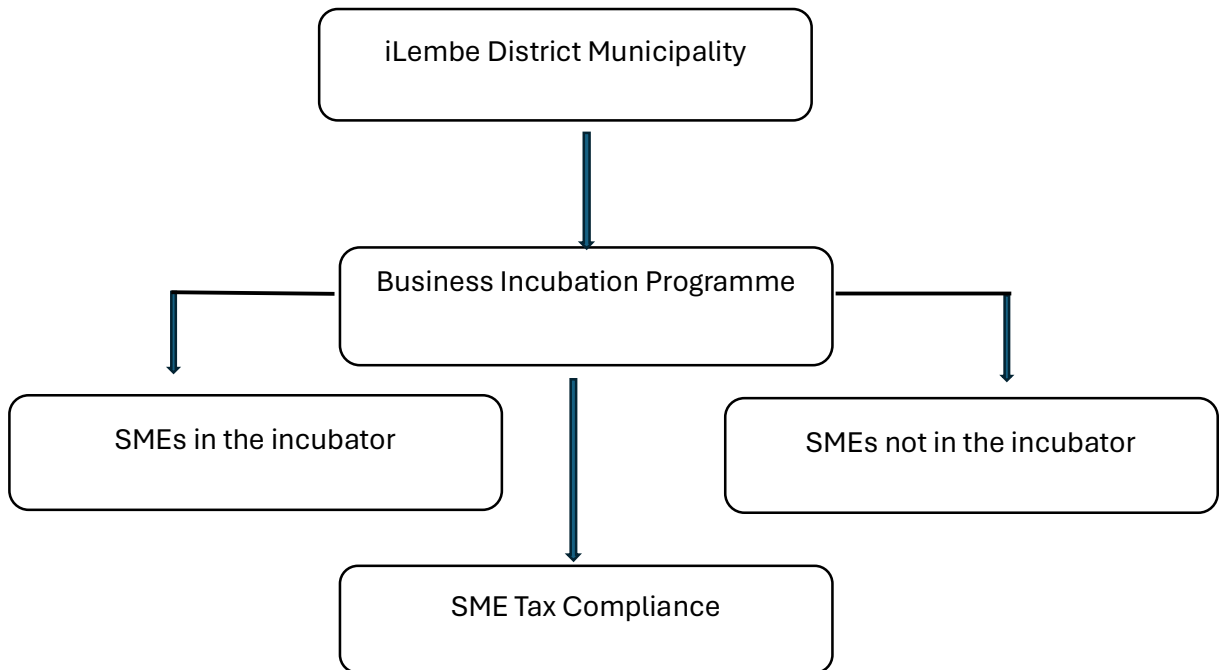


Figure 2.2: Conceptual Framework. Source: Researcher's Compilation, 2023

Figure 2.2 illustrates the conceptual framework of the study, delineating its core components, with a specific focus on the iLembe District Municipality Business Incubation Programme. This programme serves as a mediator between the municipality and SMEs, influencing them in several ways. It directs SMEs towards favourable outcomes, particularly in terms of tax compliance, through the provision of diverse resources, assistance, and guidance. The directional arrows depict the flow of influence and impact among the various elements, signifying the crucial role played by the iLembe District Municipality Business Incubation Programme in shaping SME tax compliance through supportive interventions and resource allocations, both for SMEs within and outside the incubator.

A summary of the literature and its relevance to the research questions is presented in the following section.

## 2.9 Summary of literature and alignment to the research questions

Table 2.3 presents a summary of the literature findings aligned to the research questions.

Table 2.3: Summary of literature and alignment to the research questions			
Research question focus on:	Study	Country	Findings
Support structures provided by business incubators to SMEs concerning tax.	Lose (2016)	South Africa	Investigating the challenges confronted by incubatees before enrolling in incubation programmes, the study revealed constrained funding was a major hurdle. However, the main impetus motivating incubatees to partake in such programmes stemmed from the necessity to acquire diverse skill sets. Despite this, a substantial proportion of respondents were firmly in support of incubation, asserting that business incubators' function supported the objectives of SMEs.
	Ayatse, Kwahar and Iyortsuun (2017)	Nigeria	Engaging in an incubation programme significantly enhances business performance, as evidenced by empirical findings. Key performance indicators, such as revenue growth, employment generation, venture investment, networking, and alliance development, demonstrated notable positive effects resulting from the company incubation process. Prospective candidates seeking incubation should strategically prepare market

			<p>analyses, management strategies, and financial plans to optimise their selection prospects as programme tenants. Firms were further advised to avail themselves of value-added services, including incubation, as these services significantly enhance their potential for business survival, revenue growth, job creation, financial resource acquisition, and networking and alliance establishment. Moreover, it was recommended that incubation participants adhere to appropriate lease durations, as overstaying in the incubation programme diminished the likelihood of successful programme completion and survival.</p>
The factors influencing tax compliance by SMEs.	Dlamini (2021)	South Africa	<p>The study found that the level of education of participants affects tax compliance and that there is a positive association between tax compliance expenses and tax compliance. Noncompliance was emphasised because of difficult tax filing and high tax rates. Furthermore, the study found that continuous tax amnesties demotivate compliant taxpayers.</p>
	Nieuwenhuizen (2019)	South Africa	<p>Business owners complained that they lacked the information needed to grasp changes in tax legislation and that they did not have workers with the requisite abilities to help them with their compliance difficulties. They recognised the need for tax</p>

			compliance but believed that tax laws should be simplified to improve SMEs' tax compliance.
	Biru (2020)	Ethiopia	Tax rates have a statistically significant negative effect on the tax compliance behaviour of small and medium-sized business taxpayers, but income level, fines, and penalties, rewarding and incentives, the simplicity of the tax system, perceptions of government spending, tax audit, attitude towards tax, and tax knowledge and awareness are statistically significant, and positively associated with the tax compliance behaviour of small and medium-sized business taxpayers.
	Obaid, Ibrahim and Udin (2020)	Yemen	According to the study's findings, tax fairness and peer influence are both favourably and significantly associated to the tax compliance behaviour of SMEs. Corruption perceptions, on the other hand, have little influence on tax compliance among Yemeni SMEs. The study's recommendation is that the government and tax authorities should update and adopt new tax laws and procedures to assure taxpayer justice while lowering government officials' misconduct. There is a need to educate SMEs about the importance of paying taxes to the government. Based on the

			study's findings, it was hoped that SMEs' owner-managers will enhance their tax compliance if these steps are applied.
The benefits of tax compliance to SMEs	Abera (2019)	Ethiopia	The study's independent factors and the dependent variable had a positive statistically significant association, according to the findings. Tax fairness and tax knowledge all have a major influence on taxpayers' desire to engage in tax evasion, whereas the residual moral obligation and subjective norms do not.
	Rantelangi and Majid (2017)	Indonesia	This study found that tax knowledge, tax morale, the tax system, and tax justice all had a negative impact on taxpayers' opinions of tax evasion. The taxpayers' views of tax evasion were influenced by the expense of compliance. For any negative variable, tax morale has the biggest impact on tax evasion, followed by tax knowledge, the tax system, and tax justice.

## 2.11 Summary

This chapter has emphasised the vital role that SMEs play in the socioeconomic development of any given country. The complexities of defining an SME were examined. However, a definition that includes the number of employees, turnover per annum, and value of assets seems to be the most common definition adopted by many countries, including South Africa. As this research focuses on the tax factors affecting tax compliance among the iLembe incubator situated in KZN, the advantages of incubators and the specific tax incubator in iLembe were described. The factors that influence tax compliance were also discussed. It was noted that the vulnerability of small businesses to changes in market conditions increases the risk of involuntary non-compliance (Swistak 2016). Tax compliance was also identified one of the major factors that curtails SME growth.

The approach used for data collection and analysis to answer the research questions of the study is described in the following chapter.

# CHAPTER THREE

## RESEARCH METHODOLOGY

### 3.1 Introduction

The preceding chapter provided the background literature pertaining to SMEs, and focussed on their definition, historical context, and significance within the domain. Additionally, the chapter delved into the vital role played by incubators in ensuring tax compliance among SMEs, while also exploring the various factors that exert influence on their tax compliance behaviour. This present chapter explains the research methodology adopted for the study. It illustrates the activities undertaken in this investigation, including the research design, target population selection, sample technique implementation, utilisation of measuring instruments, assessment of response rate, data analysis approaches, and considerations of validity and reliability. Moreover, it addresses respondent anonymity and confidentiality while adhering to ethical standards.

To reiterate, the primary objective of this study is an investigation into the impact of the iLembe District Municipality business incubation programme on the tax compliance behaviour of SMEs. The research questions were as follows:

- What support structures does the iLembe District Municipality business incubator provide to SMEs concerning tax?
- What are the factors influencing tax compliance by SMEs both within and outside of the iLembe District Municipality business incubator programme?
- What are the benefits of tax compliance to SMEs in iLembe District Municipality?

### 3.2 Research design

The research design serves as a methodological framework guiding the implementation of a research endeavour by describing the procedures aimed at obtaining relevant information to address the research questions (Devi 2017). To guide the research design used in this study, the research 'onion' as proposed by Saunders, Lewis and Thornhill (2007) was used. This is shown in Figure 3.1.

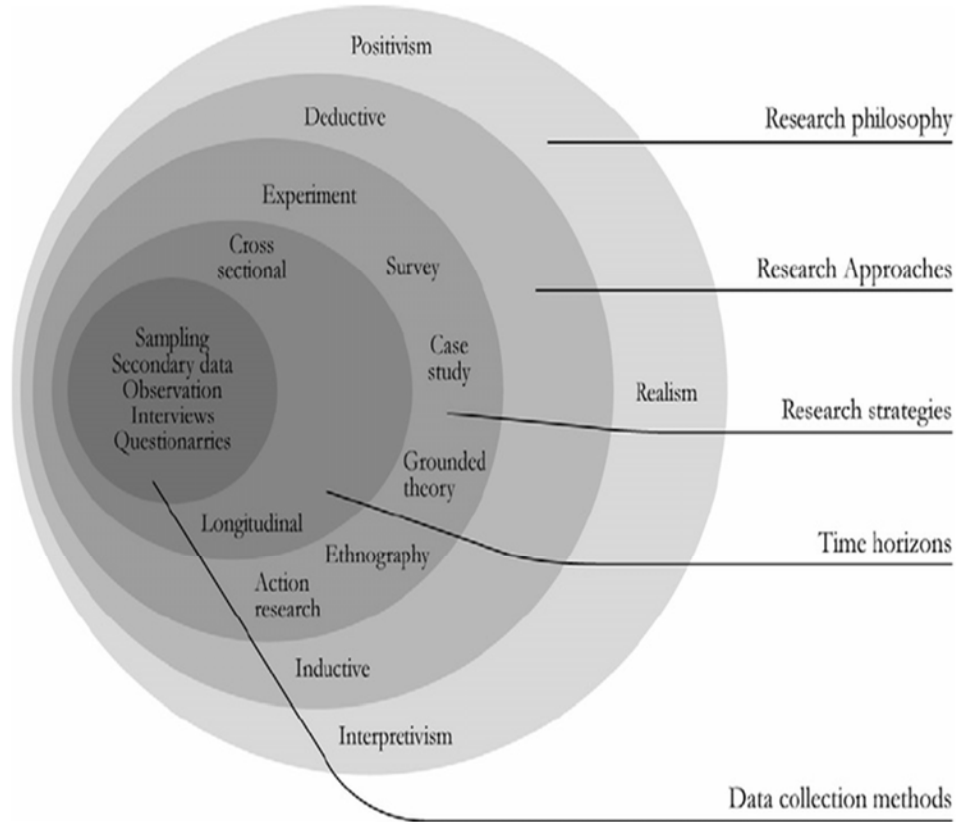


Figure 3.1: Research Onion

Source: Saunders *et al* (2007).

The following sections discuss each layer of the research 'onion' as they pertain to this current study.

### 3.2.1 Research philosophy

Research philosophy pertains to the fundamental examination of the genesis, essence, and development of knowledge (Sekaran and Bougie 2019). It constitutes a conceptual framework guiding the acquisition, analysis, and application of information pertaining to a specific phenomenon. To attain a creditable level of research quality, it is imperative to ensure that the chosen study design aligns effectively with the adopted research philosophy (Saunders *et al.* 2007; Saunders, Lewis, Thornhill and Bristow 2015). The researcher's thought processes, and the methodology employed for knowledge generation should be conveyed through the research philosophy. The research philosophy encompasses four major types,

namely pragmatism, positivism, realism, and interpretivism. These types and the types of data collection they support are shown in Table 3.1.

**Table 3.1: Types of research philosophies**

	Pragmatism	Positivism	Realism	Interpretivism
Definition	Pragmatism is a philosophical approach that emphasizes practical consequences and real-world applications as the primary criteria for evaluating the truth or meaning of ideas and beliefs.	Positivism is a research philosophy that emphasizes the importance of empirical observation and the scientific method in the pursuit of knowledge.	Realism is a research philosophy that aims to understand the world as it truly exists, independent of our perceptions or interpretations. possible.	Interpretivism is a research philosophy that emphasizes the importance of understanding and interpreting human behaviour and social phenomena from the perspective of the individuals involved.
Popular data collection method	The utilisation of mixed or multiple method designs encompassing both quantitative and qualitative approaches has been extensively explored in academic research.	The research employs a highly structured approach with extensive sample sizes, primarily utilising quantitative measurements while also considering the incorporation of qualitative data.	The selection of methods should align with the nature of the subject matter, whether quantitative or qualitative, as supported by academic research.	Small samples, in-depth investigations, qualitative

Source: Saunders *et al.* (2015)

In this study, the positivist paradigm was employed as the underlying research philosophy to undertake the evaluation of the impact of the iLembe District Municipality's business incubation programme on the tax compliance behaviour of SMEs. The primary rationale behind adopting this methodological approach was to attain reliable and credible findings through the utilisation of a highly specific data collection technique. By doing so, this study aimed to provide valuable insights for future research in related domains, enabling subsequent investigations to draw upon its outcomes for guidance. Positivism, rooted in the empiricist notion that knowledge is derived from human experience, relies on quantifiable observations and statistical analyses as fundamental pillars of its investigative framework.

### 3.2.2 Research approach

The research approach is a vital part of any scientific study regardless of the research area. There are three types of research approaches as shown in Table 3.2.

	Deduction	Induction	Abduction
Logic	In deductive reasoning, if the premises are true, the conclusion must necessarily be true as well.	Inductive reasoning employs established premises to derive unverified conclusions.	Abductive reasoning involves utilising established premises to construct conclusions that can be subjected to empirical testing.
Generalisability	Moving from the broad to the specific.	Moving from the specific to the broad.	Research explores how interactions between specific instances and broader patterns facilitate the process of generalisation.
Use of data	Data collection is used to evaluate propositions or hypotheses that are	The gathering of data is used to explore a particular phenomenon, identify prevalent	Data collection is used as a method to examine a phenomenon, identify prevalent themes and patterns, contextualise

	interconnected with an established theory.	themes and patterns, and construct a comprehensive conceptual framework.	them within a conceptual framework, and subsequently validate these findings through further data gathering and analysis, among other iterative processes.
Theory	Theory falsification or verification.	Theory generation and building.	The process of theory creation or modification involves the integration of current theoretical frameworks, where deemed relevant, with the aim of constructing novel theories or refining existing ones.
Source: Melnikovas (2018); Mitchell (2018)			

This research employed an inductive methodology as it is primarily descriptive and exploratory in nature.

### 3.2.3 Research strategy

An important element in meeting the objectives of the study is the research strategy (Sekaran and Bougie 2019). The selection of an appropriate research strategy depends on the research objectives and questions in the study (Zikmund, Carr and Griffin 2013). Three primary research strategies exist and are discussed next.

#### 3.2.3.1 Qualitative research strategy

Saunders *et al.* (2015) describes qualitative research as a form of social investigation oriented towards understanding individuals' and communities' comprehension and interpretation of their experiences within the context of their societal milieu. The fundamental objective of qualitative research lies in the exploration of the social actuality inherent in the lives of individuals, groups, or societies. As such, qualitative research methods necessitate an examination of the subjects' experiences,

perspectives, and conceptualisations. In essence, qualitative research delves into the essence, intention, or perspectives of reality (Harwell 2011).

#### 3.2.3.2 Quantitative research strategy

Saunders *et al.* (2007) explain that quantitative research is the systematic analysis of the subject matter within the predefined parameters and assumptions of the study, leading to results that can be quantified numerically. Rahi, Alnaser and Abd Ghani (2018) affirm that this approach entails formulating specific and focused hypotheses, gathering data to support these hypotheses, and utilising questionnaires to solicit responses from the targeted population. The data obtained through quantitative methods are characterised by measurable attributes, often represented in numerical form, ensuring a high degree of accuracy in measurement (Walliman 2017). Ragin and Amoroso (2011) explain that quantitative research primarily centres on examining causal relationships between variables within a context that avoids value-based influences, with less emphasis on exploring underlying processes. A significant advantage of employing quantitative research is its potential for generalisability to the broader population due to the inclusion of large sample sizes (Zikmund *et al.* 2013). Consequently, this method of analysis is known for its efficiency in data collection, as it allows for rapid and streamlined processes (Sekaran and Bougie 2019).

#### 3.2.3.3 Mixed method research strategy

The mixed methods research strategy involves the concurrent collection and analysis of qualitative and quantitative data (Blumberg, Cooper, and Schindler 2014). This approach, known as the concurrent mixed method design, encompasses the sequential gathering and analysis of two types of data. By combining qualitative and quantitative methods, the mixed approach capitalises on the strengths of each while mitigating their individual limitations. As a result, it offers a more comprehensive understanding of the study problem (Bell, Bryman, and Harley 2018). Nevertheless, it is essential to acknowledge that mixed methods are a multifaceted approach, which could entail significant time and resource investment during its implementation.

#### 3.2.3.4 Research strategy for the study

This investigation employed a quantitative research approach due to the large population and the ability to contact a substantial cohort of participants, thereby enhancing the potential for generalisation, objectivity, and precision. This research

methodology enabled the inclusion of a sizable respondent pool, leading to the acquisition of reliable and credible data.

### 3.2.4 Time horizon

The study's time horizon is the designated time frame for its completion (Zikmund *et al.* 2013). Based on the research onion model, two main types of time horizons exist, cross-sectional and longitudinal. A cross-sectional time horizon involves collecting data within a predefined period, whereas a longitudinal study entails examining variables over an extended duration, such as weeks, months, or even years (Melnikovas 2018). In this current study, a cross-sectional approach was adopted, as its aim was to collect the respondents' perspectives as a particular point in time.

## 3.3 Target population

The concept of population refers to the total grouping from which research participants can be selected, while a sample constitutes a representative subset of this population (Martínez-Mesa, González-Chica, Duquia, Bonamigo and Bastos 2016). Populations encompass various elements such as individuals, products, and organisations, all sharing common characteristics that are pertinent to the study's challenges and objectives (Quinlan, Babin, Carr, Griffin and Zikmund 2016; 2019). All units or relevant aspects of interest, essential for research inquiries, are encompassed within populations (Sekaran and Bougie 2019). The present study concentrated on a specific target population from which the findings may be generalisable (Singh and Masuku 2014). The target population under examination comprised 1 005 SMEs listed in the iLembe District Municipality database, which includes entities operating both within and outside the iLembe District Municipality business incubator. It was important to target SMEs both within and outside the incubator to identify whether the incubator has any impact on the tax compliance of SMEs.

## 3.4 Sampling

Sampling is a data collection method that involves the utilisation of information from a small, yet representative subset of a target population to draw inferences about the entire population (Martínez-Mesa *et al.* 2016). Employing a sample enables researchers to draw conclusions for the entire population more efficiently. In this particular study, probability sampling was chosen due to its capability to generalise

findings to the population from which the sample was drawn (Bell *et al.* 2018). Specifically, a random sampling technique was employed in this investigation, which involved the selection of n units one by one from a pool of N units, ensuring that each unit had an equal probability of being chosen at each stage of the selection process, i.e., 1/N (Bhardwaj 2019).

$$\begin{aligned}n &= N \cdot X / (X + N - 1), \\ &= 1005 \cdot 384.16 / (384.16 + 1005 - 1) \\ &= 278.12\end{aligned}$$

Based on the calculations above, a sample of 278 SMEs across iLembe District Municipality was required. Random sampling indicates that the participants are chosen “randomly” and it also ensures validity. The participants were selected randomly by going through the iLembe District Municipality database and, using a random number generator, the participants were selected, ensuring a fair and unbiased representation from the entire database for the study.

### 3.5 Measuring instrument

This research employed a structured questionnaire as the instrument for primary data collection. Questionnaires represent a compilation of inquiries and scales designed to gather data (Burns, Bush and Sinha 2014). The use of questionnaires ensures standardisation of language and sequencing, thereby mitigating potential biases in the questioning process (Quinlan *et al.* 2016). Moreover, questionnaires facilitate the accumulation of a substantial volume of data at a relatively low cost, enabling subsequent objective and meaningful data analysis (Rasinger 2013). The decision to utilise questionnaires was driven by their efficiency and cost-effectiveness compared to alternative data collection techniques. The questionnaire was intentionally brief and concise to enhance participant engagement. Structured questions were employed to facilitate respondents in expressing their views, and a numerical code was applied to each response to enable statistical analysis (Quinlan *et al.* 2019).

#### 3.5.1 Content and layout

The process of questionnaire design constitutes a multifaceted endeavour, which must be aligned with the study's aims to ensure the acquisition of data to effectively address

the research objectives. The construction of the questionnaire was achieved through a comprehensive examination of pertinent scholarly literature and meticulous adherence to the study's theoretical underpinnings, research inquiries, and objectives. The questionnaire was structured by employing Likert scale type questions, alongside a combination of closed- and open-ended questions.

#### 3.5.1.1 Likert scale

This study employed a rating system suitable for incorporation into questionnaires to assess the attitudes, opinions, or perceptions of participants (Edmondson 2005). A Likert scale represents a commonly utilised psychometric instrument within educational and social sciences research (Joshi *et al.* 2015). Using a Likert scale, the questionnaire measured perceptions (agreement) and assigned numerical codes to the response categories, namely: Strongly disagree = 1, Disagree = 2, Neutral = 3, Agree = 4, and Strongly agree = 5. The application of this Likert scale was specifically confined to sections B and C of the questionnaire.

#### 3.5.1.2 Closed-ended questions.

Closed-ended questions are questions with various responses, out of which the participants are to select one or more choices, or questions with a rating scale (Panneerselvan 2004). Simply put, these are questions in which participants are provided with options from which a response is chosen. The questionnaire had closed-ended questions in all three sections to reduce the participants' time in answering the questionnaire and because this type of question was more appropriate to obtain the necessary data.

#### 3.5.1.3 Open-ended questions

Open-ended questions are phrased in such a way to allow the participants to give free-form answers. The participants respond to the questions based on their knowledge of the topic. The questionnaire in this study had open-ended questions in sections B and C.

The questionnaire used in this study comprised of three main sections: Section A, B and C. These sections are discussed next.

## Section A: Demographics

Section A of the questionnaire gathered participants' demographic details and essential business details. It enquired about each participant's age, gender, level of education, type of ownership, businesses' age, industry classification and tax knowledge. These questions were important because the data which comes from them can be essential for drawing meaningful conclusions and insights into the study. These questions are shown below.

*Please provide information about yourself by ticking the appropriate response.*

1. Please specify your gender.

Male

Female

2. Kindly indicate your age category.

Below 25 years

26 – 35 years

36 – 45 years

46 – 55 years

56 years and above

3. What is your highest educational attainment?

National Senior Certificate/Matric

Undergraduate diploma

Bachelor's degree

Honour's degree/Postgraduate diploma

Master's degree

Doctorate degree

4. What is the type of ownership of the business?
- Sole proprietor
  - Partnership
  - Close corporation
  - Private company
5. What is your position in the business?
- Owner of the business
  - Manager
6. For how long have you been running your business?
- Less than 12 months
  - 1 – 5 years
  - 6 – 10 years
  - 11 – 15 years
  - More than 15 years
7. Generally, classify the industry your business operates in.
- Renewable energy
  - Support service
  - ICT
  - Construction
  - Agriculture
  - Manufacturing
  - Tourism
  - Other (please specify)

Section B: Incubation

Section B collected the participants' opinions and experiences on incubation and the incubator's efforts on tax compliance. These questions addressed the first research question which sought to enquire about the support structures the iLembe District Municipality business incubator provided to SMEs concerning tax. The questions were crafted to allow participants to share their experiences of the organisation they are working in and the support they have received from the incubator concerning tax issues. The section had close-ended, open-ended and Likert scale type questions.

8 Is your business operating under the support of a business incubator?

Yes

No

(If you answered 'no' to question 8, please proceed to Section c, question 16.) (SMEs which were not in the incubator were not required to answer the following questions.)

9. What type of support is the business incubator providing?

Business management training	<input type="text"/>
Office space	<input type="text"/>
Mentorship and coaching	<input type="text"/>
Access to procurement opportunities and finance	<input type="text"/>
All the above	<input type="text"/>

10. To what extent do you think the following non-financial support services provided by the incubator benefit your business (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree).

Programme	1	2	3	4	5
Leadership development					
Access to networks and partners					
Marketing support/ market research					
Building HR capacity					
Business strategy and planning					
Financial management					
Needs assessment					
Performance management					
Media exposure					
Due diligence					
Building M&E capacity					
Governance structure					
Sector development					
Legal, accounting, and other services					

11. To what extent do you think the following tax programmes provided by the incubator benefit your business (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5= strongly agree).

Programme	1	2	3	4	5
Compliance awareness					
Tax avoidance and tax evasion					
Implications of non-compliance					
Types of taxes relevant to SMEs					

12. Is the incubation programme effective in promoting tax compliance within your business?

Yes

No

Please give a reason for your answer:

.....  
 .....

13. Did the tax compliance of the business improve after joining the incubator?

Yes

No

Please give a reason for your answer:

.....  
 .....

14. Has the business incubator implemented tax compliance programmes to your satisfaction?

Yes

No

Please give a reason for your answer:

.....  
 .....

15. What improvements do you think the iLembe District Business Incubator should implement to promote SME tax compliance in the district?

---

---

Section C: Tax compliance

Section C was made up of questions focused on tax compliance and tax compliance benefits. This section had questions that addressed the second and third research questions which were centred on tax compliance. The section had close-ended, open-ended and Likert scale format questions. These questions allowed the participants to give their experience with regards to tax compliance including its challenges and benefits thereof to their organisations. The participants who could answer these questions were both within and outside the incubator. This would enable comparisons to be made between these two sub-samples. It must also be noted that some of the questions could be considered sensitive as they probed the tax compliance of the participants. However, anonymity and confidentiality were stressed in the letter of informed consent.

The next set of questions focused on background information on the tax status of the respondents, before focusing on the second research question which was on the factors affecting tax compliance.

16. Is your business registered for tax?

Yes

No

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

.....  
.....

17. What types of tax is your business registered for?

Income tax

VAT

Employees tax (PAYE and UIF)

All the above

18. Please indicate your tax knowledge by ticking the appropriate answer.

No knowledge

General knowledge (I have read about tax.)

Extensive knowledge (I have attended workshops.)

Other

19. Are the tax compliance activities of the business outsourced or managed internally?

They are outsourced

They are managed internally

20. Is your business tax compliant?

Yes

No

21. Have you ever defaulted on any tax returns?

Yes

No

22. If you answered 'yes' to the question above, why did you default on your tax submission?

Did not manage to submit the return before the deadline

Did not know how to complete my return

Didn't want to pay any taxes

Did not declare the correct revenue

Other, please explain

.....  
.....

23. To what extent do you think the following factors affect tax compliance (1=strongly disagree, 2=disagree, 3=neutral (i.e., neither agree nor disagree), 4=agree, 5= strongly agree).

Factors affecting tax compliance	1	2	3	4	5
Compliance costs					
Tax penalties					
Tax complexity					
Record keeping and documentation					
Other reasons. Please add and score..... .....					

24. To what extent do you think the following factors have on whether you report and pay your taxes honestly (1=strongly disagree, 2=disagree, 3=neutral (i.e., neither agree nor disagree), 4=agree, 5= strongly agree).

Factors affecting tax honesty	1	2	3	4	5
Fear of an audit					
Fear of being penalised by relevant authorities					
Belief that other SMEs are reporting and paying honestly					
Personal integrity					
Other reasons. Please add and score..... .....					

25. What tax compliance challenges are you facing in your business?

---



---



---

Tax compliance benefits

The next set of questions addressed specifically the third research question which was on the benefits of tax compliance.

26. Does complying with tax obligations benefit your business?

Yes

No

Please give a reason for your answer:

.....  
 .....

27. To what extent do you think the following are benefits of complying with tax obligations (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5= strongly agree).

Benefits of complying with tax obligations:	1	2	3	4	5
Improved record-keeping					
A better knowledge of the business's financial affairs					
Reduced risk that the business will be subjected to tax audits					
Other benefits. Please add and score: ..... .....					

28. To what extent do you agree with the following perceptions about the benefits of tax compliance. (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5= strongly agree).

Perceptions about benefits of tax compliance:	1	2	3	4	5
Improves record-keeping					
Improves maintenance of accurate records					
Improves knowledge of the financial position of the business					
Improves knowledge of profitability					
VAT compliance obligations provide up to date information					
Other reasons. Please add and score..... ..... .....					

29. If there are any other comments you want to make about tax compliance, please add them here:

.....  
 .....  
 .....

### 3.5.2 Covering letter

Padulo, Oliva, Frizziero and Maffulli (2018) emphasise the significance of a well-crafted covering letter to accompany a questionnaire or appear on its first page as a pivotal tool in encouraging respondents to engage in completing and returning the questionnaire. Given its prominent position, the covering letter was designed to

motivate prospective participants to respond to the questionnaire. The covering letter included several key elements, including an introduction of the researcher and the represented institution, an explanation of the study's main objectives and its relevance, explicit instructions on how to proceed with the questionnaire, and a statement highlighting the voluntary nature of participation, and ensuring respondents' right to decline involvement without consequences. Additionally, the covering letter reassured participants about the anonymity of their provided information and provided essential contact details such as a return address and email for submitting the completed questionnaire if it had not been completed online. Finally, the letter expressed gratitude to the respondents for their valuable participation in the study. Overall, the covering letter was instrumental in motivating individuals to actively participate in the research survey.

### 3.5.3 Pre-testing

The questionnaire underwent a pre-testing phase to enhance its validity. Pre-testing is a vital step aimed at identifying potential issues before administering it to a larger sample (Brace 2018). This phase typically involves surveying a limited number of representatives from the target population to detect and rectify any errors prior to the final distribution of the questionnaires. In this study, the pre-test involved administering ten questionnaires to five taxation lecturers and an additional five questionnaires to SMEs not associated with iLembe District Municipality Business Incubation Programme. Feedback received during this process was incorporated into the final version of the questionnaire (Kumar 2018).

### 3.5.4 Distribution of the questionnaire

In this study, online questionnaires were employed as the primary data collection method to gather insights from SMEs currently under incubation in the iLembe District Municipality business incubator, as well as SMEs operating within the geographical boundaries of the iLembe District Municipality. To enhance the response rate, a multi-pronged approach was adopted, involving face-to-face interactions after scheduling appointments and subsequent telephonic follow-up discussions with the participants. Additionally, the respondents were afforded ample space and time to complete the questionnaires. The researcher's interference was kept to a minimum, ensuring that any assistance had no bearing on the authenticity and integrity of the original data provided by the respondents, thereby upholding the credibility of the research

outcomes. This approach ensured that comprehensive and reliable data was collected from the targeted SME cohort.

### 3.6 Data analysis

The present study employed data analysis as a fundamental process to transform the collected data into actionable knowledge aligned with the research objectives (Mertens, Pugliese and Recker 2017). After data collection, the raw data was entered into a data matrix to obtain insights relevant to addressing the research objectives (Creswell and Creswell 2017).. For data analysis, the latest iteration of the Statistical Package for Social Sciences (SPSS) software was used. The statistical analysis was performed by a statistician. This analysis encompassed both descriptive data analysis, involving measures like mean, mode, and median, to present response frequencies, as well as inferential statistical analysis, incorporating a binomial test, One-sample t-test, the Mann-Whitney U test and the Wilcoxon signed rank test.

#### 3.6.1 Descriptive statistics

Descriptive statistics, as emphasised by Creswell and Creswell (2017), serve the purpose of characterising and summarising acquired data. These statistical techniques prove particularly valuable when dealing with large datasets, as they effectively reveal the inherent characteristics of the samples. Among the commonly employed methods for descriptive statistical analysis is the calculation of means and standard deviations, which facilitate the profiling and description of the samples. In the current study, data findings were effectively presented through the utilisation of tables and various descriptive statistics such as means and percentages. Notably, the application of frequencies played a crucial role in ascertaining how frequently respondents provided specific responses to particular questions, thus facilitating data examination and the derivation of conclusive outcomes (Panneerselvam 2004; Melnikovas 2018).

#### 3.6.2 Inferential statistics

Inferential statistics encompass the process of drawing conclusive inferences regarding populations through the utilisation of indices obtained from randomly selected samples. Such statistical methods are useful in identifying correlations and disparities between variables (Flores-Ruiz, Miranda-Novales and Villasís-Keever

2017). The present investigation employed the subsequent inferential statistical tests for data analysis.

#### 3.6.2.1 Binomial test

A binomial test, also known as a binomial proportion test or a single proportion test, is a statistical test that determines if an observed proportion differs significantly from a hypothesised proportion (Laurencelle 2021). When working with categorical data that may be separated into two mutually exclusive groups, it is widely employed. (Abdi 2007) . It is especially beneficial when working with small sample sizes or when the standard approximation is insufficient.

#### 3.6.2.2 One sample t-test

A one-sample t-test is a statistical test used to assess whether the mean of a single sample differs significantly from the hypothesized population mean of the population or theoretical expectation of the population sample (Francis and Jakicic 2023). The t-value denotes the difference between the sample mean and the hypothesised mean in relation to the data variability. It considers both the sample size and the sample standard deviation.

#### 3.6.2.3 The Mann-Whitney U test

The Mann-Whitney U test is commonly perceived as the nonparametric analogue to the students t-Test for independent samples, although such a comparison may oversimplify the matter. Both tests, the nonparametric Mann-Whitney U-Test and the parametric Students t-Test for Independent Samples, serve the purpose of investigating the presence of statistically significant differences between two groups (MacFarland and Yates 2016). The Mann-Whitney U-test, however, is specifically employed with nonparametric data, typically of an ordinal nature. In contrast, the students t-test for Independent Samples is suitable for data adhering to the assumptions associated with parametric distributions, usually interval data displaying a reasonably acceptable level of normality (MacFarland and Yates 2016). Nevertheless, the Mann-Whitney U-test offers extensive utility and should be considered in scenarios when dealing with ranked data, data that deviates from typical distribution patterns, or when significant disparities exist in the sample sizes of the two compared groups (MacFarland and Yates 2016). In this study, the Mann-Whitney U test was used to compare the data of the incubated SMEs and those not incubated.

#### 3.6.2.4 Wilcoxon signed rank test.

The Wilcoxon signed rank test is a nonparametric test approach suitable for examining matched-pair data or a single sample by focusing on their differences (Woolson 2007). The underlying null hypothesis posits that these differences, or individual observations in the context of a single sample, exhibit a distribution centred around zero. To conduct the test, the absolute values of the differences are arranged in ascending order, and the test statistic is determined as the sum of ranks for either positive or negative values (Woolson 2007). This method offers a robust and reliable means of statistical analysis without imposing stringent assumptions on the data distribution, making it particularly valuable in various research domains.

### 3.7 Response rate

The response rate is shown in Table 3.3.

<b>Sample</b>	<b>Total</b>	<b>Percentage (%)</b>
Final Sample	250	86.80%
Did not respond	30	10.42%
Discarded	8	2.8%
Original Sample	288	100%

Table 3.3 shows that 288 questionnaires were distributed and that 258 questionnaires were returned. Eight of the returned questionnaires were discarded as they were not fully completed. Consequently, there were 250 usable questionnaires, yielding a response rate of 86.8%. This high response rate ensures the reliability and accuracy of the obtained results.

### 3.8 Validity and reliability

The fundamental bedrock for considering a research study as knowledge lies in its validity and reliability (Cypress 2017). Particularly in the context of qualitative research, these essential attributes not only establish the credibility of the findings but also foster transparency and diminish potential researcher bias (Mohajan 2017). By adhering to validity and reliability, a research endeavour can be integrated into the corpus of

knowledge within a specific discipline, thereby bolstering its scholarly significance and contributions to the field.

Validity refers to the degree to which an instrument accurately assesses the intended construct within its specific context of application (Cypress 2017). It is also commonly referred to as the capacity of measurement devices to ascertain the intended construct (Aaker, Kumar, Leone and Day 2013). Within the scope of this study, validity denotes the extent to which the test aligns with the measurement of the variables of interest, specifically sensitivity and specificity, or accurately captures the intended construct (Zikmund *et al.* 2013). The significance of validity lies in its role as a criterion for evaluating the appropriateness of measures in making inferences, judgments, and decisions (Sekaran and Bougie 2019).

To ensure the validity and reliability of the research instruments in this study, several measures were taken. Firstly, the formulation of questions posed to respondents was directly aligned with the research objectives of the study. Secondly, pre-testing was conducted to identify and address any ambiguities in the questionnaire. Additionally, the questionnaire was designed to consist of straightforward questions and answers to enhance the validity of the findings and inferences drawn.

To address face validity, a method that involves a surface-level evaluation of whether the questionnaire accurately measures its intended constructs (Nickerson 2023), the questionnaire was pre-tested and input on the clarity and relevance of the items was obtained, thereby ensuring that the instrument effectively captured the desired information. Content validity, which assesses the extent to which the research instrument aligns with the components of the study and research topic (Sekaran and Bougie 2019) was also addressed through the pre-testing. The questionnaire was meticulously designed to encompass all aspects of the research topic, ranging from gathering basic demographic information to eliciting detailed insights into tax compliance behaviours.

Reliability, defined as the degree of consistency in the results obtained from a measuring instrument or the ability of a study to be replicated with consistent outcomes, is essential in research (Heydari and Hajiabadi 2016; Creswell and Creswell 2017; Walliman 2017). The extent to which a test produces consistent

outcomes when utilised by different observers or over different periods of time under constant conditions characterises reliability (Zikmund *et al.* 2013). To achieve reliability in this study, the research instrument was designed in a clear and understandable manner for the respondents. Furthermore, the administration of the instrument occurred in a neutral environment to minimise external factors that could influence respondents' opinions. Additionally, as the questionnaire was mostly administered electronically, the absence of the researcher during questionnaire completion eliminated potential biases or forms of cheating and further enhanced reliability.

### 3.9 Anonymity and confidentiality

Anonymity represents a fundamental ethical principle that serves to uphold individual autonomy within the realm of research (Hunter, Gough, O'Kane, McKeown, Fitzpatrick, Walker, McKinley, Lee and Kee 2018). Conversely, confidentiality pertains to the safeguarding of acquired data (Hunter *et al.* 2018). Through the implementation of both anonymity and confidentiality, the identities of respondents and any information gathered from them during the study are duly protected (Gupta 2017). The present study ensured respondents' anonymity, confidentiality, and the preservation of their rights and welfare by utilising a covering letter and a consent form (Padulo *et al.* 2018). To uphold anonymity, the questionnaire did not solicit any personal identifiers, such as respondents' names, business names, phone numbers, addresses, or principal business information (Padulo *et al.* 2018). Furthermore, the collected data was solely used in an aggregated format, avoiding any potential for individual identification (Padulo *et al.* 2018). Additionally, the completed questionnaires were securely stored, with limited access only granted to supervisors and the researcher. The provision of anonymity instilled confidence in the respondents, encouraging their participation in answering the questionnaires, with the assurance that the information shared would be treated with utmost confidentiality (Padulo *et al.* 2018).

### 3.10 Ethical considerations

Recker (2021) noted that “research ethics helps to prevent abuses and assists investigators in understanding their responsibilities as ethical scholars.” It was emphasised to the participants in this study that none of their rights would be violated and that fair practices were followed.

The data for this study was collected once ethical clearance had been obtained from Durban University of Technology's institutional research structures, namely, the Faculty Research Committee (FRC). Permission letters were obtained from the Chief Executive Officer of Enterprise iLembe in conjunction with the approval from the Head: LED (Local Economic Development) of the agency responsible for managing the SMEs' incubation programme to conduct a study on SMEs that are within the incubation programme.

### 3.11 Summary

This chapter provided the study's underpinning philosophy, research approach, research design, targeted population and sample selection, research methodologies, data collection and analysis procedures, as well as measures taken to ensure reliability and validity. Additionally, delimitations that bound the study's scope were also elaborated upon. For data collection and subsequent analysis, a quantitative research method was employed utilising questionnaires as the primary instrument. Specifically, subject matter experts (SMEs) within the iLembe District Municipality were selected as the sample population. The administration of data collection procedures, along with a comprehensive account of data analysis techniques, were addressed, ensuring a well-founded and transparent methodology for this study.

The fourth chapter presents and discusses the research findings.

## CHAPTER FOUR

### PRESENTATION AND DISCUSSION OF FINDINGS

#### 4.1 Introduction

The previous chapter discussed the research methodology used to answer the research questions. The purpose of this chapter is to report and interpret the findings of the study. The chapter commences with a recap of the study objectives and then discusses the empirical findings of the research.

The aim of the study was to investigate the impact of the iLembe District Municipality business incubation programme on the tax compliance of SMEs. To recap, the following objectives were set:

- To establish the support structures which the iLembe District Municipality business incubator provides to SMEs concerning tax.
- To determine the factors influencing tax compliance by SMEs in iLembe District Municipality.
- To determine the benefits of tax compliance to SMEs in iLembe District Municipality.

#### 4.2 Demographics

The questionnaire first sought to establish the background information of the respondents. This was important because background information enables comparisons between different groups or demographics and allows a deeper analysis of the data. As some of the respondents were in the incubator, and others were not, the tables which follow show the two sub-samples as well as the total number of respondents in each category.

##### 4.2.1 Gender of respondents

Table 4.1 depicts the gender of the respondents.

<b>Table 4.1: Gender</b>						
Gender	In the Incubator				Total	%
	Yes	%	No	%		
Male	55	64.7	93	56.4	148	59.2
Female	30	35.3	72	43.6	102	40.8
Total	85	100	165	100	250	100

Table 4.1 shows that males (148 or 56.4%) constituted the greater number of the respondents, of whom 55 (64.7%) were in the incubator. In contrast, 102 (40.8%) respondents were female, of whom 30 (35.3%) were in the incubator. This result may indicate that men are more involved in entrepreneurial activities as compared to their female counterparts. The findings align with Lose (2016), who pointed out that historically marginalized designated groups, with a specific emphasis on women involved in entrepreneurial endeavours, may face challenges that negatively impact the extent of women's involvement in entrepreneurial activities. Mandipaka's (2014) study, on the other hand, indicated that a significant proportion of South African women have secured well-paid positions within corporate settings, which presents an opposing argument against venturing into small-business management. However, Gwija, Eresia-Eke and Iwu (2014) contend that it is crucial to promote and support women in establishing small enterprises to bridge the participation gap between men and women in entrepreneurship. This current study highlights the need to implement initiatives encouraging women's entrepreneurship while considering the broader context of their evolving participation in various economic sectors.

#### 4.2.2 Age of respondents

Table 4.2 depicts the ages of the respondents.

Age	In the Incubator				Total	
	Yes	%	No	%	Total	%
18-24	4	4.7	2	1.2	6	2.4
25-34	36	42.4	59	35.8	95	38.0
35-44	36	42.4	61	37.0	97	38.8
45-54	2	2.4	14	8.5	16	6.4
55+	7	8.2	29	17.6	36	14.4
Total	85	100	165	100	250	100

Table 4.2 shows that the largest category of the respondents by age (97) were between 35 – 44 years old representing 42.4% of SMEs under incubation and 37% of SMEs not incubated. The next highest category were 95 respondents aged between 25 to 34 years old also representing 42.4% of SMEs under incubation and 35.8% of SMEs not incubated. These results show that most SMEs in and out the incubator have similar ages. These results are similar to those of Akinyemi and Adejumo (2017) who noted that the majority of entrepreneurs who responded to their study were between the ages 25-33 with a median of 31 years in Nigeria compared with 32 years in South Africa. Masutha and Rogerson (2014) also found that the average age of entrepreneurs was 35 or older. It is more likely that the respondents are younger because they often have a higher propensity for entrepreneurial activities due to the new curriculum as explained by Ntshangase and Ezeuduji (2023) which is emphasising entrepreneurial studies thus making younger age groups more inclined to engage in SME ventures when compared to older age groups.

#### 4.2.3 Level of education

Table 4.3 shows the highest educational qualifications of the SME owners and managers who participated in this study.

<b>Table 4.3: Level of education</b>						
<b>Level of education</b>	<b>In the Incubator</b>				<b>Total</b>	
	<b>Yes</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>Total</b>	<b>%</b>
No formal education	3	3.5	2	1.2	5	2.0
Some schooling	2	2.4	3	1.8	5	2.0
Matric	15	17.6	39	23.6	54	21.6
Diploma	31	36.5	65	39.4	96	38.4
Degree	18	21.2	38	23	56	22.4
Post graduate degree	16	8.8	18	10.9	34	13.6
<b>Total</b>	<b>85</b>	<b>100</b>	<b>165</b>	<b>100</b>	<b>250</b>	<b>100</b>

According to Table 4.3, when looking at the largest category of respondents according to education (96 respondents), 36.5% of the incubated SME (31 respondents) and 39.4% (65 respondents) of the SMEs not incubated indicated that they had diplomas. Respondents holding degrees (56 respondents) or matric (54 respondents) were the next two largest categories of the respondents according to education. Most of the respondents (186 or 74.4%) had post matric qualifications which is important for the study because educated respondents may lead to more accurate and reliable data thus enhancing the overall credibility of the research finding. Previous research highlighted that education is essential for raising public knowledge of and providing information on the various aspects of tax compliance (Nichita, Batrancea, Marcel Pop, Batrancea, Morar, Masca, Roux-Cesar, Forte, Formigoni and da Silva 2019). The level of education is an important factor that contributes to the understanding of taxation, especially regarding laws and regulations of taxation.

#### 4.2.4 Business ownership

Table 4.4 indicates the types of business ownership of the respondents.

Business ownership	In the Incubator				Total	
	Yes	%	No	%	Total	%
Sole proprietor	10	11.8	43	26.1	53	21.2
Partnership	3	3.5	7	4.2	10	4.0
Close corporation	11	12.9	19	11.5	30	12.0
Private company	61	71.8	96	58.2	157	62.8
Total	85	100	165	100	250	100

Table 4.4 reflects that 71.8% (61) of the incubated SMEs and 58.2% (96) of the SMEs not incubated indicated that they operate their business as private companies and 12.9% (11) of the incubated SME and 11.5% (19) of the SMEs not incubated indicate that they operate their business as a close corporation. SMEs register as private companies as this provides limited liability protection for the company's owners. This means that the personal assets of the owners are separate from the company's liabilities, reducing their personal financial risk in case of business-related issues or debts. It was expected that there would be more private companies than close corporations as, since the implementation of the Companies Act 71 of 2008, no new close corporations could be registered; therefore, the only way an SME can get limited liability protection is by registering a private company.

#### 4.2.5 Position in business

Table 4.5 shows the positions of the respondents in their respective businesses.

Position in Business	In the Incubator				Total	
	Yes	%	No	%	Total	%
Owner	81	95.3	156	94.5	237	94.8
Manager	4	4.7	9	5.5	13	5.2
Total	85	100	165	100	250	100

Table 4.5 shows that 95.3% (81) of the incubated SMEs and 94.5% (156) of the SMEs not incubated indicate that they owned the business. On the other hand, only 4.7% (4) of the incubated SMEs and 5.5% (13) of the non-incubated SMEs indicated that they managed the businesses and may have been hired by the owners to oversee the day-

to-day operations of the SMEs. The high number of owners who responded to the questionnaire indicates that they can provide credible responses to the questionnaire because they are aware of their businesses' tax requirements.

#### 4.2.6. Experience in business

Table 4.6 depicts the number of years the respondents have been in business.

Experience in business	In the Incubator				Total	
	Yes	%	No	%	Total	%
<1 year	3	3.5	3	1.8	6	2.4
1-5 years	29	34.1	96	58.2	125	50.0
6-10 years	31	36.5	45	27.3	76	30.4
11-15 years	17	20	12	7.3	29	11.6
>15 years	5	5.9	9	5.5	14	5.6
Total	85	100	165	100	250	100

As shown in Table 4.6, most of the respondents (125 or 50%) had between 1 to 5 years of business experience. Of those, 34.1% (29) of the incubated SME and 58.2% (96) of the SMEs not incubated indicated that their businesses existed between 1-5 years. The next highest number of respondents (76) was in the 6 – 10 years category. Of those, 36.5% (31) of the incubated SME and 27.3% (45) of the SMEs not incubated indicated that their businesses existed between 6-10 years. This suggests that majority of the respondents (80.4%) have not been in business for long and thus it is possible that education and training is required on tax compliance. Most SMEs are often in their early stages of growth due to survival challenges. When compared to international SMEs, South African SME start-ups have one of the world's lowest survival rates and the failure rate for new enterprises ranges between 50% and 95% depending on the industry (Mandizha 2020).

#### 4.2.7 Industry classification

Table 4.7 shows the industries from which the respondents to this study were drawn.

<b>Table 4.7: Industry classification</b>						
<b>Industry classification</b>	<b>In the Incubator</b>				<b>Total</b>	
	<b>Yes</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>Total</b>	<b>%</b>
Agriculture	20	23.5	31	18.8	51	20.4
Construction	21	24.7	26	15.8	47	18.8
ICT	7	8.2	8	4.8	15	6.0
Manufacturing	6	7.1	8	4.8	14	5.6
Support services	11	12.9	21	12.7	33	13.2
Tourism	4	4.7	10	6.1	14	5.6
Other	16	18.8	61	31	77	30.8
<b>Total</b>	<b>85</b>	<b>100</b>	<b>165</b>	<b>100</b>	<b>250</b>	<b>100</b>

Table 4.7 presents data on the industries from which the respondents were drawn. Most of the respondents were in the agriculture and construction industries. In the agriculture industry, there were 51 (20.4%) respondents in total. Of these, 23.5% (20) respondents were SMEs in the incubator, while 18.8% (31) were not. In the construction industry, there were 47 (18.8%) respondents in total. Of these, 24.7% (21) were SMEs in the incubator, and 15.8% (26) were not. The other categories showed lower numbers of respondents as shown in Table 4.7. In the "Other" category, there were 77 respondents. The category of respondents who selected other did not specify their industry. Among them, 16 were in the incubator, and 61 were not, making up 6.4% and 24.4% of the total respondents, respectively.

Although the tourism sector is one of the priority sectors of the iLembe District through a primarily focus on the coastal beaches, most of the respondents were from the agricultural and construction sector. The region's economy is primarily driven by agriculture, construction and manufacturing, with the agricultural sector encompassing both large-scale and small-scale sugar cane farming, plant production and livestock. The least participating economic sector was the tourism industry. Respondents in this study were primarily drawn from sectors other than tourism, which may be more closely associated with SMEs in the events and leisure sub-sector. The district is also home to several manufacturing companies, including those involved in clothing and textiles, as well as food processing (Desele 2019).

Although the respondents were given the opportunity to add in other reasons, none of the respondents made use of this opportunity.

#### 4.2.8 Summary of respondents' demographics

The results indicate that men are more involved in entrepreneurial activities as compared to their female counterparts. The results also showed that most of the respondents are aged between 25 and 44 years. Most respondents have attained qualifications post matric having obtained diplomas and degrees. The findings also showed that most SMEs registered their business as private companies and they had mostly been in existence for up to 10 years. Most of these businesses were in the agriculture and construction, followed by support services.

### 4.3 The support structures which the iLembe District Municipality business incubator provides to SMEs concerning tax (objective 1)

The first research objective was to establish the support structures which the incubation programme provides to SMEs in the iLembe District Municipality. The questions covered business incubation, type of support from the incubator, benefits of the incubator's non-financial support services, benefits of tax programmes provided by incubator and effectiveness of the incubation programme in promoting tax compliance.

#### 4.3.1 Business Incubation

The respondents were first asked whether they were under incubation.

Table 4.8 below highlights which respondents were under incubation and those who were not.

<b>Table 4.8: Business incubation</b>				
Item	Number (%)		n	p-value
	Yes	No		
Is your business operating under the support of a business incubator?	85 (34.0)	165 (66.0)	250	<.001*
* Indicates significance at the 95% level				

Table 4.8 shows that 66 % of the respondents did not operate their business under the support of the business incubator ( $p < .001$ ). This may be attributed to the fact that SMEs in South Africa may not be aware of the benefits and opportunities offered by business incubation programmes. Lack of information and awareness about these programmes can prevent them from seeking incubation support. Business incubation plays a crucial role in fostering the growth and success of startups and early-stage businesses. It provides a supportive environment, resources, and guidance to entrepreneurs, helping them navigate the challenges and increase their chances of survival and long-term viability. The incubation process allows entrepreneurs to “preserve capital and gain external support” to accelerate their businesses growth. Khuzwayo (2015) opined that “incubation provides facilities and programmes to ensure the survival and successful development of start-up businesses.” Masutha and Rogerson (2014) noted that successful ventures can emerge from the networking and business tools, as well as the problem-solving role, provided by a business incubator.

Respondents who were not in the incubator were not asked to answer the following questions, but were directed to Section C, question 16.

#### 4.3.2 Types of support from the incubator

Table 4.9 highlights the types of support businesses received from the incubator. Only 75 respondents who were operating under a business incubator answered this question.

<b>Table 4.9: Non-financial support services provided by the incubator</b>		
<b>Support services provided by the incubator</b>	<b>Number</b>	<b>Percentage</b>
Business management training	9	12
Office space	12	16
Mentorship and coaching	13	17.3
Access to procurement opportunities and finance	8	10.7
All the above	33	44
Total	75	100

Table 4.9 shows that 33 respondents (44%) indicated that they received all the types of support. Mentorship and coaching (17.3%) were also considered important. Incubators can provide SMEs with the space they require to launch their businesses (16%). In addition to physical space, incubators provide resources such as office

equipment and conference rooms. This can be extremely beneficial for SMEs looking to save money in the early stages of their business.

#### 4.3.3 Benefits of the incubator's non-financial support services

Respondents were asked for their opinions on the extent to which the non-financial support services provided by the incubator benefited their business. A 5-point Likert agreement scale was used where 1 = strongly disagree and 5 = strongly agree. Only 75 respondents answered this question. These results are shown in Table 4.10.

<b>Table 4.10: Benefits of the incubator's non-financial support services</b>																
Item	Responses										N	Mean	SD	t	df	p-value
	1	2	3	4	5											
Leadership development	4	4.7	3	3.5	16	18.8	19	22.4	27	31.8	69	3.90	1.152	6.477	68	<.001*
Access to networks and partners	4	4.7	1	1.2	10	11.8	29	34.1	36	42.4	80	4.15	1.032	9.963	79	<.001*
Marketing support and research	4	4.7	19	22.4	18	21.2	32	37.6	-	-	73	4.07	0.962	9.488	72	<.001*
Building HR capacity	1	1.2	6	7.1	15	17.6	26	30.6	24	28.2	72	3.99	1.115	7.751	71	<.001*
Business strategy and planning	5	5.9	1	1.2	11	12.9	27	31.8	27	31.8	71	4.25	0.878	7.452	70	<.001*
Financial management	1	1.2	15	17.6	21	24.7	36	42.4	-	-	73	4.18	0.738	12.124	72	<.001*
Needs assessment	14	16.5	31	36.5	27	31.8	-	-	-	-	72	3.79	1.152	13.577	71	<.001*
Performance management	4	4.7	26	30.6	18	21.2	20	23.5	-	-	68	3.90	0.939	6.971	67	<.001*
Media exposure	4	4.7	11	12.9	31	36.5	14	14.5	11	12.9	71	3.24	1.073	1.876	70	.065
Due diligence	8	9.4	16	18.8	23	27.1	25	29.4	-	-	72	3.90	1.009	7.590	71	<.001*
Building M&E capacity	4	4.7	9	10.6	15	17.6	21	24.7	22	25.9	71	3.68	1.204	4.730	70	<.001*
Governance structure	5	5.9	3	3.5	13	15.3	29	34.1	20	25.5	69	3.80	1.124	6.477	68	<.001*
Sector development	10	11.8	27	31.8	34	40	-	-	-	-	80	4.34	0.716	9.963	79	<.001*
Legal, accounting, and other services	1	1.2	9	10.6	22	25.9	35	41.2	-	-	73	4.36	0.773	9.488	72	<.001*

Note: A Likert scale of 1 = strongly disagree, 2 = disagree, 3 =neutral, 4 = agree and 5 strongly agree was used.  
\* Significant at 95% level

Using the mean scores in Table 4.10 to rank the various benefits, Legal, Accounting, and Other Services is ranked, on average by the respondents, as the most important benefit (m= 4.36). This underscores the role of services as the linchpin of the programme, indicating that stakeholders consider legal, accounting, and related services to be the most pivotal aspect. This could imply a strong emphasis on regulatory compliance, legal matters, and financial transparency. Sector development (m=4.34) was ranked the second most important benefit, followed by Business Strategy and planning (m=4.25). Financial Management ranked fourth (m=4.18) shows that SMEs appreciate the importance of financial management within their businesses. Access to network and partners is also regarded as one of the most important benefits as it was ranked fifth (m=4.15), This demonstrates that SMEs appreciate the importance networking and stakeholder management to grow their businesses. Marketing support and research is key as it was ranked sixth (m=4.07). Respondents indicated that the above are the most beneficial non-financial support services received within the iLembe District Municipality Business Incubation Programme.

Some items were scored <4.0, such as Building HR capacity (m=3.99), performance management (m=3.99), due diligence (m=3.99), governance structure (m=3.80) and the other items above the mean of 3.00. This may indicate that the iLembe District Municipality Business Incubation Programme must put more resources on in terms of emphasising the importance of these items.

The score of other items which were <4.0 but >3.0 indicated that, on average, all these items were considered important by the respondents, especially those where the mean was 3.5 or greater.

A one-sample t-test was used to determine if there was significant agreement or disagreement that each of 14 items about non-financial support systems benefitted their business. The results showed that, save for media exposure, there was significant agreement that these non-financial services were benefitting their businesses. Khuzwayo (2015) highlighted the importance of non-financial services to small businesses. Mentoring, networking, and human resource development should be prioritised. Business incubation teams should forge close ties with the stakeholders,

lower the rate of small business failures, and draw in and keep new enterprises (Allahar, Brathwaite, Roberts and Hamid 2016).

#### 4.3.4 Benefit of tax programmes provided by incubator.

Respondents were asked for their opinions on whether the various tax programmes provided by the incubator benefited their business. A 5-point Likert agreement scale was used where 1 = strongly disagree to 5 = strongly agree. Only 75 respondents answered this question. These results are shown in Table 4.11.

Item	Responses										N	Mean	SD	t	df	p-value
	Strongly disagree (1)		Disagree (2)		Neutral (3)		Agree (4)		Strongly agree. (5)							
Compliance awareness	-	-	-	-	8	9.4	20	23.5	43	52.9	73	4.51	0.690	18.668	72	.000*
Tax avoidance and tax evasion	8	9.4	-	-	10	11.8	19	22.4	36	42.4	73	4.03	1.280	6.858	72	.000*
Implications of non-compliance	-	-	-	-	9	10.6	23	27.2	43	50.6	75	4.45	0.703	17.900	74	.000*
Types of taxes relevant to SMEs	4	4.7	1	1.2	8	9.4	123	27.4	37	43.5	73	4.21	1.067	9.656	72	.000*

Note: A Likert scale of 1 = strongly disagree, 2 = disagree, 3 =neutral, 4 = agree and 5 strongly agree was used.

\* Significant at 95% level

Using the mean scored in Table 4.11 for analysis, Compliance awareness had the highest mean score ( $m=4.51$ ). This suggests that, on average, the respondents have a strong awareness of compliance matters, which may indicate a positive attitude towards adhering to legal and regulatory requirements. The implications of non-compliance ( $m=4.45$ ) were rated, on average, by the respondents, almost as high as compliance awareness. This indicates that respondents understand the serious consequences associated with not complying with tax laws and regulations. It highlights the importance of adhering to tax laws to avoid legal issues and penalties. Types of taxes relevant to SMEs received a mean score of 4.21. This rating suggests that, on average, the respondents consider understanding the various types of taxes that impact SMEs as an essential aspect of tax management. Tax avoidance and tax evasion, with a mean score of 4.03, was also considered important. This suggests that respondents recognize the significance of distinguishing between lawful tax planning (avoidance) and illegal tax activities (evasion), highlighting the need for ethical and compliant tax practices.

A one-sample t-test was used to determine if there was significant agreement or disagreement on each of the four items about tax programmes provided by incubator. The results show that the majority all the respondents indicated that all the tax programmes provided by the incubator were of benefit to their operations at a 5% level of significance.

According to studies, tax ignorance leads to non-compliance since taxpayers find it difficult to submit and report their taxes because of their complexity (Saad 2014). Tax compliance requires individuals to display sincerity, possess adequate tax knowledge, and demonstrate the ability to effectively apply that knowledge, while also emphasising promptness, accuracy, and the maintenance of proper records to ensure the completion of tax returns and related documents (Saad 2014). Wong, Lo and Firth (2015) argued that an improved understanding of tax matters can significantly enhance tax compliance levels. Ramutumbu's (2016) research revealed that although taxpayers exhibit a strong motivation to comply with tax laws, their limited understanding of tax regulations can hinder their compliance efforts. Consequently, the integration of tax education programmes within incubators is important to enhance taxpayers' tax-related knowledge and foster a higher degree of tax compliance.

#### 4.3.5 Effectiveness of the incubation programme in promoting tax compliance

Respondents were asked on their opinions on whether the incubation programme was effective in promoting tax compliance within their business. Only 65 respondents answered this question. These results are shown in Table 4.12.

	<b>Number</b>	<b>Percent</b>
Yes	54	83.1
No	11	16.9
Total	65	100.0

Table 4.12 shows that 83.1 % of the respondents agreed that the incubator had been effective in promoting tax compliance programmes. This result may indicate that the incubator's tax compliance programmes had a positive effect on these SMEs' tax compliance.

#### 4.3.6 Tax compliance of the business after joining the incubator.

Respondents were asked for their opinions on whether their business's tax compliance improved after joining the incubation programme. Only 72 respondents answered this question. These results are shown in Table 4.13.

	<b>Number</b>	<b>Percent</b>
Yes	64	88.9
No	8	11.1
Total	72	100.0

Table 4.13 shows that 88.9% of the respondents agreed that their business's tax compliance improved after joining the incubation programme. This result indicates that the incubator's tax compliance programmes had a positive effect on these SMEs' tax compliance.

### 4.3.7 Improvements the iLembe District Business Incubator must implement to promote SME tax compliance in the district.

The respondents were asked for suggestions to be implemented to promote SME tax compliance in the district. Table 4.14 lists the suggestions made. These suggestions have been placed into themes as shown also in Table 4.14.

<b>Theme</b>	<b>Improvements to promote tax compliance</b>
Educating SMEs	<p><i>Expanding on resources to educate SMEs on tax compliance is crucial for several reasons.</i></p> <p>Educating SMEs on tax compliance can help them manage their finances better. By understanding tax regulations and the implications of non-compliance, SMEs can make informed financial decisions and avoid costly mistakes.</p> <p>Detailed tax compliance training is important for both individuals and businesses because it helps ensure compliance with tax laws and regulations.</p> <p>Failure to comply with tax laws can result in significant financial and legal consequences, including penalties, fines, and legal action.</p> <p>Tax laws and regulations are complex and constantly evolving, making it easy for individuals and businesses to make errors in their tax filings.</p> <p>Detailed tax compliance training can help individuals and businesses understand the requirements and avoid common errors.</p>
Hire knowledgeable staff	<p><i>The incubator should hire staff knowledgeable about tax.</i></p> <p>Tax knowledge can help ensure that financial statements are accurate and complete, which can be important for investors, lenders, and other stakeholders who rely on financial information to make decisions.</p> <p>While hiring an in-house tax practitioner may seem like an additional cost, it can save money in the long run. A tax practitioner can identify areas where your company can save on taxes and help you take advantage of tax credits and deductions. Tax regulations and laws are constantly changing, and an in-house tax practitioner will be able to keep up with these changes and ensure that the company remains in compliance with all tax laws and regulations.</p>
SARS initiatives	<p><i>Link SMEs with SARS' tax consultants for tax advice.</i></p> <p>Linking SMEs with tax consultants from the SARS can be highly beneficial for both parties. Tax laws and regulations can be complex and constantly changing. SMEs may struggle to keep up with the latest tax requirements, which could lead to non-compliance and financial penalties.</p> <p>Tax consultants can provide SMEs with up-to-date advice and guidance on how to comply with tax laws and regulations. Hiring a full-time tax professional can be expensive for SMEs.</p>

	<p>By linking with SARS' tax consultants, SMEs can access expert tax advice without incurring the cost of a full-time employee.</p> <p>Tax compliance is an important part of financial management for SMEs.</p> <p>By working with SARS' tax consultants, SMEs can gain a better understanding of their tax obligations and ensure they are managing their finances effectively.</p>
	<p><i>Partner with SARS' tax consultants in conducting more SARS tax compliance workshops for SMEs.</i></p> <p>Partnering with SARS' tax consultants can be extremely valuable for SMEs when it comes to tax compliance.</p> <p>SARS' tax consultants are experts in tax regulations and compliance requirements. They can provide SMEs with the necessary guidance and advice to ensure that they comply with all the relevant tax laws.</p> <p>By partnering with these consultants, SMEs can access their extensive knowledge and expertise, which can help them avoid costly mistakes and penalties.</p> <p>Non-compliance with tax laws can result in hefty fines and legal action. SARS tax consultants can help SMEs mitigate this risk by ensuring that they comply with all the necessary regulations.</p> <p>By partnering with these consultants, SMEs can minimise the risk of financial losses due to non-compliance.</p>

The study suggests a three-pronged approach to promote tax compliance among SMEs. First, it emphasises the critical importance of enhancing resources for educating SMEs on tax compliance. This education is seen as essential for helping SMEs make informed financial decisions, improve financial management, and steer clear of potential costly errors, given the complexity of tax laws and the severe financial and legal consequences associated with non-compliance. Second, the study recommends the hiring of staff with expertise in taxation, emphasising that while this may appear as an initial cost, it can lead to long-term savings. In-house tax practitioners can ensure the accuracy of financial statements, identify opportunities for tax savings, and navigate the evolving tax regulations, thus facilitating compliance. Third, the study encourages linking SMEs with SARS' tax consultants, offering benefits for both SMEs and SARS by keeping SMEs informed on tax requirements, providing up-to-date advice, and minimising the cost of hiring full-time tax professionals. Partnering with SARS' tax consultants in conducting tax compliance workshops further enhances SMEs' access to expert knowledge, reducing the risk of costly mistakes and non-compliance penalties.

In summary, suggestions in the table indicate that a multi-faceted approach, including education, hiring knowledgeable staff, and leveraging the expertise of SARS' tax consultants, is necessary to promote tax compliance among SMEs. These measures not only help SMEs manage their finances effectively but also ensure they remain compliant with the ever-evolving tax laws and regulations, thereby mitigating the risk of financial losses due to non-compliance.

#### 4.3.8 Summary of results for objective 1

Understanding the support services provided by business incubators is of paramount importance, considering the significant insights gleaned from the provided information. Firstly, it is evident that a substantial portion of SMEs, approximately 66% as indicated in Table 4.8, do not avail themselves of the support offered by business incubators. This statistic points to a prevalent lack of awareness among SMEs regarding the advantages and opportunities that business incubation programmes can provide. Consequently, one of the pivotal roles of business incubators is to raise awareness about their offerings and benefits among SMEs. Table 4.9 revealed that business incubators go beyond mere awareness-building. They provide tangible support in the form of physical infrastructure, including office spaces and essential resources like office equipment and conference rooms. These facilities prove immensely beneficial for SMEs in their initial stages, helping them minimise operational costs and establish a conducive working environment. These practical and tangible support services highlight the inherent value that incubators bring to startups.

Furthermore, Table 4.10 indicated that the support services offered by incubators are highly rated by the respondents. These encompass Sector development, Legal, accounting, and other services, Business strategy and planning and financial management, all of which are critical components of SME business development. It becomes abundantly clear that business incubators address crucial facets of SME growth. Table 4.11 sheds light on respondents' awareness of compliance and tax-related issues. This presents an opportunity for incubators to provide invaluable assistance in helping SMEs navigate the intricate landscape of tax compliance. Tax-related support emerged as one of the valuable services that incubators can offer, a point corroborated by feedback from respondents who found tax programmes provided by incubators to be beneficial. Moreover, suggestions for promoting SME tax

compliance, such as workshops, training sessions, and one-on-one consultations with tax experts, highlighted the multifaceted support services that incubators can provide to enhance tax compliance among SMEs. This not only aids in tax matters but also contributes to overall business development.

The next section discusses the findings relevant to objective 2 of this current study.

#### 4.4 The factors influencing tax compliance of SMEs in iLembe District Municipality (Objective 2)

The following section addresses the second research question on the factors influencing the tax compliance of the SMEs. All the respondents were required to answer the questions concerning the factors influencing their tax compliance and the results for the two sub-groups (within or outside the incubator) are shown separately in the tables which follow.

##### 4.4.1 Tax compliance

Respondents were first asked questions in relation to the type of taxes the business was registered for, their tax knowledge, whether tax compliance activities were outsourced, whether the business was tax compliant, whether they had defaulted on any tax returns, and the reasons for defaulting. Many of these questions were of a sensitive nature and it is possible that the respondents were not always truthful in their responses. These results are shown in Table 4.15.

Questions or statements	Response categories	Responses as number (%)		Total	X <sup>2</sup> / Fisher's exact Test statistic	df	p-value
		Under incubation	Not under incubation				
Is your business registered for tax?	Yes	81 (98.8)	144 (96.6)	225 (97.4)	-	-	.427 <sup>#</sup>
	No	1 (1.2)	5 (3.4)	6 (2.6)			
	Total	82	149	231			
What types of tax is your business registered for?	Income tax (only)	50 (61.7)	110 (75.3)	160 (70)	4.656	2	.097 <sup>\$</sup>
	VAT (only)	4 (4.9)	5 (3.4)	9 (3.7)			

	Employees tax PAYE and UIF)	27 (33.3)	31 (21.2)	58 (25.6)			
	All the above						
	Total	81	146	227			
Level of tax knowledge	No knowledge	13 (15.3)	41 (24.8)	54 (21.6)	4.685	-	.178 <sup>#</sup>
	General knowledge	58 (68.2)	101 (61.2)	159 (63.6)			
	Extensive knowledge	14 (16.4)	20 (12.1)	34 (13.6)			
	Other	0 (0)	3 (1.8)	3 (1.2)			
	Total	85	165	250			
Tax compliance activities	Outsourced	54 (66.7)	100 (68.5)	154 (67.8)	.080	1	.778 <sup>§</sup>
	Managed internally	27 (33.3)	46 (31.5)	73 (32.2)			
	Total	81	146	227			
Tax compliant?	Yes	79 (92.9)	132 (80)	211 (84.4)	7.136	1	.008 <sup>*§</sup>
	No	6 (7.1)	33 (20)	39 (15.6)			
	Total	85	165	250			
Ever defaulted on any tax returns?	Yes	37 (43.5)	63 (38.2)	100 (40)	.668	1	.414 <sup>§</sup>
	No	48 (56.5)	102 (61.8)	150 (60)			
	Total	85	165	250			
Reason for defaulting on tax returns	Did not make the deadline	22 (61.1)	33 (53.2)	55 (56.1)	6.391	-	.144 <sup>#</sup>
	Did not know how to complete the return	7 (19.4)	18 (29)	25 (25.5)			
	Did not want to pay taxes	0 (0)	2 (3.2)	2 (2)			
	Did not declare correct revenue	6 (16.7)	3 (4.8)	9 (9.2)			
	Other	1 (2.7)	6 (9.7)	7 (7.1)			
	Total	36	62	98			
<sup>#</sup> Fisher's exact test <sup>§</sup> Pearson's chi-square test <sup>*</sup> Significant at 95% level							

Table 4.15 shows that 98.8% of businesses under business incubation and 96.6% of businesses not under incubation are registered for tax. This suggests a strong overall compliance with tax registration requirements among the surveyed businesses. Compliance with tax regulations is critical to keeping the country running and for providing programmes and services that improve people's lives (Nipun 2020).

Among the businesses that are registered for tax, a majority (70%) are registered for income tax, while a smaller percentage (3.7%) are registered for VAT. Notably, 25.6% of businesses are registered for both income tax and VAT, indicating a willingness to comply with multiple tax obligations. According to Atawodi and Ojeka (2012), tax compliance is the voluntary and total respect to the law when it comes to tax duties. Noncompliance may result from failing to pay withheld taxes on time, failing to pay taxes at all, reporting low income, or reporting more deductions (Atawodi and Ojeka 2012). SMEs below the VAT threshold, can choose not to register for VAT which may be a reason for some of the respondents not being registered for VAT.

The data categorises businesses into three levels of tax knowledge: no knowledge, general knowledge, and extensive knowledge. Most businesses (63.6%) have general knowledge of tax matters, while a smaller proportion (13.6%) possess extensive knowledge. A significant percentage (21.6%) have no knowledge of tax, highlighting the need for education and support in this area. The tax compliance of SMEs depends on the knowledge of tax laws by their managers or owners (Atawodi and Ojeka 2012). Tax compliance has also been influenced by economic motives such as profit maximisation and the probability of detection and fines (Maseko 2014). Thus, tax knowledge influences tax awareness, which leads to increased tax compliance. Tax knowledge has a considerable impact on tax choices and attitudes.

Many businesses (67.8%) outsource their tax compliance activities, while the remaining (32.2%) manage tax compliance internally. This indicates that most businesses prefer to rely on external expertise to ensure tax compliance. This could be because some of the incubated SMEs do not have sufficient tax knowledge to manage it themselves, emphasising the importance of tax education for SMEs. Tax knowledge is essential for tax compliance. In order to comply with tax laws, taxpayers need to understand their obligations, such as filing deadlines, allowable deductions,

and tax rates (Newman *et al.* 2018). Without a basic understanding of tax laws and regulations, taxpayers may make mistakes that result in penalties or interest charges.

Table 4.15 reveals that a large majority (84.4%) of businesses are tax compliant, while a smaller percentage (15.6%) are not. Additionally, 40% of businesses admit to having defaulted on tax returns at some point. This suggests that while many businesses strive to comply with their tax obligations, there is still a notable segment that faces challenges in meeting their tax obligations. Most of the SMEs which are not tax compliant (33 out of 39 SMEs) are not operating under the support of a business incubator. It is possible that the SMEs not operating under an incubator are not tax compliant because they do not have the same access to tax programmes or assistance compared to SMEs under an incubator. It is also important to note that tax compliance of SMEs is dependent on their managers' or owners' knowledge of tax regulations (Maseko 2014).

Most SMEs which defaulted on tax returns (63 out of 100 SMEs) are not operating under the support of a business incubator. Studies indicate that small business managers or owners are more likely than other taxpayer groups to avoid paying taxes (Bornman and Ramutumbu 2019). Thus, encouraging business owners' voluntary compliance is a valuable endeavour. To accomplish this, it is crucial to have a thorough awareness of both the causes promoting non-compliance and the variables promoting compliance. Entrepreneurs need to be aware that defaulting tax can attract penalties and sometimes criminal charges.

The most common reason cited for defaulting is missing deadlines, with 56.1% of SMEs indicating this as a cause. This suggests that time management and organisational challenges are significant contributors to tax non-compliance. The second most common reason is a lack of knowledge on how to complete the tax return, with 25.5% of SMEs reporting this issue. This highlights the importance of improving tax education and guidance for businesses. Interestingly, very few businesses mentioned a reluctance to pay taxes as a reason for defaulting (2%), indicating that the primary challenges lie in procedural and knowledge-related aspects. Additionally, a small percentage mentioned not declaring the correct revenue (9.2%) as a reason for defaulting, suggesting the need for clarity in revenue reporting guidelines. Lastly, a few businesses cited "other" reasons (7.1%), indicating that there may be unique and

varied factors contributing to tax default that warrant further investigation and tailored solutions. Thus, there is need for the incubator to tailor their tax programmes to mitigate such issues for SMEs. Nieuwenhuizen (2019) noted that business owners claim they lack the knowledge required to understand changes in tax regulations and do not have employees with the necessary skills to assist them with all their compliance issues.

Results from Pearson's chi square test showed that the only factor that significantly related to being under business incubation or not was being tax compliant,  $p=.008$ , indicating that a significant proportion of those who were not under incubation were not tax compliant. This implies that incubated firms tend to be tax compliant. Thus, it is critical for small businesses to register for tax and file accordingly. SMEs constitute the largest number of businesses in the economy (Naicker and Rajaram 2019). Therefore, compliance with tax laws and regulations would contribute to increasing government revenue through the payment of taxes (Matarirano *et al.* 2019a).

#### 4.4.2 Factors affecting tax compliance.

To determine which factors the respondents thought affected tax compliance, a question was posed which listed several factors which could affect tax compliance. A Wilcoxon signed ranks test was applied to determine if there is significant agreement or disagreement to each statement for the SMEs under incubation and for the SMEs not under incubation. The Mann-Whitney U test was used to determine if there was a significant difference in these responses across the two groups. This non-parametric test was used because the data deviated from normality. The results of these analyses are shown in Table 4.16.

<b>Table 4.16: Factors affecting tax compliance</b>												
	<b>Under incubation</b>					<b>Not under incubation</b>					<b>Mann-Whitney U test</b>	
<b>Factors</b>	<b>Mean</b>	<b>SD</b>	<b>Median</b>	<b>Z</b>	<b>p-value</b>	<b>Mean</b>	<b>SD</b>	<b>Median</b>	<b>Z</b>	<b>p-value</b>	<b>Z</b>	<b>p-value</b>
Compliance costs	3.67	1.095	4.00	-4.821	<.001*	3.51	1.177	4.00	-4.780	<.001*	-.920	.357
Tax penalties	3.85	1.249	4.00	-4.780	<.001*	4.01	1.062	4.00	-8.230	<.001*	-.638	.524
Tax complexity	3.73	1.285	4.00	-4.098	<.001*	3.85	1.165	4.00	-7.386	<.001*	-.549	.583
Record keeping and documentation	3.99	1.063	4.00	-6.243	<.001*	3.79	1.021	4.00	-7.545	<.001*	-1.742	.082

\* Significant at 95% level

Table 4.16 shows that, on average, there was agreement that tax penalties, complexity, record keeping, and compliance costs all impact tax compliance for both those under incubation and those who are not, as the means for both sub-groups are >3.5. Record keeping and documentation was perceived as the factor that most affects compliance amongst the businesses under incubation (m = 3.99), while tax penalties was perceived as the factor most affecting compliance for SMEs not in the incubator (m = 4.01). A comparison between the SMEs in and out of the incubator using the Mann-Whitney U test shows that there are no statistically significant differences in their responses to the factors affecting tax compliance.

According to Mohdali, Isa and Yusoff (2014), using the threat of punishment as a strategy to reduce tax non-compliance attitudes may have limited effectiveness in deterring individuals with already strong intentions to comply with tax laws. Paradoxically, this approach could potentially lead to an increase in negative intentions among those individuals. Instead, SARS advocates for organisations to maintain comprehensive records, books of account, or other relevant documentation. By doing so, entities can fulfil their obligations under the Tax Administration Act and provide proof to SARS of their compliance efforts. This proactive and transparent approach is deemed more conducive to fostering tax compliance within the system.

#### 4.4.3 Factors influencing tax honesty regarding tax compliance.

To provide a deeper analysis of the respondents' opinions on tax compliance, a question was posed asking them to rate several factors which influenced their honest reporting and paying of tax. The Mann-Whitney U test was used to determine if there is a significant difference in these responses across the two groups. This non-parametric test was used because the data deviated from normality. The results of these analyses are shown in Table 4.17.

<b>Factors</b>	<b>Under incubation</b>					<b>Not under incubation</b>					<b>Mann-Whitney U test</b>	
	<b>Mean</b>	<b>SD</b>	<b>Median</b>	<b>Z</b>	<b>p-value</b>	<b>Mean</b>	<b>SD</b>	<b>Median</b>	<b>Z</b>	<b>p-value</b>	<b>Z</b>	<b>p-value</b>
Fear of an audit	4.12	1.062	5.00	-6.796	<.001*	3.70	1.241	4.00	-6.368	<.001*	-2.486	.013*
Fear of being penalised	3.93	1.055	4.00	-6.044	<.001*	3.79	1.171	4.00	-6.882	<.001*	-.688	.492
Belief that other SMEs are reporting and paying honestly	3.55	1.376	4.00	-3.393	.001*	3.40	1.183	3.00	-3.299	<.001*	-1.210	.226
Personal integrity	3.71	1.132	4.00	-4.652	<.001*	3.76	1.136	4.00	-6.952	<.001*	-.498	.619

\* Significant at 95% level

Table 4.17 shows that SMEs under incubation ranked fear of an audit as the most important reason affecting tax honesty with a higher mean ( $m = 4.12$ ) and median (5.00) compared to those not under incubation who ranked it third ( $m = 3.70$ , median = 4.00). The Mann-Whitney U test indicated a statistically significant difference between the two groups ( $Z = -2.486$ ,  $p < .001$ ) for this statement. The fear of being penalised was ranked second amongst the factors affecting tax by SMEs under incubation ( $m = 3.93$ , median = 4.00) compared to those not under incubation who ranked it as the most important reason ( $m = 3.79$ , median = 4.00). However, the difference was not statistically significant. Personal integrity was ranked third by the SMEs under incubation ( $m = 3.71$ ) and second by the SMEs not under incubation ( $m = 3.76$ ). Both sub-groups ranked the belief that other SMEs are reporting and paying honestly as the least most important reason. There were no statistically significant differences in the responses between the two sub-groups for the latter two factors.

Overall, the findings suggest that SMEs under incubation have, on average, a higher fear of an audit, being penalised, and belief that other SMEs are reporting and paying honestly, as the means for this group were all higher than the means for the SMEs not in the incubator, and this may influence their tax honesty and compliance behaviour. However, the means for personal integrity were similar for the two groups.

Tax compliance is important due to its implications in interactions with government and business entities, particularly in obtaining a Tax Compliance Certificate for letters of good standing necessary for engaging in private and public sector tenders. While achieving full tax compliance can be arduous and time-consuming for most businesses, it is especially critical for SMEs. Non-compliance among SMEs can lead to substantial revenue losses, as well as penalties and interest imposed by tax authorities (Mohamad *et al.* 2016). Swistak (2016) emphasised the significance of tax penalties in influencing taxpayer compliance behaviour. The study highlights that the severity of penalties and the likelihood of detection significantly impact the level of tax evasion, ultimately leading to increased taxpayer compliance (Swistak 2016). The study by Swistak (2016) underlines that the extent of tax evasion is notably influenced by both the severity of penalties and the probability of detection, ultimately resulting in heightened compliance among taxpayers.

#### 4.4.4 Tax compliance challenges

The respondents were asked which tax compliance challenges they face in running their businesses. Table 4.18 provides a summary of the submissions made by the SMEs discussed according to themes.

<b>Table 4.18: Tax compliance challenges</b>	
SARS Issues	<p><i>One of the respondents noted that the unfriendly SARS's eFiling system and telephone service makes a customer want to give up on trying to get company documentation or SARS's returns especially for SMEs.</i></p> <p>The SARS eFiling system has been a subject of debate for SMEs as it poses tax compliance challenges (Sekgota 2020). While the eFiling system offers several benefits such as convenience, accessibility, and timesaving, it has its own set of drawbacks for SMEs. One of the main challenges that SMEs face when using the eFiling system is the complexity of the platform. The system requires a high level of digital literacy to navigate, which SMEs may not possess. This can result in errors and non-compliance, leading to penalties and fines.</p> <hr/> <p><i>Another challenge is the lack of personalised support.</i></p> <p>The eFiling system offers limited support to SMEs, and they may struggle to get help when they encounter technical issues or have questions about tax compliance. This can lead to frustration and further non-compliance (de Clercq 2018). Additionally, SMEs may not have access to the necessary technology and infrastructure to use the eFiling system effectively (Newman <i>et al.</i> 2018). This includes having a stable internet connection, a computer or smartphone, and a secure network. These barriers can hinder SMEs from meeting their tax compliance obligations, leading to potential legal and financial consequences.</p> <hr/> <p><i>SARS' delay in affirming tax compliance status was highlighted as a tax compliance challenge.</i></p> <p>If SARS has not affirmed an organisation's tax compliance status, it could potentially impact its ability to do business with certain entities that require proof of tax compliance, such as government departments or large corporations. It could also result in penalties and interest charges for late payment of taxes. Secondly, failing to meet their tax obligations can result in penalties and interest charges, which can add up over time and cause a financial strain on SMEs. If the SME continues to be non-compliant, the tax</p>

	<p>authorities may take legal action against the SME, which can be costly and time-consuming.</p> <p><i>One of the respondents noted that their hearing problem has posed as a tax compliant challenge.</i></p> <p>Hearing problems can pose a tax compliance challenge for SMEs. This is because tax compliance involves a lot of communication with government agencies, accountants, and other professionals. If an SME owner or an employee has a hearing problem, it can be difficult for them to understand the details of tax regulations, communicate with tax authorities, or accurately input financial data. If someone with a hearing problem is unable to communicate effectively with tax authorities, it can lead to misunderstandings, errors, and potentially, penalties. Tax regulations can be complex and difficult to understand, even for those without hearing problems. For those with hearing problems, it can be even more difficult to understand the details of tax regulations. This can lead to mistakes in tax compliance and the potential for penalties.</p>
Poor bookkeeping	<p><i>Poor bookkeeping was also highlighted as a tax compliance challenge.</i></p> <p>If a business owner does not keep accurate records of their income and expenses, it can be challenging to determine their tax liability accurately (Wicaksono and Lestari 2017; Abd Hamid, Ibrahim, Ibrahim, Ariffin, Taharin and Jelani 2019). Without proper bookkeeping, it can be difficult to track all the transactions related to the business. Poor bookkeeping practices can lead to errors in financial statements and tax returns. Inaccurate records can lead to incorrect tax calculations, which may result in underpayment or overpayment of taxes (Abd Hamid <i>et al.</i> 2019). Without proper bookkeeping, it can be challenging to keep track of important tax deadlines. Late tax filings can result in fines, penalties, and interest charges. Poor bookkeeping practices can raise red flags for the tax authorities, leading to tax audits. If the tax authorities discover inconsistencies in financial statements, it can lead to additional taxes, penalties, and interest charges.</p>
Record keeping	<p><i>Some respondents highlighted record keeping as a tax compliance challenge.</i></p> <p>Record keeping can indeed be a tax compliance challenge for SMEs. SMEs may not have dedicated accounting staff or sophisticated record-keeping systems, making it difficult for them to keep accurate and up-to-date records (Hamid, Ismail, Yunus, Jali and Rosly 2022). SMEs may also be focused on day-to-day operations and may not have the time to devote to record keeping.</p>
Poor tax knowledge	<p><i>The respondents also highlighted poor tax knowledge as a challenge they face.</i></p>

	<p>Tax compliance can be a significant challenge for SMEs due to their limited resources and lack of tax knowledge. Tax laws and regulations can be complex, and it can be challenging for SMEs to understand and comply with them. This is especially true if the SMEs have operations in multiple jurisdictions or if they operate in an industry that is heavily regulated. SMEs may not have the expertise or resources to keep up with changes in tax laws and regulations. This can make it difficult for them to accurately calculate their tax liabilities and file their tax returns on time. Proper accounting and record-keeping are essential for tax compliance, but SMEs may not have the necessary systems in place. This can result in errors, omissions, and inconsistencies in their tax reporting.</p>
Tax complexity	<p><i>Tax complexity was another challenge highlighted by the respondents.</i></p> <p>Tax complexity can pose a significant tax compliance challenge for SMEs. SMEs typically have limited resources and may not have the expertise or dedicated staff to navigate the complexities of the tax system (Nichita <i>et al.</i> 2019). SMEs may struggle to understand the complex tax laws and regulations that apply to their business. Tax laws are constantly changing, which can make it difficult for SMEs to keep up.</p>
Tax costs	<p><i>Tax costs was also noted as a tax compliance challenge.</i></p> <p>Tax costs can have a significant impact on SMEs' cash flow, particularly if they are unable to accurately forecast and budget for their tax obligations (Wicaksono and Lestari 2017). This can lead to cash flow difficulties and financial stress. SMEs may incur additional costs to comply with tax regulations, such as the cost of hiring a tax professional or purchasing tax software. These costs can be significant for SMEs, particularly those with limited financial resources. SMEs may not have the expertise or knowledge to effectively manage their tax compliance obligations. This can result in errors and omissions in tax reporting, which can lead to additional costs (Abd Hamid <i>et al.</i> 2019).</p>
Payment issues	<p><i>Payment issues by tax compliant companies pose a tax compliance challenge for SMEs.</i></p> <p>One of the biggest challenges for SMEs is managing their cash flow. Any delay in receiving payments can impact their ability to pay their own bills, including taxes. In some cases, SMEs may need to take out loans or use credit to cover expenses while waiting for payments, which can result in additional costs and financial strain. If a tax compliant company delays payment to an SME, it can create a ripple effect on the SME's ability to meet its own tax obligations on time. This can lead to penalties, interest charges, and ultimately, a negative impact on the SME's reputation and financial stability.</p>

#### 4.4.5 Summary of responses to objective 2

The findings indicate a high level of compliance with tax registration, with 98.8% of businesses under business incubation and 96.6% of businesses not under incubation being registered for tax. This reaffirms the importance of tax compliance in supporting government programmes and services. The study highlights that a significant proportion of businesses (70%) are registered for income tax, and 25.6% are registered for both income tax and VAT, demonstrating a willingness to comply with multiple tax obligations. The level of tax knowledge among SMEs is a concern, with 21.6% of businesses indicating no knowledge of tax matters. This underscores the need for tax education and support to enhance tax compliance, as tax knowledge has a considerable impact on tax choices and attitudes.

The findings reveal that most SMEs (67.8%) outsource their tax compliance activities, possibly due to limited tax knowledge or resources. This highlights the role of tax education and the importance of SMEs seeking external expertise to ensure tax compliance. While a significant majority of businesses (84.4%) are tax compliant, 40% of businesses admit to having defaulted on tax returns at some point. Reasons for defaulting primarily include missing deadlines (56.1%) and not knowing how to complete the return (25.5%). These findings emphasise the need for timely tax education and guidance for businesses to reduce administrative and knowledge-related challenges. Factors such as tax penalties, complexity, record keeping, and compliance costs affect tax compliance of both incubated and non-incubated SMEs, indicating a shared set of challenges in the tax compliance landscape.

The findings emphasise the importance of tax education, timely support, and simplified tax systems for SMEs in the iLembe District Municipality to enhance tax compliance. Addressing challenges related to tax penalties, complexity, and record keeping can contribute to a more compliant SME sector, which is crucial for government revenue and the overall economic stability of the region.

The next section of this chapter addresses the third objective of this current study which was on the benefits of tax compliance.

## 4.5 Benefits of tax compliance to SMEs in iLembe District Municipality (Objective 3)

The study focused on the benefits of compliance. Respondents were first asked whether they believed that complying with tax obligations benefited their business. Respondents could answer Yes or No. These results are shown in Table 4.19.

**Table 4.19: Complying with tax obligations benefits the business.**

Tax compliance benefit	Response categories	Responses as number (%)			X <sup>2</sup> Test statistic	df	p-value
		Under incubation	Not under incubation	Total			
Does complying with tax obligations benefit your business?	Yes	70 (82.4)	113 (68.5)	183 (73.2)	5.500	1	.019*
	No	15 (17.6)	52 (31.5)	67 (26.8)			
	Total	85	165	250			

\* Significant at 95% level

Table 4.19 shows that most SMEs, both under incubation (82.4%) and not under incubation (68.5%), believe that complying with tax obligations benefits their business. This finding suggests a shared understanding among SMEs that tax compliance has a positive impact on their business operations. The chi-square test with a p-value of .019 indicates that there is a statistically significant difference in the perceptions of SMEs under incubation and those not under incubation regarding the benefits of tax compliance. This suggests that being under a business incubator may influence SMEs to a certain extent in recognizing the benefits of tax compliance and underscores the potential role of business incubators in promoting tax compliance awareness and education among SMEs. SMEs under incubation may have access to resources and

support that enhance their understanding of the positive impact of tax compliance on their business, leading to a higher percentage acknowledging these benefits. These findings are supported by Dlamini (2022) who noted that respondents' level of education influences tax compliance, and that there is a positive relationship between tax compliance costs and tax compliance.

#### 4.5.1. Benefits of tax compliance

A question was posed listing several benefits for SMEs of complying with tax obligations. Respondents were asked for their level of agreement that these items are were benefits of complying with tax obligations using a Likert scale of 1 – strongly disagree to 5 = strongly agree. These results are shown in Table 4.20.

Statements	Under incubation						Not under incubation						Mann-Whitney U	
	Mean	SD	Median	Z	df	p-value	Mean	SD	Median	Z	df	p-value	Z	p-value
Improved record keeping	3.93	1.044	4.00	8.207	84	<.001*	3.82	1.117	4.00	9.411	164	<.001*	-.657	.511
A better knowledge of the business's financial affairs	4.38	0.759	5.00	16.676	83	<.001*	4.03	0.977	4.00	13.190	157	<.001*	-2.767	.006*
Reduced risk that the business will be subjected to tax audits	4.42	0.713	5.00	18.396	84	<.001*	4.25	0.786	4.00	20.503	164	<.001*	-1.754	.079

\* Significant at 95% level

Table 4.20 presents the results on the benefits of complying with tax obligations for SMEs under incubation and those not under incubation. Both sub-groups ranked the benefits in the same order of importance. Regarding the reduced risk of tax audits, both sub-groups saw this as the most important benefit of tax compliance. SMEs under incubation had a mean of 4.42 whereas SMEs not under incubation had a slightly lower mean of 4.25. The median score for both groups was 4.00. The Mann-Whitney U test did not show a statistically significant difference ( $p = .079$ ) between the means of the two sub-groups.

A better knowledge of the business's financial affairs was ranked second by both sub-groups. SMEs under incubation had a higher mean of 4.38 compared to 4.03 for SMEs not under incubation. The median for SMEs under incubation was 5.00, while it was 4.00 for SMEs not under incubation. The Mann-Whitney U test indicated a statistically significant difference ( $p = .006$ ) between the two groups, suggesting that SMEs under incubation were more aware of the benefit of understanding their financial affairs. The effect size ( $Z$ ) was -2.767, indicating a moderate difference between the two groups.

For improved record keeping, ranked third by both sub-groups, the mean was 3.93 for SMEs under incubation, while it was slightly lower at 3.82 for SMEs not under incubation. The median score for both groups was 4.00. The Mann-Whitney U test did not show a statistically significant difference ( $p = .511$ ) between the two groups.

In summary, Table 4.20 indicates that SMEs under incubation generally perceive, on average, greater benefits of complying with tax obligations in terms of improved record keeping, a better understanding of their financial affairs, and a reduced risk of tax audits compared to SMEs not under incubation. These findings highlight the potential advantages of being under an incubation programme in terms of complying with tax obligations for SMEs. Without tax expertise, taxpayers may take certain risks when engaging in tax matters, which could lead to tax avoidance (Thu 2017).

#### 4.5.2 Benefits of compliance

A final question asked respondents to indicate their opinions on the benefits of tax compliance. Respondents were asked for their opinions on these benefits using a Likert scale of 1 – strongly disagree to 5 = strongly agree. The Mann-Whitney U test was used to determine if there is significant difference in these responses across the

two groups. This test was used because the data deviated from normality. The results of these analyses are shown in Table 4.21.

Factors	Under incubation					Not under incubation					Mann-Whitney U	
	Mean	SD	Median	Z	p-value	Mean	SD	Median	Z	p-value	Z	p-value
Improves record keeping	3.93	1.055	4.00	-5.984	<.001*	3.75	1.134	4.00	-7.074	<.001*	-1.162	.245
Improves maintenance of accurate records	4.12	0.918	4.00	-6.754	<.001*	3.96	1.053	4.00	-8.080	<.001*	-.947	.344
Improves knowledge of financial position of the business	4.36	0.721	4.00	-7.733	<.001*	3.93	1.096	4.00	-7.937	<.001*	-2.909	.004*
Improves knowledge of profitability	4.31	0.74	4.00	-7.617	<.001*	3.92	1.027	4.00	-7.861	<.001*	-2.842	.004*
VAT compliance obligations provide up to date information	4.18	0.862	4.00	-7.072	<.001*	3.79	1.103	4.00	-6.952	<.001*	-2.528	.011*

\* Significant at 95% level

Table 4.21 presents the results of the perceptions of the benefits of tax compliance among the two groups. Overall, the means for all statements for the group in the incubator were all higher than the means for those not in the incubator.

Firstly, the improvement in knowledge of the financial position and profitability of the business stands out as the most crucial factor. Notably, those under incubation exhibit higher mean scores compared to those not under incubation, and Mann-Whitney U tests indicate statistically significant differences, underscoring that tax compliance plays a substantial role in enhancing understanding of financial aspects ( $p = .004$ ). Second is the perception that VAT compliance obligations provide up to date information. Those under incubation reported a higher mean score of 4.18 and a median of 4.00, while those not under incubation scored lower with a mean of 3.79. The Mann-Whitney U test confirms a statistically significant difference, indicating that being under incubation fosters a stronger perception of gaining up-to-date information through VAT compliance obligations ( $p = .011$ ).

The third aspect, which focuses on the improvement in the maintenance of accurate records, is deemed important, although not as critical as the first two. The mean for those under incubation is 4.12, and the median is 4.00, while for those not under incubation, the mean is 3.96. While the Mann-Whitney U test does not reveal a statistically significant difference in perception, it remains a noteworthy consideration. Finally, the perception related to the improvement in record keeping ranks as the least influential. Those under incubation report a mean of 3.93, and the median is 4.00, while those not under incubation score slightly lower with a mean of 3.75. The Mann-Whitney U test does not indicate a statistically significant difference between the two groups, suggesting that this aspect, while still relevant, may be influenced to a lesser degree by incubation.

In summary, the findings indicate that SMEs under incubation tend to hold more favourable attitudes towards the benefits of tax compliance compared to SMEs not under incubation. These attitudes encompass improved record keeping, accurate record maintenance, enhanced financial awareness, better knowledge of profitability, and a stronger belief in the provision of up-to-date information through VAT compliance obligations. These results emphasise the potential positive impact of business incubation programmes on SMEs' perceptions of tax compliance benefits, highlighting

the importance of such programmes in fostering a culture of tax compliance and enhancing SMEs' overall business practices. This is supported by a study which noted that higher degrees of alignment between "incubators and incubated enterprises" are associated with reduced corporate tax evasion, as this bilateral matching helps alleviate financial constraints and lowers the level of corporate tax avoidance (Wen *et al.* 2023) .

#### 4.5.3 Summary of responses to objective 3

Overall, the findings reveal that SMEs within the incubator perceive greater benefits in various aspects of tax compliance, including improved record keeping, maintaining accurate records, understanding their financial position, knowledge of profitability, and adherence to VAT compliance obligations for up-to-date information provision. The statistical analysis confirms significant differences in perception between the two groups, suggesting that incubation programmes positively influence SMEs' attitudes towards tax compliance. These findings align with existing research indicating that tax education and training programmes play a crucial role in enhancing tax compliance behaviours.

The study's findings support the notion that SMEs, especially those under incubation, recognize the benefits of tax compliance, which encompass improved financial management, reduced risks, and enhanced knowledge. The study emphasises the importance of promoting tax education and facilitating access to resources for SMEs to improve their tax compliance practices. Moreover, it underscores the potential impact of business incubators in fostering tax compliance awareness and positive attitudes among SMEs, ultimately contributing to a more compliant and responsible SME sector in the iLembe District Municipality.

#### 4.6 Summary

The study revealed that a higher percentage of men were actively engaged in entrepreneurial activities compared to women. Additionally, a significant portion of the SMEs surveyed fell within the age brackets of 25 to 34 years and 35 to 44 years, indicating a relatively youthful SME population. Most respondents have attained post-matric qualifications, with most holding diplomas and degrees. Furthermore, many of the businesses were registered as private companies or close corporations, with most

of them having been in existence for up to a decade. These businesses operate mainly in sectors such as agriculture and construction.

The study's first objective aimed to establish the support structures provided by the iLembe District Municipality business incubator to SMEs regarding tax. The findings indicate that a substantial portion of SMEs (approximately 66%) do not take advantage of the support offered by business incubators, suggesting a lack of awareness among SMEs about the benefits of these programmes. However, business incubators offer tangible support in terms of physical infrastructure, including office spaces and essential resources like office equipment and conference rooms. These facilities are particularly beneficial for startups in minimising operational costs and creating a conducive working environment. Additionally, incubators provide comprehensive support services such as marketing assistance, market research, financial management, and needs assessment, addressing critical aspects of SME growth. They also assist SMEs in navigating tax compliance, offering training and consulting services that respondents found beneficial. These findings collectively highlight the diverse array of support services that business incubators provide to SMEs in South Africa, which are crucial for their survival, growth, and long-term success.

Objective 2 of the study aimed to determine the factors influencing tax compliance among SMEs in iLembe District Municipality. The findings reveal that most surveyed businesses demonstrate a high level of tax registration compliance, with nearly 99% being registered for tax. This indicates a strong overall adherence to tax registration requirements among the surveyed businesses. However, the study identified concerns regarding tax knowledge, with 21.6% of businesses indicating no knowledge of tax matters. Additionally, most SMEs (67.8%) outsource their tax compliance activities, possibly due to limited tax knowledge or resources. The study highlights that while a significant majority (84.4%) are tax compliant, 40% of the respondents admit to having defaulted on tax returns at some point. Reasons for defaulting primarily include missing deadlines and not knowing how to complete the return. These findings emphasise the need for timely tax education and guidance for businesses to reduce administrative and knowledge-related challenges. The study also underlines the impact of factors such as tax penalties, complexity, record keeping, and compliance costs on tax compliance, affecting both incubated and non-incubated SMEs.

Objective 3 sought to determine the benefits of tax compliance to SMEs in iLembe District Municipality. The study reveals that SMEs under incubation perceive greater advantages in terms of improved record-keeping, a better understanding of their financial affairs, and a reduced risk of tax audits compared to SMEs not under incubation. These results highlight the potential benefits of being part of an incubation programme in enhancing tax compliance practices among SMEs. Perceptions regarding the benefits of tax compliance among SMEs under and not under incubation also differed significantly. SMEs within the incubator perceived greater benefits in various aspects of tax compliance, including improved record keeping, maintaining accurate records, understanding their financial position, knowledge of profitability, and adherence to VAT compliance obligations for up-to-date information provision. These findings emphasise the role of business incubators in fostering tax compliance awareness and positive attitudes among SMEs, ultimately contributing to a more compliant SME sector in the iLembe District Municipality.

# CHAPTER FIVE

## CONCLUSION AND RECOMMENDATIONS

### 5.1 Introduction

The preceding chapter presented the findings of the current study. This chapter concludes the study. A summary of the study is first presented followed by the findings for each of the research objectives, The contribution of the study then follows, followed by the limitations of the study and recommendations for further research.

### 5.2 Summary of chapters

This research aimed to assess the influence of the iLembe District Municipality's business incubation programme on the tax compliance behaviour of SMEs. The initial chapter of the study provided the study's contextual background, problem statement, research objectives, research questions, and an outline of the dissertation. By drawing on academic research, the investigation sought to shed light on the impact of the iLembe District Municipality's business incubation programme on tax compliance among SMEs.

The second chapter was an in-depth discussion of SMEs and tax compliance. The iLembe District municipality was also discussed to describe the site where the research was taking place. Factors influencing SME tax compliance were discussed. Literature identified tax knowledge, record keeping and documentation, perceived opportunities, and tax penalties to have an impact on tax compliance of SMEs. The contribution to the literature was also discussed in this chapter.

The research methodology and procedures utilised to investigate the impact of the iLembe District Municipality business incubation programme on SMEs' tax compliance was covered in chapter 3. The data collection methodology, which included the questionnaire and the sampling strategy used in this study was presented. Reliability, validity, and ethical matters were also discussed.

The fourth chapter presented and discussed the findings that was collected from respondents in the iLembe District Municipality. According to the findings of this study, business incubator programmes play an important role in encouraging tax compliance. The chapter's findings showed that incubators are essential for helping SMEs comply

with tax laws as well as other areas like marketing, sales, and financial management, which promotes their expansion and economic output. To ensure compliance, the study underlines the necessity of SMEs registering for both VAT and income tax, since failure to do so may result in problems like unpaid taxes, underreported income, or improper deductions. To avoid fines and interest costs, it is essential for tax obligations to be understood.

### 5.3 Discussion of findings

#### **Objective 1: The support structures which the iLembe District Municipality business incubator provides to SMEs concerning tax.**

The study's findings emphasise the beneficial influence of business incubators on SMEs, notably in tax compliance. Incubated SMEs perceive significant improvements in their tax compliance practises. Incubators' services, such as business advice, mentorship, networking opportunities, and access to capital, have all contributed to tax compliance among incubated SMEs. One key benefit of incubation is in assisting SMEs in better understanding their tax requirements and ensuring compliance with relevant rules. Respondents agreed that these services help SMEs understand the complexities of tax rules and lowering the likelihood of penalties and fines. The respondents also made useful suggestions on how to improve the incubation programme's effectiveness in promoting tax compliance. These ideas included implementing specialised tax compliance workshops or training sessions, as well as providing personalised consultations with tax professionals. Such efforts have the potential to further empower SMEs by providing them with the knowledge and resources they need to operate within tax systems.

The findings highlight that beyond tax compliance, business incubators play a pivotal role in supporting SMEs in various other critical areas essential for business success. Marketing, sales, and financial management are examples of these domains. Incubators contribute to the overall growth and prosperity of SMEs by providing comprehensive support across several aspects. This, in turn, leads to the establishment of new job possibilities and a favourable economic impact. The study's findings demonstrate that SMEs under incubation benefit significantly from the diverse services offered by incubators. The awareness of tax compliance observed among these SMEs highlights the value of tailored support, including mentorship, education,

and expert consultations. Beyond tax-related matters, incubators also contribute to SME growth and success by providing vital assistance in areas crucial for sustained business development, ultimately contributing to economic advancement and job creation.

## **Objective 2: The factors influencing tax compliance by SMEs in iLembe District Municipality**

The findings of the study highlight the importance of strong tax compliance practices for SMEs, with insights originating from many elements of tax registration, knowledge, problems, and consequences. To ensure compliance, SMEs must register for both Income Tax and VAT, as failing to do so may result in issues such as unpaid withholding taxes, insufficient tax payments, inaccurate income reporting, and incorrect deduction declarations. Taxpayer awareness and comprehension of their obligations emerged as critical considerations, as SMEs may be subject to penalties and interest charges due to a lack of tax knowledge.

The study found that a significant number of SMEs, both those operating within incubators and those outside of incubators, were tax compliant. Only a small percentage of SMEs in both groups displayed non-compliance. Among the non-compliant SMEs, their lack of tax compliance was attributed to insufficient access to tax resources and a limited awareness of tax legislation. Reasons for noncompliance included difficulties in correctly filing returns and accurately disclosing revenue. Furthermore, the significance of tax compliance for SMEs was highlighted, as the repercussions of noncompliance included income loss, penalties, and interest charged by SARS.

The complexity of the SARS eFiling system, the lack of personalised support, and limited access to technology and infrastructure all posed significant obstacles for SMEs in achieving tax compliance. Inadequate bookkeeping practices appeared as a substantial contributor to financial statement and tax return errors, exacerbating SMEs' compliance issues. SMEs' tax compliance efforts were hampered by factors such as faulty records, inadequate accounting, low tax expertise, the complexities of tax legislation, and associated expenditures. These difficulties may result in errors,

omissions, and inconsistencies in tax reporting, weakening the accuracy and completeness of tax-related data.

The study also revealed that SMEs may lack the experience or knowledge required to properly manage their tax compliance duties, resulting in errors and omissions in tax reporting. Furthermore, auditory impairments are a unique tax compliance difficulty, potentially leading to misunderstandings, errors, and penalties for SMEs. The study's findings highlight the diverse nature of SMEs' tax compliance difficulties. It emphasises the importance of tax registration, understanding, and proper record-keeping in achieving compliance. The study's findings shed light on the differences between SMEs in incubators and those not in incubators, emphasising the benefits of access to tax programmes and resources for those in incubators.

### **Objective 3: Benefits of tax compliance to SMEs in iLembe District Municipality**

The study's findings provide important insights into SMEs' attitudes towards tax compliance, particularly regarding their involvement with business incubators. The findings show that there is widespread consensus among SMEs in incubators about the perceived benefits of tax compliance. The study revealed that SMEs. This disparity in perspectives highlights the critical importance of tax knowledge in determining SMEs' beliefs and behaviours regarding tax compliance. The findings confirm that a thorough understanding of taxation complexities is essential for achieving tax compliance. A strong grasp of tax knowledge empowers both individuals and businesses, enabling them to decipher their tax obligations, navigate complex tax regulations, and subsequently steer clear of penalties and audits.

The study emphasises the essential relationship between tax knowledge and motivation to comply with tax legislation. SMEs in an incubator recognise the benefits connected with tax compliance. The findings confirm that tax knowledge is critical in helping SMEs understand the benefits of adhering to tax duties, fostering compliance with tax legislation, and avoiding tax risks.

## **5.4 Contribution of the study**

The study contributes to the existing knowledge base on SME tax compliance in and out of business incubators and offers valuable insights for various stakeholders, including business incubators, tax authorities, policymakers, and other relevant

parties. It highlights the pivotal role that business incubators can play in enhancing SMEs' understanding of tax matters. Moreover, the study underlines the potential of business incubation programmes not only to improve tax compliance but also to support SMEs comprehensively in areas like marketing, sales, and financial management. Recognising and supporting such initiatives is crucial for fostering entrepreneurship and driving long-term economic growth, particularly in the iLembe District Municipality. This research adds a meaningful dimension to the growing body of knowledge related to tax compliance, providing valuable data for future studies aimed at enhancing tax compliance among SMEs.

## 5.5 Limitations of the study

The study's research sample faced constraints regarding its scope and representation due to its restricted location and limited number of respondents. The respondents were drawn exclusively from the iLembe District Municipality, and as such, they may not be fully representative of the broader KZN province. Consequently, caution should be exercised in generalising any significant findings beyond the specific region under investigation. The study focused on the sensitive issue of tax compliance and as a result, there may have been instances where the respondents did not answer truthfully. Finally, the statistical analysis was mainly descriptive as the study was exploratory in nature.

## 5.6 Recommendations

This study makes the following recommendations:

**i. Information sharing and best practices** – As part of the incubation programme, the iLembe District Municipality should actively promote information sharing and best practices among SMEs. This may entail setting up forums, networking gatherings, or online discussion boards where compliant SMEs may exchange experiences, difficulties, and tax compliance tactics. Finding inspiration and direction from successful cases might help other SMEs adopt better compliance procedures.

**ii. Strengthen collaboration** – Despite their major contributions to generating innovation, driving economic growth, and fostering the development of a small private sector, SMEs face severe hurdles in developing countries. Collaboration between business incubators, SARS and other government agencies is critical in developing

policies that might improve tax compliance among SMEs in the iLembe District Municipality.

**iii. Access to expertise** - It is suggested that business incubators prioritise the hiring of service providers, consultants, or incubator staff who have true competence and competency in SME development, with a particular emphasis on tax compliance. Individuals with extensive knowledge, practical experience, and innovative thinking in disciplines such as marketing for start-up enterprises, business finance management, bookkeeping, legal guidance, technical assistance, tax compliance, and individual entrepreneurship mentoring are recommended. Failure to fill these positions with personnel who have the necessary expertise and abilities in their respective disciplines would almost certainly result in unsatisfactory outcomes for the incubator programme's beneficiaries.

**iv. Incentivise compliance** - The incubator programme must look for ways to encourage SME tax compliance. This can involve offering incentives or tax credits to SMEs that comply with the law to promote prompt and correct tax reporting. Incentive programmes might encourage SMEs to prioritise tax compliance and make timely payments of their responsibilities.

**v. Monitoring and evaluation** - It is important to regularly monitor and assess how the business incubator programme affects tax compliance. This may entail tracking compliance rates, gauging the success of educational programmes, and getting input from involved SMEs. Monitoring and assessment can pinpoint areas for improvement and direct plans to improve tax compliance.

**vi. Targeted education and support** - SME tax compliance should be the focus of the business incubation programme's targeted education and support. This can include seminars, classes, and other materials created especially to address the unique tax-related difficulties faced by SMEs. Increasing SMEs' knowledge and understanding of their tax requirements can lead to better compliance.

**vii. Simplifying tax procedures** - The iLembe District Municipality business incubator should try to make it easier for SMEs to comply with tax laws and regulations. For SMEs, complicated tax procedures can be burdensome, which increases the risk of

accidental non-compliance. Simplified and open tax laws can help SMEs better understand them and make compliance easier.

## 5.7 Recommendations for further research

The iLembe District Municipality served as the site of this study's research and the findings of the current study have implications for future research in business incubators and tax authorities. Future research could examine a larger area, paying particular attention to businesses outside of urban centres that may be overlooked to improve tax compliance. This would offer a wider variety of data and result in better conclusions. Larger sample sizes and a broader scope of incubation could be used in future studies. This can be accomplished by incorporating districts other than the iLembe District Municipality. Future research should also investigate the origins of existing and sector-specific frameworks used by business incubators to encourage tax compliance among incubator beneficiaries, such as SMEs.

## 5.8 Overview of the dissertation

The purpose of the study was to investigate the impact of the iLembe District Municipality business incubation programme on the tax compliance of SMEs. The study is premised on the fact that small business owners lack the basic understanding of tax and how tax works and business incubators could thus assist SMEs with statutory compliance issues in particular tax compliance. The study used a quantitative research approach and data was collected from 268 participants using a questionnaire.

The study's findings underscore the positive impact of business incubators on SMEs, particularly in terms of tax compliance. Incubated SMEs have experienced significant improvements in their tax compliance practices, which can be attributed to the various services offered by incubators, such as business guidance, mentoring, networking opportunities, and access to capital. These results emphasize the vital role of strong tax compliance practices for SMEs, encompassing aspects of tax registration, knowledge, challenges, and consequences. To ensure compliance, SMEs need to register for both Income Tax and Value Added Tax (VAT) to avoid issues like unpaid withholding taxes, inadequate tax payments, inaccurate income reporting, and incorrect deduction declarations. The complexity of the SARS eFiling system, limited

personalised support, and restricted access to technology and infrastructure presented significant hurdles for SMEs striving for tax compliance. Insufficient bookkeeping practices were identified as a major contributor to financial statement and tax return errors, exacerbating compliance issues. The study's findings shed light on SMEs' attitudes toward tax compliance, particularly within the context of business incubators. They reveal a widespread consensus among SMEs in incubators regarding the benefits of tax compliance and the critical role of tax knowledge in promoting adherence to tax responsibilities, ensuring compliance with tax laws, and minimising tax-related risks.

## REFERENCES

- Aaker, D. A., Kumar, V., Leone, R. P. and Day, G. S. 2013. *Marketing Research: International Student Version*. New York: John Wiley & Sons.
- Abd Hamid, N., Ibrahim, N. A., Ibrahim, N. A., Ariffin, N., Taharin, R. and Jelani, F. A. 2019. Factors affecting tax compliance among Malaysian SMEs in e-commerce business. *International Journal of Asian Social Science*, 9 (1): 74-85.
- Abdi, H. 2007. Binomial distribution: Binomial and sign tests. *Encyclopedia of Measurement and Statistics*, 1.
- Abdul, F. and McFie, J. B. 2020. Tax complexity and compliance behaviour of large and medium sized business taxpayers in Kenya. *Review of Integrative Business and Economics Research*, 9 (2): 90-106.
- Abera, A. A. 2019. Factors affecting presumptive tax collection in Ethiopia: Evidence from category “C” taxpayers in Bahir Dar City. *Journal of Tax Administration*, 5(2): 74–96.
- Aboagye-Otchere, F. and Agbeibor, J. 2012. The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMES). *Journal of Financial Reporting and Accounting*, 10 (2): 190-214.
- Achmat, Z. 2013. *My childhood as an adult molester: A Salt River Moffie*. In *Defiant Desire* (pp. 325-341). Routledge.
- Adeyele, J. and Omorokunwa, O. 2017. Risk appetites and empirical survival pattern of small and medium enterprises in Nigeria. *The Journal of Entrepreneurial Finance*, 18 (2): 1-22.
- Ajzen, I. 2020. The theory of planned behavior: Frequently asked questions. *Human Behavior and Emerging Technologies*, 2(4): 314-324.
- Akinyemi, F. and Adejumo. O. 2017. Entrepreneurial motives and challenges of SMEs owners in emerging economies: Nigeria and South Africa. *Advances in Economics and Business*, 5 (11): 624-633.

- Al Busaidi, N.S., Bhuiyan, A.B. and Zulkifli, N., 2019. The critical review on the adoption of ICTs in the small and medium enterprises (SMEs) in the developing countries. *International Journal of Small and Medium Enterprises*, 2(2): 33-40.
- Allahar, H., Brathwaite, C., Roberts, D. and Hamid, B. 2016. The emergence of business incubators as entrepreneurship development tools: a small country experience. *International Journal of Economics, Commerce and Management*, 9: 623-643.
- Anastasia, C. 2015. Exploring definitions of small business and why It is so difficult. *Journal of Management Policy and Practice*, 16 (4): 88-100.
- Anye, A. and Makebo, H. 2019. Factors affecting performance of small and medium sized business enterprises. *International Journal of Economics and Business*, 4 (2):188-203.
- Asare, S. D., Gopolang, B. and Mogotlhwane, O. 2012. Challenges facing SMEs in the adoption of ICT in B2B and B2C E-commerce. *International Journal of Commerce and Management*, 22 (4): 272-285.
- Atawodi, O. W. and Ojeka, S. A. 2012. Factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management*, 7 (12): 87-97.
- Ayandibu, A. O. and Houghton, J. 2017. The role of Small and Medium Scale Enterprise in local economic development (LED). *Journal of Business and Retail Management Research*, 11 (2): 133-140.
- Ayatse, F. A., Kwahar, N. and Iyortsuun, A. S. 2017. Business incubation process and firm performance: an empirical review. *Journal of Global Entrepreneurship Research*, 7 (1): 1-17.
- Azrina Mohd Yusof, N., Ming Ling, L. and Bee Wah, Y. 2014. Tax non-compliance among SMCs in Malaysia: Tax audit evidence. *Journal of Applied Accounting Research*, 15(2): 215-234.

Bailey, H. A. 2019. The challenge of late payment of SMMEs with a focus on South Africa. In: Bode, J. and Freitag, C, (eds.), in Conference Proceedings 2018, 7: 19-36 from Universities Entrepreneurship and Enterprise Development in Africa International Conference.

Bărbuță-Mișu, N. 2011. A review of factors for tax compliance. *Analele Universității &quot;Dunărea de Jos&quot; Galați. Fascicula I, Economie și informatica aplicata*, 1 (1): 69-76.

BDO. 2016. The Impact of non-compliance by taxpayers in Africa. Available: <https://www.bdo.co.za/en-za/news/tax/the-impact-of-non-compliance-by-taxpayers-in-africa> (Accessed 20 May 2020)

Bell, E., Bryman, A. and Harley, B. 2018. *Business Research Methods*. 5th ed. London: Oxford University Press.

Berisha, G. and Pula, J. S. 2015. Defining small and medium enterprises: a critical review. *Academic Journal of Business, Administration, Law and Social Sciences*, 1 (1): 17-28.

Bhardwaj, P. 2019. Types of sampling in research. *Journal of the Practice of Cardiovascular Sciences*, 5 (3): 157.

Biru, A.M. 2020. Factors that affect tax compliance behavior of small and medium enterprises: Evidence from Nekemte City. *European Journal of Business and Management*, 12(19): 29-41.

Blumberg, B., Cooper, D. and Schindler, P. 2014. *Business Research Methods*. EBOOK: McGraw Hill.

Bornman, M. and Ramutumbu, P. 2019. A tax compliance risk profile of guesthouse owners in Soweto, South Africa. *The Southern African Journal of Entrepreneurship and Small Business Management*, 11(1):1-14.

Botha, M., Van Vuuren, J. J. and Kunene, T. 2015. An integrated entrepreneurial performance model focusing on the importance and proficiency of competencies for start-up and established SMEs. *South African Journal of Business Management*, 46 (3): 55-66.

- Brace, I. 2018. *Questionnaire Design: How to Plan, Structure and Write Survey Material for Effective Market Research*. London: Kogan Page Publishers.
- Bruckner, C. 2016. *Shortchanged: The tax compliance challenges of small business operators driving the on-demand platform economy*. Washington, DC: American University.
- Bruwer, J-P., Hattingh, C. and Perold, I. 2020. Probable Measures to Aid South African Small Medium and Micro Enterprises' Sustainability, Post-COVID-19: a Literature Review (June 12, 2020), Working paper BRS/2020/004: 1-11.
- Bryman, A. and Bell, E. 2015. *Business Research Methods*. Cambridge, NY: Oxford University Press.
- Bureau for Economic Research (BER). 2016. *The Small, Medium and Micro Enterprise Sector of South Africa*. Bureau for Economic Research. Research note no 1. Commissioned by the Small Enterprise Development Agency (SEDA).
- Burns, A.C., Bush, R.F. and Sinha, N. 2014. *Marketing Research* (Vol. 7). Harlow: Pearson.
- Bushe, B., 2019. The causes and impact of business failure among small to micro and medium enterprises in South Africa. *Africa's Public Service Delivery and Performance Review*, 7(1): 1-26.
- Cant, M. C. and Wiid, J. A. 2013. Establishing the challenges affecting South African SMEs. *International Business and Economics Research Journal*, 12 (6): 707-716.
- Campbell, C. 1989. Change agents in the new economy: business incubators and economic development. *Economic Development Review*, 7(2): 56.
- Cele, C. R. T. 2015. SMME access to funding: challenges experienced by SMMEs in uMzimkhulu Municipality. Master of Commerce in Leadership Studies, University of KwaZulu-Natal.
- Chittenden, F., Kauser, S. and Poutziouris, P. 2005. PAYE-NIC compliance costs: empirical evidence from the UK SME economy. *International Small Business Journal*, 23 (6): 635-656.

Cowling, M., Liu, W. and Zhang, N. 2018. Did firm age, experience, and access to finance count? SME performance after the global financial crisis. *Journal of Evolutionary Economics*, 28 (1): 77-100.

Creswell, J. W. and Creswell, J. D. 2017. *Research design: Qualitative, quantitative, and mixed methods approaches*. 3rd ed. Newbury Park, CA: Sage publications.

Cypress, B. S. 2017. Rigor or reliability and validity in qualitative research: perspectives, strategies, reconceptualization, and recommendations. *Dimensions of Critical Care Nursing*, 36 (4): 253-263.

Damayanti, T.W., Subekti, I. and Baridwan, Z., 2015. Trust and uncertainty orientation: An effort to create tax compliance in social psychology framework. *Procedia-Social and Behavioral Sciences*, 211: 938-944.

De Clercq, B. 2018. The Uberisation of e-Filing in South Africa. *eJournal of Tax Research*, 16 (3): 440-473.

Desele, E. M. 2019. The assessment of the local economic development agency as a trade and investment enabler in iLembe District. Master of Commerce in Leadership, School of Business and Leadership, University of KwaZulu-Natal.

Devi, P. S. 2017. *Research methodology: a handbook for beginners*. Chennai: Notion Press.

Dikgwatlhe, A. K. 2014. Developing a framework to enable small business enterprises to be sustainable. Master of Business Administration, North-West University.

Dlamini, S. 2018. The challenges of operating entrepreneurial businesses in restituted land: the case of KwaZulu-Natal. Master of Commerce, University of KwaZulu- Natal.

Dlamini, P. N. 2022. Factors influencing tax compliance of small and medium-sized enterprises in the Durban area. Master of Accounting, Durban University of Technology.

Edmondson, D. 2005. Likert scales: A history. In: Proceedings of the Conference on Historical Analysis and Research in Marketing. Florida, University of South Florida, 127-133.

Eichfelder, S. and Vaillancourt, F. 2014. Tax compliance costs: A review of cost burdens and cost structures. Available at SSRN: <https://ssrn.com/abstract=2535664>.

Eichfelder, S. and Hechtner, F. 2018. Tax compliance costs: Cost burden and cost reliability. *Public Finance Review*, 46(5): 764-792.

Eragbhe, E. and Modugu, K. P. 2014. Tax compliance costs of small and medium scale enterprises in Nigeria. *International Journal of Accounting and Taxation*, 2 (1): 63-87.

Fatoki, O. 2014. The causes of the failure of new small and medium enterprises in South Africa. *Mediterranean Journal of Social Sciences*, 5 (20): 922.

Fauziat, P. 2020. The effect of risk management and e-filing usage on tax compliance costs: a study on small and medium-sized enterprises in Padang, Indonesia. *International Journal of Psychosocial Rehabilitation*, 24 (1): 944-949.

Flores-Ruiz, E., Miranda-Novales, M.G. and Villasís-Keever, M.Á. 2017. The research protocol VI: How to choose the appropriate statistical test. Inferential statistics. *Rev Alerg Mex*, 64(3): 364-370.

Francis, G. and Jakicic, V. 2023. Equivalent statistics for a one-sample t-test. *Behavior Research Methods*, 55 (1): 77-84.

Franco, M., Haase, H. and Rodini, A. 2020. The role of incubators in the internationalization process of incubated SMEs: a perspective of international cooperation. *Global Business Review*, 24 (3): 0972150920919381.

Freedman, J. and Crawford, C. 2011. Small business taxation. in *Dimensions of Tax Design: The Mirrlees Review*, Adam, S., Bond, D., Chote, R., Johnson, P., and Myles, G. eds., Oxford University Press. Oxford Legal Studies Research Paper No. 25/2011, Available at SSRN: <https://ssrn.com/abstract=1804333>

Global Entrepreneurship Monitor (GEM), (2017). Is there a change in attitude towards the small and medium business sector in South Africa. <https://www.gemconsortium.org/report/gem-south-africa-2017-2018-report>

Gonsalves, M. and Rogerson, J. M. 2019. Business incubators and green technology: The Gauteng Climate Innovation Centre, South Africa. *Urban izziv*, 30: 212-224.

Gopaul, R. 2019. An assessment of strategic decision-making processes in small and micro enterprises in the services sector in South Africa. Doctor of Philosophy, Durban University of Technology.

Goshen Enterprise Hub (GEH). 2018. Enterprise iLembe business incubator options analysis report Durban: Goshen Enterprise Hub. Available: [www.growhub.co.za](http://www.growhub.co.za) (Accessed 20 December 2020).

Government of South Africa. 1962. The Income Tax Act 58 of 1962. Available: <https://www.gov.za/documents/income-tax-act-29-may-1962-0000> (Accessed 29 May 2022).

Government of South Africa. 2018. President Cyril Ramaphosa: 2018 State of the Nation Address. Available: <https://www.gov.za/news/speeches/president-cyril-ramaphosa-2018-state-nation-address-16-feb-2018> (Accessed 19 October 2019)

Gupta, P. D., Guha, S. and Krishnaswami, S. S. 2013. Firm growth and its determinants. *Journal of Innovation and Entrepreneurship*, 2 (1): 1-14.

Gwija, S.A., Eresia-Eke, C.E. and Iwu, C.G. 2014. Challenges and prospects of youth entrepreneurship development in a designated community in the Western Cape, South Africa. *Journal of Behavioral Economics*, 6:10-20.

Hackett, S. M. and Dilts, D. M. 2004. A systematic review of business incubation research. *Journal of Technology Transfer*, 29(1): 55-82.

Hamid, N. A., Ismail, I. S., Yunus, N., Jali, M. N. and Rosly, A. S. 2022. Taxpayer perceptions of tax awareness, tax education, and tax complexity among small and medium enterprises in Malaysia: a quadrant analysis approach. *Universal Journal of Accounting and Finance*, 10 (1): 231-242.

Hansford, A. and Hasseldine, J. 2012. Tax compliance costs for small and medium sized enterprises: the case of the UK. *eJournal of Tax Research*, 10 (2): 288.

Hansford, A., Hasseldine, J. and Howorth, C. 2003. Factors affecting the costs of UK VAT compliance for small and medium-sized enterprises. *Environment and Planning C: Government and Policy*, 21 (4): 479-492.

Harwell, M. R. 2011. Research design: Qualitative, quantitative, and mixed methods: Pursuing ideas as the keystone of exemplary inquiry. In: *The Sage handbook for research in education: Pursuing ideas as the keystone of exemplary inquiry*. 2<sup>nd</sup> ed. Thousand Oaks, CA: Sage.

Herrington, M. and Kew, J. 2016. Global Entrepreneurship Monitor. South African report 2015/16. Is South Africa heading for an economic meltdown? University of Cape Town, Cape Town South Africa.

Hervas-Oliver, J.L., Sempere-Ripoll, F., Boronat-Moll, C. and Estelles-Miguel, S. 2020. SME open innovation for process development: Understanding process-dedicated external knowledge sourcing. *Journal of Small Business Management*, 58(2): 409-445.

Heydari, A. and Hajiabadi, F. 2016. Critical appraisal of the validity and reliability of the quantitative studies published in Iranian nursing journals. *Future of Medical Education Journal*, 6(3): 7-11.

Hunter, R. F., Gough, A., O’Kane, N., McKeown, G., Fitzpatrick, A., Walker, T., McKinley, M., Lee, M. and Kee, F. 2018. Ethical issues in social media research for public health. *American Journal of Public Health*, 108 (3): 343-348.

Hyder, S. and Lussier, R.N. 2016. Why businesses succeed or fail: a study on small businesses in Pakistan. *Journal of Entrepreneurship in Emerging Economies*, 8(1): 82-100.

ILembe District Municipality. 2020. *2020/2021 Draft Integrated Development Plan Review*. Pietermaritzburg: Department of Cooperative Governance and Traditional Affairs.

Jermakowicz, E. K. and Epstein, B. J. 2010. IFRS for SMEs - an option for US private entities? *Review of Business*, 30 (2): 72-79

Joshi, A., Kale, S., Chandel, S. and Pal, D. K. 2015. Likert scale: explored and explained. *British Journal of Applied Science and Technology*, 7 (4): 396 -403

Junpath, S. V. 2014. Multiple tax amnesties and compliance in South Africa. Master of Technology, Durban University of Technology.

- Junpath, S. V., Kharwa, M. and Stainbank, L. 2016. Taxpayers' attitudes towards tax amnesties and compliance in South Africa: An exploratory study. *South African Journal of Accounting Research*, 30 (2): 97-119.
- Kalidin, U. 2017. An exploration of the views of manufacturing small medium enterprise owners with regards to green tax incentives in the eThekweni region of KwaZulu-Natal. Master of Accounting, Durban University of Technology.
- Kamleitner, B., Korunka, C. and Kirchler, E. 2012. Tax compliance of small business owners. *International Journal of Entrepreneurial Behavior and Research*, 18 (3): 330-351.
- Khuzwayo, S. S. 2015. Evaluating the role of business incubators in South Africa. Master of Arts in Public Policy, University of KwaZulu-Natal.
- Kouthouris, C. and Spontis, A. 2005. Outdoor recreation participation: an application of the Theory of Planned Behavior. *The Sport Journal*, 8(3).
- Kumar, R. 2018. *Research methodology: A step-by-step guide for beginners*. London: Sage.
- KwaZulu-Natal Province. 2017. Socio-Economic Review and Outlook 2017/2018. Pietermaritzburg: KwaZulu-Natal Treasury. Available: [www.kzntreasury.gov.za](http://www.kzntreasury.gov.za) (Accessed 03 January 2021).
- KwaZulu-Natal Province. 2019. Provincial Growth and Development Plan 2035. Pietermaritzburg: Available: <http://www.kznppc.gov.za/Portals/0/Documents/> (Accessed 03 January 2021).
- Laurencelle, L. 2021. The exact binomial test between two independent proportions: A companion. *The Quantitative Methods for Psychology*, 17 (2): 76-79.
- Laurențiu, R. M. 2016. Importance of SMEs in European countries economy. *Annals of the „Constantin Brâncuși” University of Târgu Jiu, Economy Series*, 3: 155-174.
- Lekhanya, L. M. 2016. Determinants of survival and growth of small and medium enterprises in rural KwaZulu–Natal. Doctor of Philosophy, University of the Western Cape. Available: <http://etd.uwc.ac.za/handle/11394/5569> (Accessed 26 September 2019).

Lewis, V.L. and Churchill, N.C. 1983. The five stages of small business growth. University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship, Available at SSRN: <https://ssrn.com/abstract=1504517>

Lignier, P. and Evans, C. 2012. The rise and rise of tax compliance costs for the small business sector in Australia. In: Proceedings of Australian Tax Forum, 615- 672.

Long, C. and Miller, M., 2017. Taxation and the sustainable development goals. Do good things come to those who tax more? *ODI Briefing note*, 1- 14.

Lose, T. 2016. The role of business incubators in facilitating the entrepreneurial skills requirements of small and medium size enterprises in the Cape metropolitan area, South Africa. Master of Technology, Cape Peninsula University of Technology.

Maas, G. and Herrington, M. 2006. Global Entrepreneurship Monitor: South African Report, University of Cape Town Graduate School of Business, Cape Town.

MacFarland, T.W. and Yates, J.M. 2016. Mann–Whitney U test. In: Introduction to Nonparametric Statistics for the Biological Sciences Using R. Cham, Switzerland: Springer. pp.103-132.

Madlala, T. 2018. Profiling and analysis of business incubation support services in relation to rural enterprise development: the case of South Africa. *Skills at Work: Theory and Practice Journal*, 9 (1): 45-85.

Maffini, G., 2013. Corporate tax policy under the Labour government, 1997–2010. *Oxford Review of Economic Policy*, 29(1): 142-164.

Mandipaka, F. 2014. Overview of women entrepreneurs in South Africa. *Mediterranean Journal of Social Sciences*, 5(9):127.

Mandizha, S. 2020. The effects of strategic entrepreneurship on the long-term survival of small and medium enterprises in EThekweni Metropolitan Municipality. Master of Management Sciences, Durban University of Technology.

Marandu, E. E., Mbekomize, C. J. and Ifezue, A. N. 2015. Determinants of tax compliance: a review of factors and conceptualizations. *International Journal of Economics and Finance*, 7 (9): 207-218.

- Marques, J., Caraça, J. and Diz, H. 2003. The macro and micro context of business incubators: a preliminary approach to incubation processes. In: Proceedings of XX IASP World Conference on Science and Technology Parks. Habitats of Excellence—Managing and Promoting Innovation, June, Lisbon, Portugal, 113-121.
- Martínez-Mesa, J., González-Chica, D. A., Duquia, R. P., Bonamigo, R. R. and Bastos, J. L. 2016. Sampling: how to select participants in my research study? *Anais Brasileiros De Dermatologia*, 91 (3): 326-330.
- Maseko, N. 2014. The impact of personal tax knowledge and compliance costs on tax compliance behaviour of SMEs in Zimbabwe. *Elite Research Journal of Accounting and Business Management*, 2 (3): 26-37.
- Masutha, M., and C. M. Rogerson. 2014. Small enterprise development in South Africa: The role of business incubators. *Bulletin of Geography. Socio-economic Series* 26: 141–155.
- Matarirano, O., Chiloane-Tsoka, G. E. and Makina, D. 2019a. Factors driving tax compliance costs of small businesses in the South African construction industry. *Acta Commercii*, 19 (1): 1-10.
- Matarirano, O., Chiloane-Tsoka, G. E. and Makina, D. 2019b. Tax compliance costs and small business performance: evidence from the South African construction industry. *South African Journal of Business Management*, 50 (1): 1-9.
- Mayombe, C. 2018. Challenges faced by small business operators in accessing premises and registration in KwaZulu-Natal, South Africa. *Skills at Work: Theory and Practice Journal*, 9 (1): 86-100.
- Melnikovas, A. 2018. Towards an explicit research methodology: adapting research onion model for futures studies. *Journal of Futures Studies*, 23 (2): 29-44.
- Mertens, W., Pugliese, A. and Recker, J. 2017. *Quantitative Data Analysis*. Oxford: Oxford University Press.
- Miles, K. J. 2013. Exploring factors required for small business success in the 21<sup>st</sup> century. ProQuest Dissertations Publishing, Walden University.

Ministry of Small Business Development. 2015. Development national small business policy colloquium 2014. Speech by Minister of Small Business Development in the Opening Session of The National Small Business Policy Colloquium 2014. Sandton: Department of Small Business. Available: <http://www.gpwonline.co.za/> (Accessed 10 January 2019).

Mitchell, A. 2018. A review of mixed methods, pragmatism and abduction techniques. *Electronic Journal of Business Research Methods*, 16(3): 103-116.

Mohdali, R., Isa, K. and Yusoff, S.H. 2014. The impact of threat of punishment on tax compliance and non-compliance attitudes in Malaysia. *Procedia-Social and Behavioral Sciences*, 164: 291-297.

Mohamad, A., Zakaria, M.H. and Hamid, Z. 2016. Cash economy: Tax evasion amongst SMEs in Malaysia. *Journal of Financial Crime*, 23(4): 974-986.

Mukorera, S. Z. 2016. The rise of micro and small-scale entrepreneurial activity in a melting down economy: a case of Zimbabwe. Doctor of Philosophy, University of KwaZulu-Natal. Available: <https://pdfs.semanticscholar.org/fb6f/d0c365a5f209aa45032ed41246d4de82fd32.pdf> (Accessed 29 January 2020).

Musimenta, D., Naigaga, S., Bananuka, J. and Najjuma, M. S. 2019. Tax compliance of financial services firms: a developing economy perspective. *Journal of Money Laundering Control*, 22 (1): 14-32.

Naicker, Y. and Rajaram, R. 2019. Factors that influence tax compliance of SMEs in South Africa. *Acta Universitatis Danubius. Administratio*, 10 (2): 94-111.

Ndabeni, M. 2014. A Critical Assessment of the Institutionalisation of Performance Management Systems in Local Government: A Special Focus on Political Office Bearers and Senior Managers in OR Tambo District Municipality, Master of Public Administration, University of Fort Hare.

Ndlovu, M. and Schutte, D. 2022. The influence of penalties on the tax compliance behaviour of small business owners. *Southern African Business Review*, 26, 19 pages.

- Newman, W., Mwandambira, N., Charity, M. and Ongayi, W. 2018. Literature review on the impact of tax knowledge on tax compliance among small medium enterprises in a developing country. *International Journal of Entrepreneurship*, 22 (4): 1-15.
- Newman, W. and Nokhu, M. 2018. Evaluating the impact of tax knowledge on tax compliance among small medium enterprises in a developing country. *Academy of Accounting and Financial Studies Journal*, 22 (6): 1-14.
- Nichita, A., Batrancea, L., Marcel Pop, C., Batrancea, I., Morar, I. D., Masca, E., Roux-Cesar, A. M., Forte, D., Formigoni, H. and da Silva, A. A. 2019. We learn not for school but for life: empirical evidence of the impact of tax literacy on tax compliance. *Eastern European Economics*, 57 (5): 397-429.
- Nieuwenhuizen, C. 2019. The effect of regulations and legislation on small, micro and medium enterprises in South Africa. *Development Southern Africa*, 36 (5): 666- 677.
- Nipun, S. 2020. Role of taxation in financing economic development | Economics. Available: <http://www.economicdiscussion.net/government/taxation/role-of-taxation-in-financing-economic-development-economics/26163> (Accessed 24 January 2021).
- Ntshangase, S.D. and Ezeuduji, I.O. 2023. The impact of entrepreneurship education on tourism students' entrepreneurial intention in South Africa. *Journal of Teaching in Travel and Tourism*, 23(3): 287-305.
- Obaid, M. M., Ibrahim, I. and Udin, N. M. 2020. Determinants of SMEs tax compliance in Yemen: a pilot investigation. *IOSR Journal of Humanities and Social Science*, 15 (1): 64-75.
- Oladipupo, A. O. and Obazee, U. 2016. Tax knowledge, penalties and tax compliance in small and medium scale enterprises in Nigeria. *IBusiness*, 8 (1): 1-9.
- Olla, R. 2016. A discussion of the tax burden on SMEs in South Africa, Magister Commercii in South African and International Taxation, Potchefstroom Campus, North-West University.
- Ombongi, P.N. and Long, W. 2018. Factors affecting financial performance of small and medium enterprises (SMEs): A case of manufacturing SMEs in Kenya. *International Journal of Research in Business Studies and Management*, 5(1): 37-45.

- Osano, H.M. 2019. Global expansion of SMEs: role of global market strategy for Kenyan SMEs. *Journal of Innovation and Entrepreneurship*, 8(1): 13.
- Padulo, J., Oliva, F., Frizziero, A. and Maffulli, N. 2018. Basic principles and recommendations in clinical and field science research: 2018 update. *MLTJ Muscles, Ligaments and Tendons Journal*, 8(3): 305-307.
- Panneerselvam, R. 2004. *Research Methodology*. Eastern Economy Edition. New Delhi: Prentice-Hall of India Private Limited.
- Pohludka, M. and Štverková, H. 2019. The best practice of CRM implementation for small- and medium-sized enterprises. *Administrative Sciences*, 9 (1): 22-39.
- Ponorică, A. G. and Al-Saedi, A. H. J. 2015. The importance of taxation systems for SME tax compliance. *National Tax Journal*, 8 (2): 55-73.
- Pope, J. and Jabbar, H. 2008. Tax compliance costs of small and medium enterprises in Malaysia: policy implications. Paper prepared at Curtin University. Australia.
- Pratt, A. and Virani, T.E. 2015. *The creative SME: a cautionary tale*. Creativeworks London Working Paper Series.
- Quinlan, C., Babin, B., Carr, J., Griffin, M. and Zikmund, W. 2016. *Business Research Methods*. Hampshire, UK: Cengage.
- Quinlan, C., Babin, B., Carr, J., Griffin, M. and Zikmund, W. 2019. *Business Research Methods*. 2<sup>nd</sup> ed. Hampshire, UK: Cengage.
- Ragin, C. C. and Amoroso, L. M. 2011. *Constructing Social Research: The Unity and Diversity of Method*. Thousand Oaks, CA: Pine Forge Press.
- Rahi, S., Alnaser, F.M. and Abd Ghani, M. 2019. Designing survey research: recommendation for questionnaire development, calculating sample size and selecting research paradigms. *Economic and Social Development: Book of Proceedings*, pp.1157-1169.
- Ramutumbu, P. 2016. Tax compliance behaviour of guest house owners. Master of Commerce. University of Johannesburg (South Africa).

- Rantelangi, C. and Majid, N. 2017. Factors that influence the taxpayers' perception on the tax evasion. Proceedings of the Mulawarman International Conference on Economics and Business (MICEB 2017). In *Advances in Economics, Business and Management Research (AEBMR)*, (p. 35). Atlantis Press.
- Rasinger, S.M. 2013. *Quantitative Research in Linguistics: An introduction*. London: A&C Black.
- Rawlings, G. 2011. Intangible nodes and networks of influence: The ethics of tax compliance in Australian small and medium-sized enterprises. *International Small Business Journal: Researching Entrepreneurship*, 30 (1): 84-95.
- Rawlings, G. 2019. Networks of influence and the management of SME tax compliance in Australia. Australian National University (ANU): ANU Centre for Tax System Integrity.
- Recker, J. 2021. Ethical considerations in research. In: *Scientific Research in Information Systems*. Springer, 197-214.
- Rudzani, S. and Manda, D. C. 2016. An assessment of the challenges of adopting and implementing IFRS for SMEs in South Africa. *Problems and Perspectives in Management*, 14 (2): 212-221.
- Saad, N. 2014. Tax knowledge, tax complexity and tax compliance: taxpayers' view. *Procedia-Social and Behavioral Sciences*, 109: 1069-1075.
- Saunders, M., Lewis, P. and Thornhill, A. 2007. *Research methods*. 4th ed. Harlow: Pearson Education.
- Saunders, M. N., Lewis, P., Thornhill, A. and Bristow, A. 2015. *Understanding research philosophy and approaches to theory development*. Harlow: Pearson Education.
- Schumpeter, J. 1934. *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.
- Sekaran, U. and Bougie, R. 2019. *Research methods for business: A skill building approach*. London: John Wiley and Sons.

- Sekgota, A. S. 2020. The effectiveness of SARS' initiatives to reduce tax compliance costs: a case study of guesthouses in Mafikeng. Magister Commercii, University of Johannesburg, South Africa.
- Serricchio, F., Tsakatika, M. and Quaglia, L. 2013. Euroscepticism and the global financial crisis. *Journal of Common Market Studies*, 51 (1): 51-64.
- Singh, A. S. and Masuku, M. B. 2014. Sampling techniques and determination of sample size in applied statistics research: An overview. *International Journal of Economics, Commerce and Management*, 2 (11): 1-22.
- Sitharam, S. and Hoque, M. 2016. Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. *Problems and Perspectives in Management*, 14 (2): 277-288.
- Small Business Institute. 2018. The number of formal micro, small & medium businesses in South Africa. Available: <https://www.smallbusinessinstitute.co.za/wp-content/uploads/2018/10/SBIbaselineAlert1final.pdf> (Accessed 20 November 2019)
- Small Enterprise Development Agency (SEDA). 2018. SMME quarterly update – 1<sup>st</sup> Quarter 2018. Available: <http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202018-Q1.pdf> (Accessed 18 October 2020).
- Smulders, S., Stiglingh, M., Franzsen, R. and Fletcher, L. 2017. Determinants of external tax compliance costs: evidence from South Africa. *South African Journal of Accounting Research*, 31 (2): 134-150.
- Soni, P., Cowden, R. and Karodia, A. M. 2015. Investigating the characteristics and challenges of SMMEs in the Ethekewini Metropolitan Municipality. *Nigerian Chapter of Arabian Journal of Business and Management Review*, 62 (2469): 1-79.
- Steinman, S. 2020. Creating an enabling environment for the social and solidarity economy (SSE) through public policies in Durban, South Africa (No. 2020-9). UNRISD Working Paper.
- Swistak, A. 2016. Tax penalties in SME tax compliance. *Financial Theory and Practice*, 40 (1): 129-147.

- Taing, H.B. and Chang, Y., 2021. Determinants of tax compliance intention: Focus on the theory of planned behavior. *International Journal of Public Administration*, 44(1), 62-73.
- Tran-Nam, B. 2015. Tax compliance as a red tape to businesses: Conceptual issues and empirical evidence from Australia. *Journal of Business and Economic Policy*, 2 (4):76-87.
- Van Wyk, H. and Rossouw, J. 2009. IFRS for SMEs in South Africa: a giant leap for accounting, but too big for smaller entities in general. *Meditari Accountancy Research*, 17 (1): 99-116.
- Wahabu, A. 2017. Examining tax compliance of small and medium-sized enterprises in the Tamale Metropolis. Master of Commerce, University of Cape Coast, Ghana.
- Walliman, N. 2017. *Research methods: The basics*. Milton Park, Abingdon, Oxfordshire: Routledge.
- Warren, R., Carter, D. B. and Napier, C. J. 2019. Opening up the politics of standard setting through discourse theory: the case of IFRS for SMEs. *Accounting, Auditing and Accountability Journal*, 33 (1): 124-151.
- Wen, L., Zhang, S., Li, L., Tian, J., Chen, J. and Wu, X. 2023. Does corporate tax avoidance change as a result of the bilateral matching between incubators and incubated enterprises?-A mediating impact based on budgetary restrictions.
- Wicaksono, M. and Lestari, T. 2017. Effect of awareness, knowledge and attitude of taxpayers' tax compliance for taxpayers in tax service office Boyolali. *International Journal of Economics, Business and Accounting Research*, 1 (01): 12-26.
- Wilson, C. D. H., Williams, I. D. and Kemp, S. 2012. An evaluation of the impact and effectiveness of environmental legislation in small and medium-sized enterprises: experiences from the UK. *Business Strategy and the Environment*, 21 (3): 141-156.
- Wong, R.M., Lo, A.W. and Firth, M. 2015. Managing discretionary accruals and book-tax differences in anticipation of tax rate increases: Evidence from China. *Journal of International Financial Management & Accounting*, 26(2): 188-222.

Woolson, R. F. 2007. *Wilcoxon signed-rank test*. Wiley Encyclopedia of Clinical Trials: 1-3.

Worku, Z. 2013. Analysis of factors that affect the long-term survival of small businesses in Pretoria, South Africa. *Journal of Data Analysis Information Processing*, 1 (04): 67.

Zikmund, W. G., Carr, J. C. and Griffin, M. 2013. *Business Research Methods*. London: Cengage Learning.

Zhou, H. and Gumbo, V. 2021. Key performance drivers of small enterprises in the manufacturing sector in KwaZulu Natal province, South Africa. *International Journal of Entrepreneurship*, 25 (3): 1 – 12.

# ANNEXURES

## APPENDIX A: LETTER OF INFORMATION



### LETTER OF INFORMATION

Dear Respondent

I am Bahle Magwaza, a Master of Accounting student at Durban University of Technology student. I am conducting research which aims to provide empirical evidence on tax compliance or non-compliance by SMEs within the iLembe District. This research will be used for academic purposes only. As part of the requirements, I would like you to complete a questionnaire.

The questionnaire will not take more than 15 minutes of your time. Please provide your honest opinions. There are no risks involved and participation is voluntary. A respondent can withdraw at any time. Your name will not be indicated in the study and anything you say will be kept confidential.

Please contact me for any questions related to the study. If you require further clarity with regards to the study, you can contact my supervisor.

Thank you for your time and participation.

Yours sincerely

Bahle Magwaza

Contact number: 0847235027.

Supervisor:

## APPENDIX B: CONSENT LETTER

Statement of Agreement to Participate in the Research Study:

1. I hereby confirm that I have been informed by the researcher (Bahle Magwaza), about the nature, conduct, benefits, and risks of this study - Research Ethics Clearance Number: \_\_\_\_\_,
2. I have also received, read, and understood the above written information (Participant Letter of Information) regarding the study.
3. 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.
4. In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
5. I may, at any stage, without prejudice, withdraw my consent and participation in the study.
6. I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
7. I understand that significant new findings developed during this research which may relate to my participation will be made available to me.

\_\_\_\_\_  
Full Name of Participant    Date                      Time                      Signature/Right Thumbprint

I, Bahle Magwaza herewith 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

Bahle Magwaza

\_\_\_\_\_

## APPENDIX C: QUESTIONNAIRE

### Questionnaire

Dear Participant

I am Bahle Magwaza, a Master of Accounting student at Durban University of Technology student. I am conducting research which aims to provide empirical evidence on tax compliance or non-compliance by SMEs within the iLembe District. This research will be used for academic purposes only. All responses from respondents will be kept confidential. You have the right to ask the researcher any question regarding this study. You also have the right to reject participation. You may withdraw from this research any time you wish. Your cooperation and participation in this research and answering questions honestly will be greatly appreciated.

Thank you in anticipation of your cooperation.

#### Section A: Demographics

*Please provide information about yourself by ticking the appropriate response.*

1. Please specify your gender.

Male

Female

2. Kindly indicate your age category.

Below 25 years

26 – 35 years

36 – 45 years

46 – 55 years

56 years and above

3. What is your highest educational attainment?

National Senior Certificate/Matric

Undergraduate diploma	<input type="text"/>
Bachelor's degree	<input type="text"/>
Honour's degree/Postgraduate diploma	<input type="text"/>
Master's degree	<input type="text"/>
Doctorate degree	<input type="text"/>
4. What is the type of ownership of the business?	
Sole proprietor	<input type="text"/>
Partnership	<input type="text"/>
Close corporation	<input type="text"/>
Private company	<input type="text"/>
5. What is your position in the business?	
Owner of the business	<input type="text"/>
Manager	<input type="text"/>
6. For how long have you been running your business?	
Less than 12 months	<input type="text"/>
1 – 5 years	<input type="text"/>
6 – 10 years	<input type="text"/>
11 – 15 years	<input type="text"/>
More than 15 years	<input type="text"/>
7. Generally, classify the industry your business operates in.	
Renewable energy	<input type="text"/>
Support service	<input type="text"/>
ICT	<input type="text"/>

Construction	<input type="text"/>
Agriculture	<input type="text"/>
Manufacturing	<input type="text"/>
Tourism	<input type="text"/>
Other (please specify)	<input type="text"/>

Section B: Incubation

8. Is your business operating under the support of a business incubator?

Yes

No

(If you answered 'no' to question 8, please proceed to Section C, question 16.)

9. What type of support is the business incubator providing?

Business management training

Office space

Mentorship and coaching

Access to procurement opportunities and finance

All the above

10. To what extent do you think the following non-financial support services provided by the incubator benefit your business (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree).

Programme	1	2	3	4	5
Leadership development					
Access to networks and partners					
Marketing support/ market research					
Building HR capacity					
Business strategy and planning					
Financial management					
Needs assessment					
Performance management					
Media exposure					
Due diligence					
Building M&E capacity					
Governance structure					

Sector development					
Legal, accounting, and other services					

11. To what extent do you think the following tax programmes provided by the incubator benefit your business (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5= strongly agree).

Programme	1	2	3	4	5
Compliance awareness					
Tax avoidance and tax evasion					
Implications of non-compliance					
Types of taxes relevant to SMEs					

12. Is the incubation programme effective in promoting tax compliance within your business?

Yes

No

Please give a reason for your answer:

.....  
 .....

13. Did the tax compliance of the business improve after joining the incubator?

Yes

No

Please give a reason for your answer:

.....  
 .....

14. Has the business incubator implemented tax compliance programmes to your satisfaction?

Yes

No

Please give a reason for your answer:

.....  
 .....

15. What improvements do you think the iLembe District Business Incubator should implement to promote SME tax compliance in the district?

---

---

Section C: Tax compliance

16. Is your business registered for tax?

Yes

No

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

17. What types of tax is your business registered for?

Income tax

VAT

Employees tax (PAYE and UIF)

All the above

18. Please indicate your tax knowledge by ticking the appropriate answer.

No knowledge

General knowledge (I have read about tax.)

Extensive knowledge (I have attended workshops.)

Other

19. Are the tax compliance activities of the business outsourced or managed internally?

They are outsourced

They are managed internally

20. Is your business tax compliant?

Yes

No

21. Have you ever defaulted on any tax returns?

Yes

No

22. If you answered 'yes' to the question above, why did you default on your tax submission?

Did not manage to submit the return before the deadline

Did not know how to complete my return

Didn't want to pay any taxes

Did not declare the correct revenue

Other, please explain:

.....  
 .....  
 .....

23. To what extent do you think the following factors affect tax compliance (1=strongly disagree, 2=disagree, 3=neutral (i.e., neither agree nor disagree), 4=agree, 5= strongly agree).

Factors affecting tax compliance	1	2	3	4	5
Compliance costs					
Tax penalties					
Tax complexity					
Record keeping and documentation					
Other reasons. Please add and score..... .....					

24. To what extent do you think the following factors have on whether you report and pay your taxes honestly (1=strongly disagree, 2=disagree, 3=neutral (i.e., neither agree nor disagree), 4=agree, 5= strongly agree).

Factors affecting tax honesty	1	2	3	4	5
Fear of an audit					
Fear of being penalised by relevant authorities					
Belief that other SMEs are reporting and paying honestly					
Personal integrity					
Other reasons. Please add and score: ..... .....					

25. What tax compliance challenges are you facing in your business?

---



---



---



---



---

26. Does complying with tax obligations benefit your business?

Yes

No

Please give a reason for your answer:

.....  
.....

27. To what extent do you think the following are benefits of complying with tax obligations (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree).

Benefits of complying with tax obligations:	1	2	3	4	5
Improved record-keeping					
A better knowledge of the business's financial affairs					
Reduced risk that the business will be subjected to tax audits					
Other benefits. Please add and score: ..... .....					

28. To what extent do you agree with the following perceptions about the benefits of tax compliance. (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree).

Perceptions about benefits of tax compliance:	1	2	3	4	5
Improves record-keeping					
Improves maintenance of accurate records					
Improves knowledge of the financial position of the business					

Improves knowledge of profitability					
VAT compliance obligations provide up to date information					
Other reasons. Please add and score.....					
.....					
.....					

29. If there are any other comments you want to make about tax compliance, please add them here:

.....

.....

.....

.....

Thank you for filling in this questionnaire.

## APPENDIX D: ETHICAL CLEARANCE LETTER



Faculty Research Office  
Durban University of Technology  
30 September 2021

Student Jeffrey Bahle Magwaza  
Student Number: 20608605  
Degree: Master of Accounting (Taxation)  
Email: 20608605@dut4life.ac.za  
Supervisor: Prof. Stainbank  
Supervisor email: Lesleys@dut.ac.za

Dear Mr Magwaza

### ETHICAL APPROVAL: LEVEL 2

I am pleased to inform you that the Faculty Research Ethics Committee (FREC) following feedback from two reviewers has granted preliminary permission for you to conduct your research 'The impact of the iLembe District Municipality business incubation programme on the tax compliance of small and medium-sized enterprises'.

### When ethics approval is granted:

You are required to present the letter at your research site(s) for permission to gather data. Please also note that your research instruments must be accompanied by the letter of information and the letter of consent for each participant, as per your research proposal.

This ethics clearance is valid from the date of provisional approval on this letter for one year. A student must apply for recertification 3 months before the date of this expiry.

Recertification is required every year until after corrections are made, after examination, and the thesis is submitted to the Faculty Registrar.

A summary of your key research findings must be submitted to the FRC on completion of your studies.

Kindest regards.

Yours sincerely

Dr Mngiveny Kapoor  
FREC Chair  
Faculty of Accounting and Informatics  
Durban University of Technology  
Ritson Campus  
Durban, South Africa  
4001

## APPENDIX E: GATE KEEPER'S LETTER

Number 6 Elm Park  
42 Elm Road  
Highlands Hill  
Pinetown  
3610

26 September 2018

**Head of Department: Local Economic Development  
Enterprise iLembe**  
Cnr Link Road and Ballito Drive  
Ballito  
4420

### Request to conduct a research study within iLembe District

Dear Miss N Ngcobo

My name is Bahle Magwaza a master's Degree in Accounting (Taxation) student at the Durban University of Technology (DUT). The research I wish to conduct for my master's dissertation involves; analyzing the effectiveness of business incubators in ensuring and promoting tax compliance on SME's within the iLembe District.

I hereby seek your consent to conduct a study on small businesses that are under your incubation programme. I am conducting a survey among small medium micro enterprises (SME's) within the iLembe District. Attached herewith is the survey questionnaire for this study.

The survey would last only about 10-15 minutes and would be arranged at a time convenient to the enterprises schedule. Participation in the survey is entirely voluntary and there are no known or anticipated risks to participate in this study. All information provided will be kept in utmost confidentiality and would be used only for academic purposes. The names of the respondents and the name of your organization will not appear in any thesis or publications resulting from this study unless agreed to. I would be grateful if I can be granted just one session with SME's in question based on their availability. Your assistance in this regard will be highly appreciated.

I have provided you with the copy of my proposal which includes copies of the data collection tools and consent or assent forms to be used in the research process. Should you require any further information, please contact me on 084 723 5027 or email on [bahlemaphumulo@gmail.com](mailto:bahlemaphumulo@gmail.com). You also contact my research supervisor, Prof L. J Stainbank on [LesleyS@dut.ac.za](mailto:LesleyS@dut.ac.za).

Your approval to conduct this study will be greatly appreciated. Thank you in advance for your support and assistance with this research.

**Bahle Magwaza**  
Master's Degree in Accounting (Taxation)

Approved by:

Miss N. Ngcobo : HEAD : LOCAL ECONOMIC  
DEVELOPMENT

Name and title