



**A comparison of collaborative
compliance agreements between
taxpayers and revenue authorities:
Lessons for South Africa**

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DECLARATION

I, David Colin Greenham declare that the content within this dissertation is my own work. All sources that I have used or quoted have been acknowledged in the text by the means of completed references. This study has not been previously submitted in any form to the Durban University of Technology or to any other institution for assessment or for any other purpose.

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ABSTRACT

Conventional methods to close the tax gap and increase government revenue by facilitating and enforcing taxpayer compliance have been all but exhausted. New opportunities to mend the taxpayer's relationship with the revenue authority do exist through the establishment of collaborative compliance agreements.

This research investigated global cooperative-compliance enhancing taxation policies and strategies. After assessing the aptitude of South Africa's taxation infrastructure to assimilate new compliance policies and then ascertaining and applying the recommendations of relevant experts, compliance strategy proposals were suggested for adoption locally.

The study focused on four major tax compliance themes of transparency, education, responsive regulation and reintegrative enforcement, together with their associated compliance strategies, which could improve the taxpayer-authority relationship. A qualitative research methodology was adopted and fifteen interviews were conducted with relevant experts who could provide knowledgeable opinions on the issues raised. The respondent tax experts confirmed the importance of these themes as well as the need to introduce the eight compliance strategies, which were proposed.

The study concluded by recommending the following strategies: Simplified Personal Taxpayers Receipt, the publication of Compliance Statistics, tax Enculturation and Aptitude development to form part of the Economics and Management Sciences curriculum, a Taxpayers' Week, the development of a Responsive Service Charter, a Compliance Rewards System, and the introduction of Reintegrative Shaming to rehabilitate non-compliant taxpayers.

DEDICATION

This dissertation is dedicated to my magnificent family, which doubled as I undertook this work. Two beautiful weddings have united a sterling variety of teachers, writers and heroes.

All of whom have supported and shaped me to achieve this.

We are all destined to become teachers of one kind or another as living examples. If we can allow ourselves to be humbled by life's lessons, then our experiences, both good and bad, can be transformed to guide others.

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Ross, my best friend – I am ridiculously proud to be your brother.

Skye – we took on this challenge as a young, budding couple. Now you are my beloved wife who was literally by my side from start to finish. Jesus has our backs!

God, looking back on our trail of footprints together, Your Son carried me more than once.

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GLOSSARY

LIST OF ABBREVIATIONS AND ACRONYMS

The following list provides the abbreviations and acronyms used in this study:

| | |
|-------|--|
| ACM | Automated Cargo Management |
| ADR | Alternative Dispute Resolution |
| AEOI | Automatic Exchange of Information |
| ATAF | African Tax Administration Forum |
| ATO | Australian Tax Office (revenue authority of Australia) |
| ATP | Automatic Tax Processor |
| BEPS | Base Erosion Profit Shifting |
| BRICS | Brazil, Russia, India, China and South Africa (cooperating emerging economies) |
| CFA | OECD Committee on Fiscal Affairs |
| CIT | Corporate Income Tax |
| CRS | Common Reporting Standards |
| EMS | Economics and Management Sciences |
| ERP | Enterprise Resource Planning |
| EXCO | SARS Executive Committee |
| FATCA | Foreign Account Tax Compliance Act |
| FATF | Financial Action Task Force |
| FTA | Forum on Tax Administration |
| GAO | Government Accountability Office |
| GNC | Globally Networked Customs |
| GRC | Governance, Risk and Compliance |
| GST | Goods and Service Tax |
| ICTD | International Centre for Tax and Development |
| IRS | Internal Revenue Office (revenue authority of the USA) |
| MMA | Convention on Mutual Administrative Assistance |
| NPA | National Prosecuting Authority |
| NTA | National Tax Administration (revenue authority of Japan) |
| OECD | Organisation for Economic and Cooperative Development |
| OTO | Office of Tax Ombud |
| PAYE | Pay As You Earn (withholding tax on income payments to employees) |
| PIT | Personal Income Tax |
| RCB | Recognised Controlling Bodies |
| RRA | Rwanda Revenue Authority |
| SAIT | South African Institute of Tax Professionals |
| SAP | System Applications and Products |
| SARS | South African Revenue Service |

LIST OF ABBREVIATIONS AND ACRONYMS CONTINUED

| | |
|---------|------------------------------|
| SAS | Self-Assessment Service |
| SMO | Service Monitoring Office |
| SONA | State of the Nation Address |
| TCC | Tax Clearance Certificate |
| USA | United States of America |
| VAT | Value Added Tax |
| WCO | World Customs Organisation |
| WCO ESA | WCO East and Southern Africa |

CHAPTER 1

INTRODUCTION

“We must understand that tax morality is dependent on an implicit contract between taxpayers and government that state spending provides value for money and is free from corruption.”

Cyril Ramaphosa (2018), President of South Africa – SONA 16/2/2018

1.1 BACKGROUND TO THE STUDY

South Africa faces a potential fiscal crisis that follows an unattended budget deficit (Naraidoo and Raputsoane 2015: 224; Arendse and Stack 2018). While navigating this difficult situation, hope is found in the sentiments of Bird (1993: 2721) who originally stated “fiscal crisis has often proven to be the mother of tax reform.” Considering this, South Africa, in the midst of a longstanding deficit, could in fact be well poised to reform its taxation system.

Although South Africa has been recognised as having an “upper-middle income” level (The World Bank 2017), the Organisation for Economic and Cooperative Development (OECD) states that the spending demands exacted upon the government and public sector have continued to grow unabated and are expected to continue to do so (2015). Furthermore, the OECD (2015) states the South African government has been unable to curtail wasteful expenditure associated with corruption and poor fiscal management. This is coupled with unexpected spending increases such as those stemming from electrical power cuts and the funding of free tertiary education (OECD 2015; Haines 2018).

The tax rate for individuals has been increased to provide the revenue that may meet this demand; however, the recent increase in other forms of taxation such as value added tax (VAT), which had remained unchanged since 1993, serves to acknowledge that increases in personal income tax now provide diminishing returns (Haines 2018). Haines (2018) highlights that corporate taxes remain at 28% in South Africa whereas the global trend is to reduce such taxes, but this decision to uphold uncompetitive tax rates is taken out of necessity.

Poirson (2006: 3) identified the theoretical threats that “high tax rates may depress employment, investment, and growth”, all of which are contentious issues in South Africa

already. The OECD (2015) has expressed that it is preferable at this point to increase tax revenue through the broadening of the tax base rather than considering further tax rate increases. This is in line with other suggestions that seek to avoid a substantial rate hike by broadening the tax base and lowering tax rates (National Treasury 2012: 187; Steenkamp 2012a: 23; 2012b: 48). However, this directive has been unsympathetic to the fact that the finance minister has very little room to manoeuvre given the forever thinning and saturated tax base (Gcabo and Robinson 2007; OECD 2015). This situation only serves to decrease tax morale and, in turn, this amplifies the tax gap (Steyn 2014) which is a major hindrance to increasing tax revenue. Furthermore, it is undesirable to increase the overall tax burden considering the current economic standing in South Africa and the already debilitating financial stress within households (Roux 2016).

Given that conventional means have all but dried up, South Africa may have to commit to unprecedented tax reforms to escape this deficit. The Budget Review states that the global economic crisis “has shown that old patterns of growth, income distribution, regulation and governance do not meet the needs of the world economy” (National Treasury 2010: 1). If there is an awareness that an innovative change is required, the type of change is also of dire consequence. Major legislative and administrative changes have a tendency to be extremely costly and cumbersome to implement (Stigler 1971: 12). If South Africa does indeed have an “upper-middle income” status, then the problem may lie in its ability to collect from and connect with her taxpayers.

Looking at this multitude of issues and seeing that the remedies available are proving insufficient, the aim of this study is to investigate whether the adoption of certain tax policies from foreign jurisdictions is needed in the South African taxation system in order to connect with taxpayers and collect the revenue needed. To do so, successful tax policies worldwide are investigated, such as cooperative compliance taxation policies, and harmonising factors are considered which could allow these foreign policies to function locally. If these adapted cooperative-compliance policies are ultimately implemented, tax morale may be increased and the tax gap closed to assist the economy.

1.2 OUTLINING THE NON-COMPLIANCE PROBLEM

The non-compliant citizenry already echo a dissonant tone within the South African taxation system as the problem of non-compliance reduces South Africa's tax revenue stream collected by the South African Revenue Service (SARS). This non-compliance is amplified particularly in times of long-term economic hardship (National Treasury 2010: 81), which South Africa has had to endure. The thinning and saturated tax base serves as evidence of taxpayer non-compliance (Gcabo and Robinson 2007: 358) along with an increasing tax gap (Steyn 2014) which has grown to 48.2 billion rand (\$4.2 billion) in the 2018/19 fiscal year (Haines 2018), which is unlikely to create the revenue surplus required to rectify the budget deficit. Non-compliance is considered one of the main causes of this tax gap (Venter, de Clercq, Swanepoel, Posthumus, Doussy, Heyns and van Aard 2010: 64).

Since its inception in 1997, SARS has successfully improved certain aspects of tax revenue collection, surpassing its targets as new taxpayers came into the fold. "But this cannot continue indefinitely," state Gcabo and Robinson (2007: 357). Despite revenue authorities in developing countries being under increasing pressure to broaden their tax bases through domestic resource mobilisation (Kangave, Mascagni and Moore 2018: 7), it would appear that SARS understands that widening the tax base cannot be the sole means of increasing tax revenue. Rather, a betterment of the compliance climate as a whole is necessary (SARS 2012). After acknowledging SARS's view about these problems with the compliance climate in South Africa, Venter *et al.* (2010: 62) postulate how "SARS believes that there is still a gap between total taxes that should be paid in South Africa and actual taxes received".

Unfortunately, legislative attempts to increase revenues by forcing compliance or raising taxes have the habit of decreasing tax morale which only serves to create a vicious cycle that exacerbates poor tax compliance (Alasfour, Samy and Bampton 2016; Luttmer and Singhal 2014). Studies have shown the limitations of taxpayer-compliance enforcement strategies (Graetz and Wilde 1985; Alm, Jackson and McKee 1992; Frey and Feld 2002). Slemrod (1992: 7) stated "[f]rom the tax collection standpoint, it is extraordinarily expensive to arrange an enforcement regime so that, from a strict cost-benefit calculus, non-compliance does not appear attractive to many citizens. It follows that methods that reinforce and encourage taxpayers' devotion to their responsibilities as citizens play an important role in the tax collection process." Furthermore, policy interventions which only intensify punishments and

increase the risk of detection will have little positive effect on improving cooperation, yet policy intervention seeking to strengthen tax morale helps to reduce participation in tax avoidance (Williams and Franic 2016: 98-99). Considering how recent local tax morale research has determined that “[o]ne of the most effective ways of increasing voluntary tax compliance is by improving tax morale” (Kangave *et al.* 2018: 3), this must surely take centre stage as these interventions, as they relate to compliance strategy and policy, are considered.

Given that an indicator of the quality of relationship between the government and its citizens is represented in the result of their tax returns and can in fact be considered an integral part of forming their relationship (Maggs 2006: 45), Maggs suggests that adults living outside a country’s tax system present a genuine political challenge to such a system. From this perspective, it becomes all the more apparent why congruity between the taxpayer and the revenue authority is of paramount importance. Williams and Franic (2016: 99) state that noncompliance (in the form of undeclared work) occurs as a result of the norms, values and beliefs of citizens comprising their civic morality being out of alignment with state morality, being the codes, laws and regulations of their society’s formal regulatory institutions. This asymmetry is one of the causes of the non-compliance problem, but it also points to a relatively intuitive starting point to remedy the malady seeing that these codes and regulations can in kind be shaped to enhance such relationships.

However, not all of these problems can be targeted. In this study, certain delimitations have been set that exclude corruption in the governmental and political spheres, as well as shadow economies, which are difficult to track and quantify. However, the methods employed to improve cooperative compliance in response to perceptions of state delivery and corruption are mentioned. The primary focus of non-compliance needs remedial action, but a dynamic and collaborative policy approach that can effectively improve tax morale is required.

1.3 PURPOSE OF THE STUDY

The purpose of this qualitative exploratory study was to explore taxpayer compliance-enhancing policies utilised in foreign developed economies that may improve taxpayer morale and increase tax revenue, and then consider the potential for these compliance policies to be implemented in South Africa, subject to the adaptations recommended by South African taxation experts as provided through 15 in-depth, semi-structured interviews.

The investigation into the impact of cooperative compliance agreements in the taxation policies of more established economies was to determine which policies, if any, could be considered effective in increasing tax morale and tax revenue, and reveal their potential to improve compliance and increase tax revenue within the South African taxation framework.

The selection of the compliance policies considered to be synthesized into local taxation policy despite the more developed foreign model these policies may have initially come from depended upon a broad assessment of the South African taxation infrastructure's capability and capacity to adopt new policies. This was evidenced by its administrative effectiveness and ability to follow global trends as well as the opinions of taxation experts who would also qualify this capacity assessment before making recommendations to adapt different compliance policies for local implementation.

1.4 RESEARCH AIM, OBJECTIVES AND STRUCTURE

The research aim is to investigate the need for assimilation and implementation of compliance-enhancing taxation policies from foreign jurisdictions into the South African tax system.

To address the research aim, the research objectives are to:

- Investigate the historic and current taxpayer-authority relationship in South Africa and the factors influencing taxpayer compliance,
- Signify the capability of South Africa's taxation infrastructure to facilitate the implementation of new relationship-based taxpayer compliance policy by highlighting system developments and initiatives,
- Explore and highlight affordable, non-legislative cooperative-compliance taxation policy and strategies employed overseas, and
- Investigate the practicable possibility for the implementation of highlighted foreign cooperative-compliance strategies locally using interviews to gather the opinions of tax experts.

The first three objectives are met by the literature review, and the final objective is met by empirical research. Meeting these objectives allows for the recommendation of new and ingenuitive taxpayer-revenue authority relationship-building policy to the South African

government as an opportunity to increase tax revenue, and also provide promising avenues of investigation for future researchers.

1.5 RATIONALE FOR THE STUDY

1.5.1 BEGINNING WITH THE END IN MIND

The South African revenue authority has much to gain from a greater understanding of how cooperative relationship-building methods, policy and practice have contributed to the success of foreign countries' taxation systems. Williams and Franic (2016: 94) suggest an alternative approach where the implicit psychological and social contract created between the state and citizens is nurtured through appropriate policy in order to develop institutional symmetry and enhance compliance. Many researchers have acknowledged and encouraged the development of this psychological contract between taxpayers and the revenue authority (Feld and Frey 2002: 89; Torgler and Schneider 2006: 9), including the President of South Africa at the State of the Nation Address (Ramaphosa 2018).

Methods such as the pact-like collaboration and covenants found in the Scandinavian countries taxation systems, have contributed to their prosperity, particularly aspects of trust and a cooperative relationship. Considering the latter, Fogg and Jozipovic (2016: 539) stated "a high importance of taxpayer rights protection is a common phenomenon in countries with a developed tax system." While, local researchers, Oberholzer and Stack (2014: 238) believe citizen involvement "is necessary to build a closer relationship between the taxpayers and the government." These are some of the aspects of collaborative compliance agreements, which South Africa may potentially take on board with the aid of this research.

The rationale behind this is that principles of trust and cooperation are not the products of advanced economies, but form part of the fundamental building blocks of them. Therefore, pact-like collaboration, cooperative-compliance, and mechanisms that enhance the regulator-regulatee relationship should be introduced at the earliest practicable opportunity.

1.5.2 INNOVATION INCLUDES POLICY

In their 2008 study, the OECD found that tax compliance was coming under intense scrutiny globally, which was also acknowledged in their 2013 publication, *Cooperative compliance: A framework – from enhanced relationship to cooperative compliance* (OECD 2008, 2013). The

cooperative compliance agreements outlined in the work of the OECD (2013) called for a shift in tax policy specifically, which showed that legislation is not the only avenue to create symbiotic changes to the taxpayer-revenue authority relationship.

Major legislative and administrative changes have a tendency to be costly to implement (Dynes 2011: 1), therefore this study has chosen to look at the alternative means available to influence tax compliance. Locally, Stander (2013: 80) put forward various recommendations regarding the implementation of aspects of tax law from other countries with similar frameworks. However, their focus was primarily that of borrowing tax legislation and foreign mechanisms to tax (Dynes 2011; Stander 2013). This is only beneficial up to a point, and soon the legislative options are exhausted. Furthermore, as tax rates and types of tax are the result of a balanced equilibrium of factors, the tax rates in developed economies' taxation systems cannot be easily introduced into developing economies without displacing equity and putting undue pressure on the infrastructure to accommodate the artificial change (Salin 2017: 82). Although a country can legislate its way toward greater compliance, a more innovative, symbiotic way through policy and strategy might be preferable.

Halvorsen, Hauknes, Miles and Røste (2005: 4) state that new policy "allows for the introduction of something totally different." This notion opens up new possibilities concerning how innovation could be the solution to challenges that the public sector faces (Borins 2014: 6). What is essential to acknowledge, however, is that innovation includes administrative and organisational innovation and changes in the organisational structures and routines (Windrum and Koch 2008: 8).

It may be possible to introduce aspects of cooperative and compliance-promoting tax policy (Dodds 2018: 222), as well as the administrative charters of developed economies into developing economies. However, due to the anticipated complexities of this process, Finegold, McFarland and Richardson (1993: 25) state that there is added incentive to rather "import narrow policy instruments than encompassing policy strategies". These new policies and charters could provide a sound bedrock upon which to build trust and draw tax revenue. The added advantage in creating an improved cooperative charter or a change in policy is that it need not significantly alter existing infrastructure or legislation, but will still enhance taxpayer compliance.

The South African taxation system is not necessarily limited to the improvements that only work in similar developing economies, but this does mean that the policy makers who choose to borrow instruments should first examine the differences in their political system as well as their infrastructure in order to avoid unexpected consequences (Dodds 2018; Finegold *et al.* 1993). Therefore, it is possible to investigate the policy of virtually any cooperative-compliance success story provided it is appropriately scrutinised for compatibility in the local jurisdiction by experts in the relevant field. Given the goal of this research, this diversity would be encouraged due to the evidence that the use of several different strategies and ways of engaging with citizens will ultimately lead to increased trust and so create a local sense of community (Ebdon and Franklin 2006: 437).

Once aware of what these foreign countries are doing correctly, it becomes possible to assess what could be incorporated into a more universally beneficial policy model (Kleven 2014: 90). In the case of foreign policy innovation, many practices are simply not yet tested locally (Carstensen and Langergaard 2014: 2), and upon considering administrative means, there is a continued move in recent publications to investigate charter possibilities (Fogg and Jozipovic 2016: 561).

1.5.3 LACK OF LOCAL ACADEMIC RESEARCH IN TAX COMPLIANCE

Local research in the field of taxation has been identified as an area that has limited coverage (Gcabo and Robinson 2007: 2-3). Still, researchers like Gcabo and Robinson (2007) saw their work concerning tax compliance in South Africa as a “stepping stone for further research of this nature,” just as they sought to motivate other researchers to delve further. With the momentum of each new research paper, perhaps the tipping point could be reached inspiring an avalanche of investigation, but unfortunately, there is still limited capacity to undertake such tax research in countries like South Africa (Kangave *et al.* 2018: 7).

Oberholzer (2008: 45, 46), whose study reported that one of the main causes of noncompliance with tax legislation were the attitudes and perceptions of the sample according to her survey of homeowners in an area of South Africa, was one of the few local researchers within the field of compliance up until that time. Six years later, Oberholzer and Stack (2014: 227) sought to make a further contribution as, even still at that point, “[o]nly

limited research on taxpayers' perceptions has been conducted within a South African context".

Kangave *et al.* (2018: 6) conclude that conducting more studies will be necessary in order to understand the factors that affect tax morale at the subnational level in South Africa. They specifically state that this should include qualitative research in the endeavour to understand the dynamics of taxpayer behaviour that is a function of tax morale in compliance research (Kangave *et al.* 2018: 3). This study addresses this gap in research identified by Kangave *et al.* (2018: 6).

1.6 DELIMITATIONS AND ASSUMPTIONS OF THE STUDY

1.6.1 DELIMITATIONS

This study has the following delimitations:

- The study focuses predominantly on policy-based, non-infrastructure changes to the tax system with an exception only if such changes are not costly to implement or if the benefits will materially exceed such cost as far as the researcher or participants can realistically foresee. However, even this cost-benefit factor is overlooked in instances where funds and effort are already being applied by local government toward a method of compliance enhancement, and therefore, a refocused direction for such spending is recommended where appropriate.
- Major legislative changes were to be avoided if they were likely to be costly or require significant overhauls to implement.
- Corruption in the governmental and political spheres is excluded as this is often a highly sensitive, subjective topic that cannot be accurately measured. However, the methods employed to improve cooperative compliance in response to perceptions of state delivery and corruption are mentioned.
- The study factors out shadow economies' contribution to the tax gap as this is inherently difficult to track and quantify. However, where the taxpayer's aggregated choices contribute to this in the form of non-compliance, such matters are discussed.

- The study is predominantly focused on individual taxpayers, but where relevant, any individuals charged with compliance decisions within an incorporeal entity are also considered in as much as they are still capable of being influenced by the compliance-enhancing strategies contemplated for implementation.
- This study is an exploratory study, providing insight into new ideas, untested in a South African environment and serves as a precursor to larger research projects.

1.6.2 ASSUMPTIONS

Several underlying assumptions have been adopted for the purposes of this study:

- Based upon the ruling by the Commissioner for SARS that all employees must be registered for income tax regardless of their specific income level (SARS 2011a: 1), employees will be considered to be registered taxpayers.
- Only tax practitioners and leaders in larger entities attend the free tax workshops held by SARS, which is to assume that the average individual taxpayer does not consider such workshops important enough to attend without further education.
- Citizens who incur indirect taxes will still be seen as taxpayers in as much as they are still faced with opportunities to evade tax or comply with tax regulations at the financial transaction point at some stage in their economically active life.

1.7 RESEARCH METHODOLOGY

Using an inductive approach and an exploratory qualitative methodology, this study explores the views of tax experts, professionals and academics regarding the potential and likelihood for success in adopting and implementing cooperative compliance tax policies and strategies from foreign countries, including those with more developed economies, utilising in-depth, semi-structured interviews.

Archival analysis of the surrounding literature provides a background to compliance in South Africa, provides a review of the local taxation infrastructure, allows the main taxpayer compliance themes to be discovered and expands upon possible compliance strategies to be utilised in South Africa, and so addresses the first three research objectives.

To address the fourth research objective, in-depth, semi-structured, one-on-one interviews are used as the main instrument to collect data in this exploratory qualitative research.

1.8 DEFINITIONS OF KEY TERMS USED IN THIS STUDY

Cooperative-compliance taxation agreements

This term describes the cooperative process of mutual assistance between taxpayers and revenue authorities to ensure compliance with taxation legislation and the accompanying tax obligations and responsibilities (OECD 2013: 14). This usually refers to the agreements formed between corporate entities and the government, but cooperative compliance itself may refer to any mutually assistive taxpayer-revenue authority relationship.

Cooperative-compliance model

The cooperative compliance model describes a relationship between the taxpayer and their revenue authority that is based on warranted trust, transparency, cooperation, and collaborative effort (South African Institute of Tax Professionals 2014: 1).

Fiscus policy

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

Service Charter

A service charter is a social contract, commitment and agreement between the State and public. It forms the basis of engagement between government and citizens, public servants or the organs of civil society. It defines the roles and responsibilities of these partners to improve performance, enhance and fast-track the delivery of services to improve the lives of citizens. As a written and signed document, service beneficiaries are able to understand what they can expect from the State (Department of Public Service and Administration 2013: 3).

Tax Morale

Tax morale is an intrinsic motivation to pay taxes. Theoretical models typically over-predict non-compliance, and so tax morale accounts for the actual higher compliance rate, which would be far lower if only cost-benefit factors were considered by a taxpayer when deciding whether to comply or not (Feld and Frey 2002: 88).

Taxpayer

A taxpayer is any person as defined in Section 1 of the Income Tax Act that may have to pay direct or indirect taxes. This will apply to both minors, those who earn less than the income tax threshold of the country and people over retirement age. These will be considered taxpayers due to income generating instruments that are taxable in the hands of minors and trusts, as well as VAT, a consumption tax, payable as an indirect tax forming part of the price of goods and services.

Taxpayer Compliance Policy/Strategy

These terms are often used to describe the measures put in place by government to improve taxpayer compliance or taxpayer morale or the taxpayer-revenue authority relationship. These terms are used with some degree of interchangeability throughout this research because the specific types of compliance measures that may be incorporated into South Africa's taxation infrastructure as well as the forms they might take are not yet known.

1.9 OVERVIEW OF THIS STUDY

Chapter 1 – Introduction

Chapter 1 provides an introduction and background to this study, defining the research problem, clarifying terms, delimiting parameters of investigation, setting out the background of the research, as well as the rationale for the study.

Chapter 2 – South African Tax and Compliance History

This chapter, aligned with research objective 1, presents the history of the South African taxpayer relationship with the various authorities responsible for revenue collection and includes recent taxation developments. It observes what researchers have noted about taxpayer morale and compliance responses to the impositions throughout this time.

Common factors affecting tax morale and tax morality from multiple economies are highlighted, providing insight into which foreign tax relationship-building policies could be effective in enhancing tax morale and improving the local taxpayer-authority relationship. Chapter 2 concludes with a broad overview of factors that influence compliance.

Chapter 3 – South Africa’s Taxation Infrastructure and Aptitude

This chapter is an investigation into the South African taxation infrastructure to determine whether an adequate aptitude exists to adopt foreign taxpayer relationship-building policies and strategies. This chapter addressed research objective 2.

South Africa’s responses to date when facing tax compliance issues are investigated. This prevents any duplication of ideas or reproduction of compliance measures already in place. This investigation also helps to signify the aptitude of the South African taxation system concerning whether it has the infrastructural strength to adopt new compliance strategies and policies. The government can only borrow and assimilate policy that is, at the very least, a match for South Africa’s level of competence, within the bounds of cost-effectiveness.

Chapter 4 – International Cooperative Compliance Tax Policy Lessons

Chapter 4 is aligned to address research objective 3. This chapter traces relevant taxpayer morale and relationship themes internationally and presents theoretical lessons based on successful taxpayer compliance strategies utilised in other countries. Additional literature and research recommendations which support the effectiveness of these policies and strategies is provided, including a brief acknowledgement of some which could not foreseeably be assimilated locally. The chapter closes with a final summarised listing of policies proposed for implementation to be presented to various tax experts and academics in contact session interviews.

Chapter 5 – Research Design and Method

This chapter discusses the research methodology used in this study. It presents the research design followed by a description of the population; its sample and the accompanying sampling techniques employed to gather omnidirectional perspectives. After this, an explanation of data collection and analysis are given. The instrument involved in the collection of the data, namely in-depth interviews, and the appropriate methods used to enhance the reliability of

such instrument and its validity are explained. Before closing, the chapter discusses the ethical considerations relating to the study's design and execution.

Chapter 6 – Data Analysis and Interpretation

This chapter presents the analysis of the findings gathered from the 15 semi-structured in-depth interviews with tax experts. The findings are presented under 4 separate themes with a total of eight Compliance Strategy Proposals. Each Compliance Strategy Proposal was introduced with necessary background information before being discussed individually.

Individual quotations taken directly from interview transcripts are provided to confirm each theme and support the Compliance Strategy Proposals. Relevant excerpts and citations from relevant fields follow the individual quotations to contrast or support them (Creswell 2009). The findings from each proposal are discussed throughout the chapter, while a summary of each of their key findings is also provided.

Chapter 7 – Conclusion and Recommendations

The final chapter presents the research conclusions and recommendations. It begins with an overview of the study and reports the outcomes of the research objectives. A highlighted summary of the key findings for each compliance strategy proposal is presented followed by a discussion of their short-term and long-term implementation timeframes. The limitations of the study are provided as well as possible avenues for further research and theoretical framework testing. Lastly, the value of this study is discussed before providing concluding remarks.

CHAPTER 2

SOUTH AFRICAN TAX AND COMPLIANCE HISTORY

“Surely there is as much room for improvement in taxation as in every other work of fallible man, provided that we always cherish the just and sacred principle of taxation that it is equality of private sacrifice for public good.”

The Right Honourable John Morley (1885), 1st Viscount Morley of Blackburn

2.1 INTRODUCTION

The study’s aim is to investigate the need to assimilate and implement compliance-enhancing taxation policies and strategies from foreign countries into the South African taxation system. This chapter investigates the historic and current taxpayer-authority relationship in South Africa as well as the factors influencing taxpayer compliance, to address research objective 1.

The review structure follows a number of tiers, the first being a brief summary of taxation’s entry into Africa and the evolution of the South African taxpayer relationship with the various authorities responsible for local revenue collection. Details before and after the new dispensation of democracy in 1994 are recounted, providing a historic and cultural background to make the investigation’s direction more meaningful. Recent impositions that have affected tax morale are discussed, including the introduction of the cooperative compliance model in South Africa.

Lastly, common factors affecting tax morale and tax morality from multiple economies are highlighted, providing insight into which compliance-enhancing taxation policies could be effective in exploiting these factors in order to enhance tax morale and improve the local taxpayer-authority relationship.

2.2 A BRIEF HISTORY OF TAXATION AND COMPLIANCE CULTURE IN SOUTH AFRICA

2.2.1 INTRODUCTION

Making an effort to understand South African taxation history forms part of research objective 1. A deeper grasp of taxation’s genesis in South Africa simultaneously reveals what was both missing and needed from the relationship with the taxpayer from the outset, and

also illustrates what was never mended in the psyche of the population (Burton 2008: 85). Furthermore, this historical background check aids in the selection of the most relevant taxpayer compliance-enhancing policy, which is explored within objective 3. Looking at the history is relevant as it reveals the initial source of much of the disparity concerning the taxpayer relationship with local authorities. The means to heal the relationship requires something more than a patchwork of legislation, which becomes clear as the history is observed. Proceeding with the past in mind better allows for the appropriate relationship-building policies, practice and charters to be considered as it yields insights into the nature of the disparity.

2.2.2 EARLY INSTANCES OF TAX IN AFRICA AND SOUTH AFRICA

From the very outset, a tainted tax relationship was formed. Dunkley (2000: 300) indicates that taxes were introduced in Africa as an imposition that would force labour to enter the market to earn the income required to pay taxes or else be in contravention of the law. The analysis of colonial taxation to date typically has revealed the economic role it plays, with its most noteworthy historical application being to force African men to engage in wage labour (Burton 2008: 74).

Other roles which taxation itself has played are not to be downplayed, as in other countries which were under colonial rule, such as Tanganyika – comprising the mainland of present-day Tanzania, revenue accrued through African taxation was most certainly an imperative in keeping the government solvent (Burton 2008: 79). Furthermore, diminishing taxes lead not only to reduced revenue but was seen as a sign of weakening control which led to a loss of respect for the Administration Authority (Burton 2008: 80). This is noted in an undated speech to the Legislative Council regarding revised tax legislation in 1934 given by former Chief Secretary of Tanganyika, D. J. Jardine. Here Jardine stated “It must be remembered that although we look upon taxation as a matter of revenue, there is more in it than that, and there will be for generations still in the minds of Africans; the payment of tax is closely connected in their minds with submission to authority, and there is no doubt ... that where you get successful evasion of tax you can feel the effects in disrespect of law and order almost at once” (Burton 2008: 85).

The other historical roles played by taxation have therefore left behind a terrible association in the ancestral memory of Africans. Taxes were a means of control, forced labour and it aided continued colonial rule. This was not a favourable beginning for the taxpayer-authority relationship and, just as in Africa; the people of South Africa did not escape these distorted roles.

In South Africa, a ten-shilling hut tax was collected from natives in 1925, which was a tax per hut or household dwelling with a maximum tax of two pounds per individual. Hut taxes were used because the economy was not sufficiently developed to support modern personal income taxes. Local chiefs and local administrators were responsible for the collection of taxes, the latter bearing most of that responsibility. Native taxes, due on the first of January, proved difficult to collect as a result of the mobility of the population, creating a sense of dissension revealed by instances of arrest where Africans could not produce a valid tax receipt (Hailey 1938: 580).

Perhaps these incidences are some of the first examples of non-compliance as Africans on the outskirts attempted to maintain their independent lifestyles in a manner that might be analogous to “living off the grid” in the modern context. To draw one more modern parallel to this instance of non-compliance, Maggs (2006: 45) indicates that adults living outside a country’s tax system present a genuine political challenge and this is as true then as it is now. Maggs (2006) also believed that the tax return itself represented the relationship between the government and its taxpaying citizens and was an integral part of establishing and reinforcing the nature of the relationship.

Non-natives were taxed too, but not in a way that coerced them to uproot and engage in work that they otherwise had no inducement to perform. Rather, they taxed all non-native unmarried persons earning over £400 and non-native married persons earning over £600 per annum at the rate of two shillings for every pound earned (Hailey 1938: 546) along with a supertax of five shillings for every pound earned over £2,500 per annum. A rebate of 30 percent was introduced in 1935 to relieve the poorer Europeans of taxation while farmers avoided the ambit of taxation via rebates claimable for improvements to land (Myers 2012).

Hailey (1938: 594) realised how unnatural tax was to the native African taxpayers’ way of life. It was used to artificially produce an incentive to work and procure otherwise unneeded

money for the payment of taxes. This unnatural construct saw Africans working solely to pay their tax while the Europeans found taxes to be the necessary albeit unwanted side-effect of the economic life they already worked toward and associated with. This association was not felt by the African whose notions of wealth translated into his traditional ideas of capital such as land, produce and livestock, and not his capacity for earning money. Hailey (1938: 594) states that this “caused a dislocation in his life, and forced him into an activity in which he would not otherwise engage.”

The impact of these taxes had other far-reaching consequences that may have echoed into the current spirit of non-compliance experienced today. African homes experienced an intense disaggregation with half of the male population migrating to find work in urban areas, and as a result, generations today are still subsisting under this disjointed way of living and working apart from families (Myers 2012). Perhaps it is not so difficult to make the connection between these taxes, which facilitated alternative purposes, and the unresolved compliance issues given that there was a deep distrust left from a distorted relationship with taxation authorities from its very conception in Africa.

The remnants of these impositions highlighted above may well still exist as historical damage to the population’s mindset concerning taxation in the post-colonial and post-apartheid era. Although the current efforts toward equity appear to be geared to remedy the economic consequences of these historical maladies, little has been expressed by the South African government to address or acknowledge any such psychological stigma surrounding taxes.

2.2.3 CONSTITUTIONAL CHANGE AFFECTING TAXATION IN SOUTH AFRICA

1994 was the first opportunity to remedy the distorted taxation system in South Africa, as a newly elected democratic government embraced an inclusive Constitution, liberating people of colour. It might seem bizarre to a citizen today that there was a time where they would not have been considered “a person” for the purposes of Section 1 of the Income Tax Act (Myers 2012: 63), let alone an equal in society. However, this is how the liberation of the previously disempowered members of the South African population translated into reality from a taxation legislation point of view.

Those who previously fell outside the ambit of the Act are now recognised as “a person” for tax purposes requiring a new prioritisation of fair and equitable taxation. Myers (2012: 64)

feels that after so many years of adjustments to the taxation acts under different governments in South Africa, and despite much effort to comply, it becomes difficult to honour the four maxims of Adam Smith proclaimed in the Wealth of Nations in 1776. This is because these maxims no longer reflect the feelings of present South African taxpayers or what they consider fair.

To summarise these maxims, taxpayers should contribute taxes proportionately according to their ability, in a certain time-frame and manner that is convenient or instantly paid, calculated in a specific and understood way that does not extract any more revenue than is to be spent by and for the state (Huxham and Haupt 2005: 2). Myers (2012: 64, 262) also expressed that “[i]f there is a difference between what the authorities have tried to achieve and what the subjects considers fair, then revision of the processes and procedures of taxation would undoubtedly be a government priority”. Although the correlations between South African taxpayer attitudes and their specific biographical and socio-economic details proved to be low in Myers’ (2012) study, the fact that a discrepancy existed between reality and the taxpayer’s attitudinal expectations remains.

2.2.4 COOPERATIVE COMPLIANCE IN SOUTH AFRICA

As this study seeks to investigate taxpayer compliance-enhancing policy and strategies, much inspiration was drawn from the compliance-driven undertakings of the OECD whose work better clarifies what “cooperative compliance tax policy” means.

In 2008, the Forum on Tax Administration of the OECD (2008) published the *Study into the role of Tax Intermediaries* which carved a way for a more co-operative relationship between taxpayers and their revenue authorities and went on to coin the phrase “the enhanced relationship,” while recommending that revenue authorities create an environment that was conducive to trust and co-operation. This term “enhanced relationship” was chosen to highlight the shift from the typical obligation-based, clinical tax relationship to the co-operative, symbiotic relationship now sought (OECD 2013: 13). However, the term was scrutinised as many bodies and taxpayers found it suggested the preferential treatment of certain taxpayers amongst other misconstrued interpretations. Consequently, the sponsoring commissioner, after much advice, found by consensus that “co-operative compliance” best described the co-operation process, but also stressed the revenue authority’s responsibility

to compose a “compliance risk management strategy” (OECD 2013: 14). This culminated in a 2013 paper titled *Cooperative compliance: A framework – from enhanced relationship to cooperative compliance*, a comprehensive work providing a platform to investigate what they termed “cooperative compliance agreements” which were either being enforced or piloted in 24 different countries including South Africa to improve taxpayer compliance using unique approaches such as compliance-risk management strategies.

The OECD countries, including South Africa, whose governments chose to embody this new concept, had to do their part in ensuring compliance and ‘meet the taxpayer half way’. While the OECD (2013) paper may have been geared to deal with corporate taxpayers, the term has come in to use prolifically since then to describe the goal with all taxpayer relationships including those between individuals and their revenue authority (Bronżewska 2016). As stated by Russo (2019: 329), “[i]n recent years more and more jurisdictions have entered into some form of cooperative compliance scheme with (key) taxpayers.”

The South African Institute of Tax Professionals (SAIT) (2014: 1) states: “The cooperative compliance model can best be defined as a relationship between the tax authority and the taxpayer based upon justified or demonstrable trust, transparency, cooperation, and collaboration”. The accompanying cooperative compliance agreements have shifted the taxpayer relationship dramatically, more so through policy than direct legislation, which is a distinction to be made moving forward. Legislation, which is naturally more concerned with etching the mechanics of the tax system into law, is unlikely to be the means to reconcile the human relationship with the enforcers of those rules. However, policy such as a cooperative compliance agreement provides an opportunity to mend the revenue authority’s relationship with the people of South Africa.

2.3 RECENT DEVELOPMENTS AFFECTING SOUTH AFRICAN TAXPAYERS

2.3.1 INTRODUCTION

To be able to meet research objective 3 and explore and highlight potential policies that could be adopted locally in a more focused manner, research objective 1 undertaken in this chapter provides such a focus through an understanding the South African taxpayer by investigating compliance-influencing factors and matters that may affect his or her attitudes towards

taxation. These attitudes have been crafted by the taxpayer's relationship with individual and collective variables.

An attitude can be defined as a learned, constant tendency to respond in a consistently favourable or unfavourable way to objects, situations, issues, or people including oneself (Cooper and Schindler 2006: 330). One therefore has to look at the relationships that have translated into poor or positive compliance. Poor perceptions and lower values attached to these relationships contribute to the non-compliance that creates the "tax gap", a symptomatic manifestation of an unfavourable compliance attitude.

Although it can prove "rather difficult to pin down information on the attitudes of South Africans to taxation," as Myers (2012: 55, 266) discovered in his study on taxpayer attitudes where correlations between biographical details and attitude appeared to be loose at best, nonetheless, factors that influence these attitudes in a social context have been thoroughly investigated.

In prior years, the SARS has noted that tax compliance levels vary considerably among developing countries as a result of tax administration effectiveness as well as taxpayers' attitudes towards taxation and their government as a whole (Hailey 1938; Myers 2012; SARS 2012). This reveals that the value attached to government activities and the legitimacy of a government is an inseparable element in how cooperative compliance can be enhanced. Other factors acquired in a social context surrounding compliance would be the perceived level of fairness of the tax structure that includes taxpayers' perceptions of equity between taxpayers at different tax thresholds.

In the formation of an equitable taxation system, so much can be said to justify the exclusion of certain citizens from taxation that now it becomes difficult to show cause to include potential taxpayers in the tax base. These justifications manifest as rebates, exclusions, exemptions and allowances which all form part of an uneven but equitable tapestry. These are discussed next.

2.3.2 REBATES, EXCLUSIONS, EXEMPTIONS AND ALLOWANCES

Rebates and exclusions make it that much harder to uphold the maxims put forward at the Wealth of Nations 1776 (Huxham and Haupt 2005: 2), the first of which requires that a person

contribute to the state treasury, paying in proportion to their ability to do so. South African examples of this, such as the primary and secondary rebates see citizens falling below the tax threshold (South Africa 2009, s6 (2) a) and b)).

Furthermore, exemptions and allowances also mean that members of the public no longer contribute to the state treasury. In South Africa, this takes the form of the exemption of medical expenses under Section 18, as well as exemptions under Section 10 and allowances under Section 11 (South Africa 2009, s18, s10, s11). While these obviously provide relief to burdened taxpayers, it also shifts the general burden onto others in a synthetic way that is disproportionate to their ability to pay tax (Myers 2012: 65; Salin 2017: 70). Although those who bear more of the synthetically shifted tax load may be in a better position financially, this is not always the case. The burden is still disproportionate to what they would pay without these displacement attempts, and it interferes with the fairness of the progressivity applied to income tax rates. Taxpayers who find themselves at the higher threshold onto which the burden has been placed become aware of the artificial shifting, and this can lower tax morale.

The wealth gap in South Africa has meant that its economy has one of the largest disparities between the poorest poor and the richest rich (World Inequality Lab 2018: 67), which does explain the lopsided tax burden. Information from the National Treasury Budget Review (2017: 45) where the treasury expected about half of the 14 million registered taxpayers to be below the income tax threshold and not pay such tax explains the sense of burden of those who are taxed.

2.3.3 VALUE ADDED TAX IN SOUTH AFRICA

Another disproportionate tax, not forming part of this study but mentioned only in as much as it relates to the general air of disquiet in the compliance climate, is VAT, a sales tax on transactions. Although this was not used artificially to create an incentive for citizens to go into the labour market, it is still less than perfect. As a percentage, lower income households pay more VAT on their net income than middle or upper income houses, and thus it can be considered a regressively burdensome tax (Datt, Nienaber and Tran-Nam 2017: 381). The same also applies to homes with unemployed adults or seniors on pension. The result is that sales tax is effectively lower as income rises, as opposed to a progressive tax such as personal

income tax in South Africa that rises with increased income. Herein lies the conundrum to which VAT gives rise.

Of all the ideas a revenue authority might concoct to bring in new revenue, increasing sales tax would certainly hit poorer pockets that much harder when compared to those who have a higher income. Increasing VAT in South Africa would mostly target the poorest of the poor. Given its effects, increasing sales tax or VAT would seem an unconscionable notion, yet this has gone unopposed in South Africa. Perhaps the majority of taxpayers are unaware of its regressive nature, which could be a failing from a tax education point of view. Alternatively, it could be that taxpayers are not particularly indignant about a fractional increase in this tax.

The VAT rate in South Africa increased to 15% in April 2019, and is a revenue source receiving much attention. VAT is considered to be relatively opaque as this tax forms part of the purchase price of goods. A further obscuration is that their collection is spread over time, making it difficult to perceive the actual cost (Afonso 2014a: 224). This in turn contributes to fiscal illusion, which is the hypothesis that citizens systematically misperceive what their actual tax burdens are, as well as a misperception of what the true benefits they receive from services provided by government actually are (Afonso 2014a: 220). This is a frustrating symptom brought on by an obviously imperfect system; however, there are ways of managing this complexity through certain policy undertakings that involve greater transparency which are explored in more detail later in this study.

2.3.4 STABILITY OF THE SOUTH AFRICAN TAX SYSTEM

The stability of the tax system influences compliance, as does its complexity. Myers (2012: 65) postulates the possibility that the people's knowledge of taxation has gradually abraded with repeated revisions of tax law as well as unexpected additions that have had the effect of reducing their compliance further and increasing the tax gap. Myers (2012: 5) states that a simplification of the South African tax codes could make them more acceptable to the local population and so reduce taxpayer tendencies to rebel. Unfortunately, the plethora of complicated tax laws and codes, however necessary, do lead to a very complicated taxation system, something that leads Maggs (2006: 45) to call the American tax system's code "Byzantine," a word that ascribes convoluted, inflexible, administratively cumbersome qualities, likening it to the historically ruthless Byzantine Empire. By contrast, when the

Australian government undertook to revise their taxation procedures, it resulted in a dramatic and welcome reduction in taxation legislation (The Australian Taxation Office 1998; Katz Commission 1995: 2). These contrasting stories from abroad, which highlight the value of simplification, were the focus of much attention when considering which ingenuitive cooperative compliance policy to implement locally as part of research objectives 3, and the simplifications that may be required to implement them, discussed as part of research objective 4.

How the taxation system is administered also has an effect, just as SARS has acknowledged (SARS 2012: 6). Current implementations are discussed in this study when SARS tax system development and current aptitude is investigated in the next chapter. However, it can be noted here that the revenue authority in South Africa is aware that the widely varying compliance levels between any one developing country and another is largely related to the level of administrative effectiveness which each country exhibits as well as general taxpayer attitudes and their perceptions of government (Myers 2012: 55; SARS 2010: 2).

Regarding equity, Jardine's forewarning can be called to mind, "for generations still in the minds of Africans; the payment of tax is closely connected in their minds with submission to authority" (Burton 2008: 85). Not all taxpayers feel that South African tax collection exhibits equity, but rather, that discriminations of the past continue. This perception is not unfounded. Considering statistics from the South African Statistics Service during the post-Apartheid period from 1995 to 2002, past policies are still echoing their effects which are seen and felt as the financial incongruity surrounding the imbalanced distribution of wealth and an accompanying reduced capacity to spend (Creamer 2010: 1). This marked difference between households follows from the fact they were once divided by racial lines as part of the Apartheid philosophy.

The minds of the people of South Africa have been left with the residual effects of such past governments' political and socio-economic agendas. These residual effects can echo as perceptions of advantages and disadvantages of race related groups, deprivations of basic rights such as freedom of movement for those segregated to specific locations of work and residence, and controlling government instruments and organs including the tax authority at the time.

A less obvious transposition of mistrust has been laid onto commercial banks. On 29 February 2012, SARS issued a notice in Government Gazette No. 35090 (South Africa 2012: 3) relating to the responsibilities of certain institutions. This included a liability requiring banks to provide SARS with taxpayers' financial information in terms of section 69 of the Income Tax Act, No. 58 of 1962, superseded by section 26 of the Tax Administration Act, No. 28 of 2011 (South Africa 2011). Consequently, in the 2013 tax year of assessment, commercial banks were obliged to furnish financial information to SARS relating to taxpayers who are natural persons in order to verify information, verify submitted returns and other auditing purposes. This has continued in each tax year as the notice was successively replaced with notices published in terms of Section 26 of the Tax Administration Act requiring banks to submit similar information meeting SARS's IT3 data submission specification (South Africa 2016: 4).

Furthermore, Section 179 of the Tax Administration Act (South Africa 2011) gives SARS power to instruct a taxpayer's bank to transfer funds from that taxpayer's account to SARS in circumstances where SARS believes there is a tax debt owed to them, disputed or not. In this respect, a natural or corporate taxpayer could be 'cleared out', finding their bank account empty come morning (Cliffe Dekker Hofmeyer 2014: 1).

Section 99 of the Income Tax Act (South Africa 2009) provides that SARS may declare "any person to be an agent or another." This has resulted in commercial banks being appointed and thereafter seen as agents of the state, tracking taxpayers' financial movements and effectively appointing banks as debt collector agents to collect what tax is purportedly owed to them on their behalf. It would not be considered surprising that some taxpayers may choose not to hold bank accounts to avoid these particular agents of the state.

With this coverage of historic and specific aspects influencing the South African taxpayer and the particular legislation that has come to precipitate and form their unique tax environment, the socio-economic and psychological factors influencing taxpayer compliance, as investigated by South African researchers, can be discussed.

2.3.5 SOUTH AFRICAN TAX COMPLIANCE RESEARCH

The findings of local research have been utilised to provide direction regarding which compliance areas need specific attention. South Africa's unique social and cultural influences and attitudes have a bearing on what policies might prove most effective to engender a more

collaborative relationship between taxpayers and SARS, and otherwise enhance compliance. South African research is next presented to detail areas of particular interest that highlight broader compliance themes warranting an examination of foreign solutions from foreign case studies and policy.

The amount of research to date remains limited in taxation, and even more so with regard to taxpayer compliance. Gcabo and Robinson (2007: 2-3) found their research created further impetus for continued research into taxpayer compliance. Another researcher who realised the scarcity of local compliance research in South Africa was Oberholzer (2008: 46). Many years later, Oberholzer and Stack (2014: 227) remain as two researchers making headway locally.

In Oberholzer's (2008: 45) survey of an area of local homeowners, she discovered one major cause of noncompliance to be the attitude and perceptions of the taxpayer sample. This noncompliance was exacerbated by the complexity of the tax system and administrative failure (Oberholzer 2008: 49). Most participants in Oberholzer's study (2008) provided the kinds of responses expected from tax morale studies (Kangave *et al.* 2018: 6); having a favourable opinion of government where it appropriately applied taxes, and welcoming the idea of reduced tax rates. However, of significance, is the fact that most participants could not list all the types of taxes unless assisted.

Local research by Koster (2012) into tax education in South Africa suggested that the environment to change this lack of knowledge has not been provided. Koster (2012: 40) states "[T]he current level of education presented to students in South Africa is not adequate enough," with only broad overviews of indirect taxation and brief introductions to direct taxation. This problem was identified as far back as 2005 when Oberholzer's (2005: 249) study of the previously disadvantaged citizens in South Africa revealed a need to provide education regarding the tax system and taxpaying processes. Oberholzer (2008: 50) reiterated this need in other studies. Oberholzer and Nel (2006: 105) suggested a route involving the implementation of tax education at a school level that would greatly enhance the success of the tax system itself, proposing a collaboration between SARS and the Department of Basic Education to improve the tax curriculum, as, at the time, there was no educator training or curriculum assistance from SARS. Lastly, to generate a positive tax culture among taxpayers,

Oberholzer and Stack (2014: 238) believe the government could focus educational efforts on conveying the importance of paying taxes.

Further investigation into tax educational drives by the SARS reveal that while there is greater physical and telecommunicative reach to more taxpayers than ever before, the educational depth itself may well not be present (Koster 2012; Misra 2004: 39). This knowledge gap, and how it affects compliance, has had a bearing on the direction of the compliance-enhancing policy contemplated in this study. Oberholzer's (2008: 52) research also reported that considerable numbers of respondents felt that government should be transparent, which, among other considerations, had a bearing over the foreign research, policy and case studies selected for review.

Cummings, Martinez-Vazquez, McKee and Torgler (2006: 23) compared tax reporting in South Africa and Botswana and discovered that many factors influence compliance rates in these countries. As expected, the individual compliance levels increased with heightened audit probabilities and higher penalty rates, but, surprisingly, compliance was higher than the enforcement level would have warranted (Cummings *et al.* 2006: 22-23). Factors such as social and cultural norms affected this heightened compliance behaviour, including government responsiveness to citizen needs, as well as the nature of the tax regime itself (Cummings *et al.* 2006: 24). These researchers also found higher compliance where there was transparency on the decisions determining which services were provided, and where these chosen public services were viewed as highly desired such that the individuals perceive their paying of taxes to be a fair fiscal exchange (Cummings *et al.* 2006: 7).

Gcabo and Robinson (2007: 357) noted that, since its formation in 1997, SARS had steadily improved on its revenue collection ability, exceeding targets at it discovered or maximised each untapped or underutilised revenue avenue, respectively. However, this could not continue indefinitely, and it was not long before the only way to increase revenue was to increase the tax rates associated with these revenue instruments, such as the increase in VAT from 14% to 15% in South Africa (SARS 2018a). In a position such as this, additional attempts to decrease the tax gap should be made; something that Gcabo and Robinson (2007) believe can only be achieved through greater transparency and improved tax morale, with an emphasis to impress these traits upon those in the informal sector of the local economy.

Tax morale has received surprisingly little attention in the tax compliance literature despite being a phenomenon as old as taxation itself (Torgler and Schneider 2006: 2). Despite the lack of research, Gcabo and Robinson (2007: 357, 358) identified a common line of investigation taken by researchers into how positive citizen attitudes can be affected through inspiring confidence in government, and even through “tax literacy” which they define as theoretical and practical knowledge of tax systems. Local researchers have returned to these essential fields of research still recognising that, for example, only limited research on taxpayers’ perceptions has been conducted within a South African context (Oberholzer and Stack 2014: 227) and considerably less research on tax morale exists at the subnational level, particularly in developing countries (Kangave *et al.* 2018: 6).

The above research studies have added to the local body of knowledge. However, the recommendations of these researchers have still not been made manifest. Kangave *et al.* (2018: 19) noted that it appears to require quite a commitment before research is fully taken into consideration and acted upon, but still insisted that governments and development partners who support studies need to follow up on the implementation of the suggestions and reforms in order for improvements to manifest in reality.

Gcabo and Robinson (2007: 368) maintain that South Africa has a surprisingly good taxpaying compliance culture given that it is a developing economy, and seems to behave in a fashion similar to that of a developed economy. Given the history surrounding South African taxation, Gcabo and Robinson’s (2007) words are surprising, but with a lower frequency of revolts and protests, the government should take cognisance of this level of citizen maturity moving forward and when implementing a suitable relationship-building tax policy. The socio-political sphere already has its hands full trying to right the wrongs that affect South Africa’s current economic landscape, and it is clear that these problems will not be solved overnight. However, there is a unique opportunity to mend the taxpayer’s relationship with the taxation system that inherited past historical perceptions.

2.4 GLOBAL THEMES OF TAXPAYER COMPLIANCE

2.4.1 INTRODUCTION

With a deeper understanding of the formative factors unique to the both the South African taxpayer and the taxation system within which they are economically active, the broader

overarching influences which are known to predominantly affect taxpayers in a global context are discussed next. As these compliance factors are not altogether unique to South African taxpayers, they are discussed in a more general sense. The historical and recent South African tax developments highlighted above are recalled where necessary to highlight the significance of these broader compliance factors.

One particular aspect influencing taxpayer compliance deserves to be mentioned first as it reveals an anomaly of heightened taxpayer compliance despite an unfavourable compliance climate. This is taxpayers' perceived level of tax enforcement by government versus their notions of evasion, including the likelihood of success if evasion was attempted by themselves or others. This particular factor reveals a lot about taxpayers and gives insight into the concept of tax morality.

2.4.2 TAX MORALE VERSUS TAX MORALITY

A clarification of terms is necessary to understand the underlying influences and drivers of taxpayer compliance. Before investigating these influencing factors, tax morale and tax morality need to be defined for the purposes of this study. Multiple terms have been used to explain morality, and often these definitions find their genesis in research related to ethics (Pope and Mohdali 2010; Song and Yarbrough 1978).

Tax morale definitions thus far have been broad enough to include both the changing circumstances that can affect taxpayer compliance as well as the intrinsic formative motivations ingrained into a taxpayer's psyche (Myers 2012). Some studies have referred to this more deeply rooted aspect of tax morality as individual morality (Alm and Torgler 2011; Dell'Anno 2009), while others refer to the deeper intrinsic motivations that affect tax compliance behaviour as tax morality (Alm, Martinez-Vazquez, and Torgler 2005; Williams and Martínez 2014).

For the purposes of this study, the intrinsic, formative motivations which are not as fluid or likely to change, and to a large extent, predetermine a taxpayer's moral conduct surrounding taxation compliance is referred to here as tax morality. Higher tax morality strengthens a taxpayer's tax morale to the extent that his or her compliance will not be influenced by their current state of mind, current perceptions of related factors, or their current circumstances. Tax morale is more easily swayed and will be subject to the taxpayer's situation without a

strong sense of tax morality. Even the taxpayer's attitude toward something involving or surrounding tax will affect their tax morale without a strong sense of tax morality. As such, their conduct and compliance will change more easily based on their attitudes and circumstances if they do not have an intrinsic value system of morals to govern their behaviour.

Tax morality is a by-product of a strong sense of personal morality in the more general sense, where this more personal morality is an individual's internal moral code governing their behaviour surrounding issues of right and wrong (Alm and Torgler 2011; Dell'Anno 2009). This moral code can be a product of their upbringing, religious values and life experiences that echo into their conduct surrounding tax affairs, at which point it can be referred to as tax morality. There is a multitude of situational factors affecting taxpayer morale as well as formative factors affecting a taxpayer's tax morality. These factors that influence taxpayer compliance are highlighted below.

2.4.3 THE ANOMALY OF TAX MORALITY

An early study by Allingham and Sandmo (1972: 323-338) put forward an innovatory model which assumed that taxpayers viewed evasion as part of a cost-benefit scale, where the consequences of being caught, within the bounds of probable detection, are weighed up against the perceived opportunity to evade tax. However, modern studies which have incorporated social psychology and behavioural economics reveal that there is more to compliance than only that as "taxpayers do not make a cold-hearted cost-benefit calculation, weighing the monetary benefits of cheating against the likelihood and costs of detection" (Bankman, Nass and Slemrod, 2016: 2).

As the understanding of the socio-economic and psychological influences becomes more robust, Torgler and Schneider (2006: 2) quote a multitude of works which are contrary to Allingham and Sandmo's (1972) model. Graetz and Wilde (1985), Alm, McClelland and Schulze (1992), and Frey and Feld (2002) do not find that taxpayers are more or less likely to evade tax based simply on a personal estimation of perceived cost and benefit. While there have been conflicting conclusions on whether the taxpayer's basic predisposition is to evade or comply, Long and Swingen (1991: 130) determine that taxpayers possess the latter

predisposition of compliance and Alm (1999: 741-768) found that people tend not to evade taxation and are more likely to comply.

This can be corroborated by the existence of an oddity when the work of Allingham and Sandmo (1972) is applied to real-life cases. A “tax immorality index” that was part of their formal model, which suggested evasion was contemplated by taxpayers as part of a cost-benefit scale (Allingham and Sandmo 1972: 323-338), was applied to certain countries, only to predict results that were not empirically observed. Forecasted compliance was too low and the predicted evasion was too high, meaning taxpayers were more compliant than expected. Since taxpayers did not behave as predicted, this highlighted the need for further research.

Tax morality is a concept that can help explain higher rates of compliance despite a poor attitude towards other factors surrounding the taxation system as a whole (Torgler and Schneider 2006: 2). Torgler and Schneider (2006: 3) admit that tax morality is more interested in measuring taxpayer attitude than their behaviour, but they refine this description by explaining that it also covers the taxpayer’s personal sense of moral obligation and duty to pay taxes so as to be a productive contributor to society. As such, the psychological and socio-political influences that are entertained regarding tax morality result in personal moral constructs that are less fluid than taxpayer attitudes. Factors that carve out a taxpayer’s sense of tax morality are more entrenched in their psyche than the shifting attitudes toward other circumstances and might be called an overriding internal moral directive.

While Torgler (2003a: 2) found that tax morale was significantly responsible for reducing tax evasion, tax morality related to a vast profusion of factors (Torgler and Schneider 2006). Some of these factors are highlighted here in this current study to stress the degree of labyrinthine complexity involved in determining a taxpayer’s compliance despite his or her attitude toward government or the taxation system. This is highlighted in order to emphasise the need for a broad-spectrum approach to improving the taxpayers’ relationship with their revenue authority. It seems that no one force which influences compliance should be underestimated and that a multipronged approach will be appropriate for the eclectic and diverse populace of South Africa.

2.4.4 INFLUENCES ON TAXPAYER MORALE

While these are not necessarily unique to South Africa, many of these influences are present locally in one form or another and deserve to be mentioned. More importantly however, recounting what has influenced taxpayer compliance over a broader spectrum allows the research to be more informed on what could sway and ultimately encourage a taxpayer to be more compliant. This provides a deeper understanding of compliance in order to meet research objective 1, and also assists in the fulfilment of research objective 3 as this knowledge ensures that more relevant and appropriate compliance-enhancing policies and practices can be highlighted.

On a fundamental level, in order for the government to enforce human rights, citizens understand that the government will require the power to tax and spend. This understanding leads to the acceptance of taxes and the revenue collecting mechanism utilised by government (Holmes and Sunstein 2000: 175). Beyond this basic understanding, there are additional factors that influence how contentedly these taxes are paid by citizens. Some of these attitudinal, morale and morality influences are outlined below.

2.4.4.1 TRUSTWORTHINESS OF THE GOVERNMENT

One commonly pervasive point of influence would be taxpayers' attitudes towards their government as citizens (Alm, Sanchez and de Juan 1995: 6), including notions of unfair treatment and any sense of distrust or alienation. This finding was corroborated later by Cummings, Martinez-Vazquez, McKee and Torgler (2009: 449) who pointed out the relationship between tax morale and the taxpayer's perception of government relating to perceived government fairness and efficacy.

Perceived corruption of government can also have an adverse effect on tax morale (Torgler, Demir, Macintyre and Schaffner 2008: 334). Alm *et al.* 1995: 6) also note that with a greater sense of social cohesion, there is greater compliance, something that is lacking in South Africa, possibly due to the historically poor racial relations and socio-economic disparities that have not been entirely resolved.

Torgler and Schneider (2006: 8) mention a more psychological element, that if a government acts trustworthily, a taxpayer may be more willing to comply. A study in Belgium and

Switzerland found this to be the case where tax morale increased significantly through trust in government (Torgler and Schneider 2006: 20). The same study which also investigated Spain saw that Spanish citizens' trust in government, and more specifically their legal system, was responsible for increased tax morale (Torgler and Schneider 2006: 24). The converse is also true; as perceptions of unfairness increase, so too does the incentive to disregard tax law. The reason for this is due to a psychological contract between taxpayer and government, including the organs of the state such as the revenue authority (Torgler and Schneider 2006: 9). A perception of an unfair state reduces the psychological costs of noncompliance for the taxpayer.

Further studies provide additional support into citizens' expectations and trust. Individuals will more likely comply with the government's expectation that they pay tax if they are confident that they will in turn receive, goods services or benefits from the state and have a favourable opinion of the government's use of tax revenue (Bodea and LeBas 2014; Kangave *et al.* 2018; Torgler 2003b). This can manifest negatively if there is a failure to deliver services expected by taxpayers, as this will be perceived as a violation of the psychological contract between a taxpayer and the authority and limit the taxpayers' willingness to cooperate (Alm, Kirchler and Muehlbacher 2012: 144).

Alm *et al.* (2005: 1) provide a valuable insight into the value of government stability. Their report, covering a tumultuous period between 1991 and 1995 in Russia, revealed declining tax morale as social norms changed. As Russia's political stability improved after 1995 and trust in the state returned, tax morale began to strengthen again.

A study conducted in Switzerland also indicated punishment for non-compliance did not improve individual attitudes towards paying taxes. In fact, indicators suggested that higher punishment actually reduces tax morale and does very little to deter non-compliance (Torgler and Schneider 2006: 16). The ramifications of this discovery reveal much concerning the concepts of responsive regulation and accommodative enforcement, which are concepts covered in greater detail in chapter 4.

2.4.4.2 CULTURAL INFLUENCES

Customs and conventions within a culture have a deeply pervasive impact upon the psychology behind a taxpayer's decision-making process. Since tax morale is largely a social

and psychologically held value, the implications are that it can be adopted as part of the aforementioned conventions and norms. Humans rely heavily upon certain kinds of imitation and cultural transmission mechanisms, acquired sociolinguistically or otherwise as part of an adaptive process (Henrich, Young, Boyd, McCabe, Albers, Ockenfels and Gigerenzer 1999: 345). One such form of imitation is via “conformist transmission” which causes individuals to conform to the most widely adopted behaviours in a group (Henrich *et al.* 1999: 346). There is a tendency to match others within a population, but not necessarily across populations (Henrich *et al.* 1999: 351).

Henrich *et al.* (1999: 354) also go on to discuss how common culture is a powerful force, so much so that culturally transmitted preferences can overcome psychological aversions. Even the tax averse could be persuaded to participate cooperatively given the correct compliance culture. Kasper and Streit (1999: 32), as they discuss the importance of “man-made rules which constrain people's behaviour in human interaction”, make it clear that this is an essential element to the synergistic relationship between individuals and institutions, namely, the taxpayer and their revenue authority and ultimately they link this to the importance of common culture in this respect (1999: 393). Early attitudinal influences have a significant effect as moral drivers including those stemming from personal experiences, family and civic values, and peer groups (Coleman and Freeman 1997: 311). These influences suggest that the term ‘peer pressure’ describes a valid influence.

Swidler (1986: 273) views culture as having various carriers including “beliefs, ritual practices, art forms, and ceremonies, as well as informal cultural practices such as language, gossip, stories, and rituals of daily life” that can be selectively configured into a tool kit used by individuals to solve problems or form part of a more subconscious “strategy of action”. Swidler (1986: 273) defines this “strategy of action” as the general way of organising action to accomplish certain life goals. Cultural “retooling” can be too drastic or psychologically costly to the individual and so these tools tend to remain fixed as a result of what an individual values, but more so because it is easier to reuse a cultural tool they already have become comfortably accustomed to (Swidler 1986: 277). Swidler (1986) explains that culture leads different people to behave differently even in similar situations.

Applying this logic to tax morale, when presented with an opportunity to comply or not, it is not so much the circumstance, but cultural toolkit the taxpayer has become accustomed to

using which will direct his or her action. Swidler (1986: 275) determined that people of different socio-economic standings did not have vastly different goals and ideals, but still behaved in very different ways. Individuals made consistently similar choices in line with their past choices, economic or otherwise. This serves to suggest that a taxpayer, regardless of whether they are looking to get ahead financially, their opinion of government or any attitudinal factor, will still proceed according to past conduct based on their cultural conditioning. In their study of the 17 autonomously governed communities in Spain, Torgler and Schneider (2006: 21) confirmed that individual tax morale was deeply affected by the “significant role” which culture played.

2.4.4.3 RELIGION AS AN INFLUENCING FACTOR

As archaic as the notion might seem, the marriage of church and state played a historically significant role in increasing tax morale. In countries where the church was established as part of the state into what might be termed the “official church” of such a country, headed by one authority or individual, this had the immeasurable psychological ramification of making an infraction against the state into a simultaneous religious sin against the specific deity of their understanding (Kirchgässner 1999).

The authoritative establishment of the church slowly fell away despite antidisestablishmentarian movements, and so too did the dual psychological guilt mechanism which had been employed by monarchs since the Middle Ages to encourage tax compliance. Torgler and Schneider (2006) point out that the Romanic countries, such as Italy, France and Spain, never having had such a psychological influence, possessed higher “tax immorality” in the cross-country surveys conducted by Weck, Pommerehne and Frey (1984) up until 1978. As it is unlikely that there will be a resurgence of this kind of religious state authority, and although there is no longer this pervasive tax morale influence, governmental tax authorities may find that taxpayer morality will continue to be increasingly guided by other forces more closely linked to government performance.

In a similar vein, religiosity is closely tied to tax morality. A taxpayer’s religious devotion indicated by time spent attending church in Torgler and Schneider’s (2006: 18) study of Switzerland led to a higher probability of a taxpayer stating that tax evasion is never justifiable. While this portion of the study relied upon self-reporting and is subject to bias, it

would at the very least indicate their desire to be perceived as moral, which may well extend to them placing a high value on their revenue authority's perception of them as compliant citizens. However, religiosity, as indicated via church attendance in the Basque country in Northern Spain, appeared not to affect tax morale, perhaps due to the more eclectic mythological undertones that still pervade their religious understanding today. It seems the particular intricacies of the religion can produce widely varying results. Torgler and Schneider (2006: 8) observe that the attitudes engendered in the individual's religious beliefs influence their national pride, pro-democratic attitudes, as well as trust in government, state institutions, and parliament including perceptions of the legal system's fairness. In fact, according to Torgler and Schneider's (2006: 9) study, interesting to note that religion can be taken as a substitute for work ethic, tolerance and trust as they are some of the values which it reinforces.

Yücedoğru (2016: 535) conducted a qualitative study involving surveys and in-depth face-to-face interviews with small enterprise owner-managers in Turkey in order to understand how religious beliefs affected their compliance and tax morale. In as much as they are an intrinsic part of the taxpayer's attitude he found religious beliefs to influence tax morale positively.

With these influences borne in mind, it would still be relatively questionable for a study to suggest a particular religion to be adopted by an entire population merely to indirectly improve taxpayer compliance. Nonetheless, the connections made between religion and morality (Weck *et al.* 1984) as well as tax morality (Torgler and Schneider 2006: 18) are valuable insights to understand the powerful but hidden psychological drivers of taxpayer compliance.

2.4.4.4 DEMOCRATIC STATUS AND PARTICIPATION

A study conducted in Switzerland found democracy was directly correlated with the desire to pay tax (Torgler and Schneider 2006: 16). This meant that tax morale was boosted by the dynamics and the environment of a democratic society. Torgler and Schneider (2006: 20) confirmed this elsewhere in Belgium, where another study showed that having democratic attitudes affected tax morale in a positive way as well as in Spain where a region's tax morale was also significantly affected by their pro-democratic attitudes.

In Switzerland, “direct democracy” even allows voters to influence tax law to quite an extent via directly democratic cantons (Torgler and Schneider 2006:7). This involves face-to-face arguments in pre-election discussion, which provides new insights and information to participants as well as knowledge of other participants’ preferences. This direct involvement reduces the politician’s discretionary powers as taxpayers more closely monitor them. This prevents information between them and their government from being distorted or skewed. Referenda give Swiss taxpayers decisional power as they participate in the political process, which in turn increases their sense of ease and confidence in the system (Frey and Stutzer 2012: 662). Politicians themselves are unable to block referenda and have very little control over the process or what issues are put to the ballot, thus they cannot act in their own interests (Frey 2002: 125). With the taxpayer involvement and unique participatory dynamics, tax morale is likely to increase given that tax revenue spending will be in greater alignment with taxpayer preference (Torgler and Schneider 2006: 7).

Feld and Frey (2002: 89) also spoke of an implicit “psychological contract” when explaining the relationship between tax evasion and political participation rights, as well as how taxpayers were treated by the authorities. The relationship is strengthened the more the political participation rights are developed. This is because the psychological contract is perceived to have more value, and tax morale is consequently higher until the implicit tax contract becomes a pact-like bond. It requires the behaviours one would expect from any positive relationship in as much as authorities acknowledge and support the contract, with respect towards the taxpayer, and prevent taxpayers from being exploited once their trust is earned. In kind, a definite trust in the citizens embedded in the Constitution is crucial. This trust, manifested as the extension of participation rights to the citizens, allows for the psychological contract to be formed. Cyril Ramaphosa, the President of South Africa acknowledged this within the psychological contract at the State of the Nation Address (Ramaphosa 2018), saying “we must understand that tax morality is dependent on an implicit contract between taxpayers and government that state spending provides value for money and is free from corruption.”

The need for this respectful symbiosis is greater in democracies with institutions of popular initiatives and referenda than it would be in a purely representative democracy (Feld and Frey 2002: 89). The former is usually known as a semi-direct democracy, where government goes

as far as to trust and allow its citizens to choose the content of their legislature, which is the case in Switzerland. As a result, the tax morale born of this trusting psychological contract is very high and is further strengthened as government institutions allow direct citizen participation to continue (Feld and Frey 2002: 90). Torgler and Schneider (2006: 8) state that citizens involved in establishing the rules have a stronger sense of obligation, which means they will more likely uphold what they themselves chose. Unfortunately, this also means this might not be quite as applicable to South Africa given that it is a parliamentary representational democracy with representatives elected at the national, provincial and local levels.

2.4.4.5 NATIONALISM AND GROUP IDENTITY

Boulding (1992: 93) felt that it was crucial to investigate the intricacies of national pride and shame in a society in order to understand the overall dynamics of a particular society. Developing a favourable group identity is a strong motivation to enhance cooperation (Tyler and Blader 2003: 353). Cooperation is reinforced by the fact that individuals who identify with the group feel morally responsible to the group as a whole (Tyler 2000: 66).

The group identification engendered by national pride, encourages an individual's cooperative behaviour, and therein positively influences this behaviour in their respective groups, organisations, and societies at large (Tyler 2000: 67). Studies in Belgium (Torgler and Schneider 2006: 20) reported there was no significant difference between the Flemish speakers and the French speakers, indicating that national pride was still the more significant force for increased tax morale. Bilgin (2014: 62) also found national pride affected tax morale positively in his study of Spain and Turkey where tax morale was higher in both countries when taxpayers were happy with their national identity. The sense of unity within a specific geographical region can alter the region's compliance levels. The opposite is also true where Torgler and Schneider's (2006: 22) study in Spain, despite greater autonomy, revealed that "separatist tendencies in these regions may have a negative impact on willingness to cooperate".

MacGregor and Wilkinson (2012: 159) point out how high-profile public figures have linked the paying of taxes with patriotic duty. Their work revealed that patriotic taxpayers do not so much view paying more taxes as patriotic as much as they rather see noncompliance and

evasion as unpatriotic. In addition, such patriotic taxpayers are more positive about paying taxes in general, and proved more likely to believe in the progressivity of the tax system than their unpatriotic counterparts prove. When considered as a measure of local patriotism, national pride and identification within a region are positively associated with high tax morale (Gangl, Torgler and Kirchler 2016: 869).

2.4.4.6 OTHER TAX COMPLIANCE FACTORS

The study in Belgium, Switzerland and Spain concurred on a range of other factors that resulted in higher tax morale. It found that the tax rate alone did not affect tax morale (Torgler and Schneider 2006: 24), but also a myriad of other oddities, such as older taxpayers were more compliant than younger ones; women had higher tax morale than men did, but marriage for either sex had a positive effect on tax morale.

Other studies concur that women appear to have a stronger compliance attitude than their male counterparts along with stricter attitudes towards tax evasion (Fallan 1999: 182). Simulation exercises have been used to investigate the effectiveness of deterrence in tax morale studies. These simulation experiments, that observe the reactions of participants in artificial tax situations, ask them to make decisions that relate to compliance (Kangave *et al.* 2018: 10). One such experiment which occurred in the United States of America (USA) where Chung and Trivedi (2003: 139) compared how normative appeals affected a friendly persuasion group where participants earned \$30 first generating, then reading a list of reasons why they should comply before reporting their income earned and paying tax on that income. The control group did not engage in the creation and reading of lists and consequently the friendly persuasion group reported marginally higher earnings than the control group but significantly higher among female participants, and so woman appeared to exhibit higher tax ethics relative to men. Chung and Trivedi (2003: 141) were of the opinion that this could have important tax policy implications since women's role in the economy is increasing along with their growing role as taxpayers.

Further research from Europe also shows women to be more compliant than men (Vogel 1974: 499); while the educated are more aware of the consequences of non-compliance enforced by government and generally possess more knowledge about tax matters. The widowed had some of the highest tax morale, while the middle to upper-middle class, with

higher household income, had some of the lowest. (Torgler and Schneider 2006: 24). Tittle (1980) explains how self-employed taxpayers exhibit greater compliance with taxation legislation owing to the fact their economic activities are more visible.

However, most of these are not factors that can be controlled or promoted in a strategic or meaningful way. Growing older, settling down and finding a partner are already driving forces shaped by nature, survival and culture, not by a tax cooperative-compliance policy. In addition, it should be acknowledged that much of the information in Torgler and Schneider's (2006) report was gathered through self-reporting, which may contain varying degrees of personal bias in these spheres. Furthermore, it must be borne in mind that changes made to the tax system should not be taken lightly as, initially, any major revision of legislation presents a temporary hindrance to a taxpayer's understanding and compliance (Myers 2012: 65). Considering this, only necessary and effective changes should be implemented after drawing upon relevant lessons in taxation policy from other countries and considering the position of academics, international best practice and local taxation experts on the practical implementation of such policy.

2.5 SUMMARY

A multitude of factors influences tax morale. South Africa experiences many of these factors in a unique way owing to its specific economic, political and social circumstances. The particular mindset and value systems of individual taxpayers also plays a role, while even this has been developed as a result of their circumstances. South Africa is known for its cultural diversity and this is a reflection of the demographic diversity of taxpayers within any one region. This is why a broader spectrum of influences needed to be taken into account given this diverse population of taxpayers. With a knowledge of these unique influences, this exploratory study into taxation policy that could improve taxpayer compliance becomes more relevant such that only the most appropriate policy and strategy selections can ultimately be made and valuable lessons in enhancing taxpayer compliance can be drawn from international best practice.

Viewed in the context of the study, this chapter first presented the history of the South African taxpayer relationship with the various authorities responsible for revenue collection as well as how historical and recent impositions may have affected tax morale. Common factors

affecting tax morale and tax morality from various countries were then highlighted to reveal areas that could be capitalised upon by South Africa to improve compliance. This also gave an initial basis to discern which types of compliance-enhancing agreements and policies should be explored within chapter 4 in order to provide relevant lessons that will address some of the issues identified in this chapter.

The next chapter presents an investigation into the South African taxation infrastructure's aptitude in order to signify its ability to adopt new cooperative taxpayer policies and collaborative compliance strategies, as per research objective 2.

CHAPTER 3

SOUTH AFRICA'S TAXATION INFRASTRUCTURE AND APTITUDE

“Every culture has some ritual for joining two people together and making them stay that way, and ours is giving tax breaks.”

Bauvard (2011), Some Inspiration for the Overenthusiastic

3.1 INTRODUCTION

South Africa is considered one of the most advanced economies within developing regions, owing to its relatively sophisticated taxation framework and an extensive network of tax treaties (Valderrama *et al.* 2017: 1). Even though it is a developing country, South Africa's tax administration has undergone a tremendous improvement in a timeframe spanning only a few years (Van Vuuren 2016: 7). It is necessary to establish what administrative and infrastructural services are in place in order to determine which non-legislative policies could be realistically suggested for adoption based on the strength of the surrounding infrastructure. This might be called a taxation policy 'aptitude test' that will guide the investigation so that only the most appropriate and realistic collaborative compliance policies are explored within research objective 3. Furthermore, the cooperative compliance policy that SARS already has taken on board must be identified to avoid any duplication of ideas.

Even though recommending pervasive administrative reforms does not form part of the intended outcomes of this research, recounting the recent administrative reforms to personal income tax is a necessary step in discerning South Africa's capability for assimilating potentially useful collaborative compliance policy and practice. It also is used to highlight the fact that some of the administrative processes and, specifically, the legislative options that can be cost-effectively implemented are already in use in South Africa's taxation system. With these measures already in use, a new type of ingenuitive manoeuvre becomes necessary.

In this chapter, the assessment of the South African taxation system's infrastructural aptitude is undertaken to meet research objective 2. This assessment begins by indicating SARS's awareness of problems in the compliance environment and the factors that can positively influence compliance. After this, examples of SARS's success in following global trends are

provided to illustrate their ability to adopt policies and strategies from other countries. Then, to reveal the taxation systems infrastructural capability, improvements in governance, operations capability and management functions are highlighted. These improvements include advances in service delivery and employee capabilities, revenue collection, compliance strategy, information technology (IT) infrastructure, and risk management. SARS's campaigns, community outreach and education efforts are provided to signify SARS's ability to coordinate events and execute activities that develop the taxpayer-authority relationship and enhance compliance in dynamic ways. These events and activities include new communication, workshops, education of young learners and aiding the disabled. Lastly, the SARS Service Charter is discussed to signify its role in upholding taxpayer rights and reiterating obligations, but also to emphasise the potential of such an instrument.

3.2 CHALLENGES IN THE CURRENT COMPLIANCE ENVIRONMENT

Faced with the persistent barrage of economic difficulties that accompany a developing economy, non-compliance is exacerbated as taxpayers contend with economic losses, diminishing asset values, and dwindling returns from investment (Naraidoo and Raputsoane 2015: 224). However, the primary goal of any tax administration should be to ensure it receives its fair due despite this. South Africa has met with the same declining tax revenue collection that results from an increased non-compliance. This decline began some time ago as was tabled in June 2009 where an economic recession saw a shortfall of billions of rands in revenue that "reflects the rapidly declining trend" (SARS 2009a: 3). This decline in compliance continued more recently with a failure to meet revenue targets (SARS 2018b). Although globalisation and changes in business, technology and market forces presents a tax compliance problem for all revenue authorities worldwide, the problem was that much worse for South Africa, which has seen its income tax system undergo some dramatic changes with new and complex provisions.

Over and above the recent failures to achieve revenue targets, the economic difficulties are exacerbated by other problems. Until there is a comprehensive unifying conceptual framework to prevent tax abuse and aggressive tax planning, much revenue is lost through base erosion and profit shifting (Piantavigna 2017: 47). SARS (SARS 2018b: 80) identified sophisticated tax avoidance schemes as a significant risk to their ability to meet revenue targets and accommodate fiscal demands. Tax evasion and impermissible tax avoidance are

forms of taxpayer conduct characterised by a “misuse or abuse of the law” through the exploitation of loopholes in the taxation systems. Some legislative structures allow for tax outcomes that were not intended by the policy makers themselves or by manipulating the law placing form and legal effect before the actual substance of the tax avoidance arrangement (SARS 2006a). The appropriate allocation of resources also becomes excessively difficult and those charged with spending decisions are often viewed as incompetent by the struggling taxpayer. Any unfair redistribution of the tax burden becomes amplified and any inequitable sharing of such a burden becomes more apparent. This further undermines the endeavours of government and the National Treasury to successfully implement or enforce economic policies.

To ensure that government service delivery is not compromised, SARS does look to ways of preserving faith in the tax system and increasing the flow of the tax revenue stream. SARS’s methods thus far to meet the challenges of non-compliance is to adopt a human behavioural compliance model that factors in education, enforcement and service. This model held the notion that human behaviour is chiefly driven by the desire for reward whilst seeking to avoid punishment (SARS 2009b). Positive reinforcement plays a role, therefore, in this arrangement. One would expect that compliance should be rewarded while the non-compliant citizenry would be vexed at the thought of being found out and ultimately punished. South Africa has already acknowledged through the prioritisation of education within the basis of the compliance model that education is inextricably linked to understanding one’s personal tax obligations and responsibilities, as well as the theory of mind to foresee consequences that flow from behaviour (SARS 2006a).

SARS has stated it is committed to improving the tax understanding of taxpayers and intends to continue educating taxpayers. This would be the correct course of action given the study on South African students’ tax knowledge and attitudes towards taxation in South Africa in which Fallan (1999: 173) found “improved knowledge significantly changed both male and female students’ attitudes towards the fairness of the tax system”.

SARS (2006b: 8) became aware that a major fear that causes taxpayers to becoming averse to compliance is the notion that past contraventions of the law will be raised and punishment will be exacted. Such punishments would include possible liability for additional tax, interest and prosecution. This is another formidable mental barrier affecting taxpayers’ decisions to

enter the formal tax system. Fortunately, tax amnesty and awareness campaigns were launched by SARS to address this problem by assisting citizens who wanted to “make good” on their irregular taxation affairs (Gcabo and Robinson 2007: 357).

Given these current challenges, SARS has undertaken many means, methods and measures to improve compliance in various structural and administrative capacities. Such efforts by SARS are also discussed to better signify whether South Africa’s infrastructure is fit to combat noncompliance with policies and practices borrowed from foreign countries. The broader challenges, which SARS acknowledges, have been outlined above. What follows next are the successes that SARS has met with through their efforts to follow global trends.

3.3 SUCCESS THROUGH FOLLOWING GLOBAL TRENDS

South Africa has successfully synchronized with certain global trends. Aiming to benchmark itself against global peers, SARS has brought themselves in line with the recommendations of the OECD (Jansen van Rensburg 2012: 5). A pertinent example is the implementation of the SARS Service Charter, acting upon the advice of the OECD (1990). This Service Charter is discussed later in this chapter in more detail. The success South Africa has experienced in following global trends is described below in four areas, namely, SARS’s participation in shared global initiatives, the adoption of the operational segmentation approach, building compliance mechanisms into operations, and the Voluntary Disclosure Programme.

3.3.1 PARTICIPATION IN GLOBAL ACTIVITIES AND INITIATIVES

SARS continues to participate in activities related to multilateral taxation, working with the OECD Committee on Fiscal Affairs (CFA), as well as the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and Forum on Tax Administration (FTA). SARS is also a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) to ensure internationally accepted standards of transparency and exchange of tax information are implemented (SARS 2018b: 5). Furthermore, SARS exchanges information with other participating revenue authorities through the Convention on Mutual Administrative Assistance (MAA) and engage in the international Financial Action Task Force (FATF) (SARS 2014: 39).

Within the bilateral agreements for Automatic Exchange of Information (AEOI), South Africa was an early adopter of the new international Common Reporting Standard (CRS) after taking what was learnt from adopting the Foreign Account Tax Compliance Act (FATCA). Brazil, Russia, India, China and South Africa (BRICS) are countries associated as major emerging national economies, and to deepen cooperation, SARS participated in the BRICS Tax and Customs meetings actively and signed the BRICS Memorandum of Cooperation in Respect of Tax Matters and the Strategic Framework of BRICS Customs Cooperation (SARS 2018b: 6).

SARS supported issues on the international customs agenda, working with the World Customs Organization (WCO) and WCO East and Southern Africa (WCO ESA), doing its part to advance and enhance customs administration globally while also building relations to support and develop SARS's internal capabilities and facilitate the exchange of customs information on request, utilising international instruments.

These are the hallmarks of a taxation infrastructure that is determined to improve and willing to participate globally in the international tax community. Such qualities would likely not be present in a system incapable of adopting and advancing new, cutting-edge trends.

3.3.2 OPERATIONAL SEGMENTATION

SARS became aware of the research supporting the global opinion that a segmented approach, dividing taxpayer into operable segments, increases the incidence of compliance and reduces costs (2009b). Thus, it began tailoring its delivery of services to particular jurisdictions, along with accompanying enforcement activities, and the provision of education of a depth that best suits the level of knowledge in the area. The result is ten holistic segmentation designs partitioned by SARS, which lead to further action in redesigning tax registers and information systems to accommodate the dynamically different service offerings tailored to the needs of the taxpayer's particular segment.

These partitions gave SARS a first-person view through the lens of the taxpayer, which was specific to their segment rather than the previous broad-spectrum attempt at understanding and accommodating taxpayers in general. It was a dramatic success for SARS and South Africa witnessed the revenue collected by SARS growing faster than the actual economy itself. The tax periods following this approach, which was borrowed from the global sphere, saw tax revenue increasing over the next 6 years from 23.6% to 27.7% by 2008 (SARS 2009b). SARS

(2009b) noted “[b]y 31 March 2009 SARS had collected R625.10 billion in revenue which represents a collections outcome of 99.59%”. While it is true that this is a testimony of SARS succeeding in increasing the compliance culture, it also celebrates a triumph in the name of foreign policy adoption and adaptation, defiantly increasing tax revenue amidst a global crisis.

3.3.3 INTEGRATED MECHANISMS TO ENHANCE COMPLIANCE

Compliance-enhancing mechanisms have been built into the actual structures and operations of the taxpaying process as well as other digital channels. These involve the creation of specialised offices and important databases by SARS, but also include opportunities for taxpayers to participate in forms of self-regulation and whistle-blower platforms.

SARS is tackling the issues associated with high net worth individuals (HNWIs). Using data drawn comparatively from SARS’s systems and third-party information including assets and financial transactions, SARS has developed a comprehensively populated database of HNWIs and any trusts they hold a beneficial interest in. SARS is investigating the potential for an automated exchange of information with OECD members to assist in the tracking international transactions of HNWIs by revenue authorities (SARS 2014: 36; Van Vuuren 2016: 3). With regard to HNWIs, like international counterparts, SARS determines the individual’s status to be of a high net worth based upon income, wealth and the entities the individual may control or have a beneficial interest in, all as part of a holistic assessment (Van Vuuren 2016: 12-13). While it does not have a separate unit to deal with HNWIs, it has created a business office to manage the tax-risk regarding large entities (Van Vuuren 2016: 48). These efforts reveal that SARS understands that these taxpayers represent a significant tax-risk if left unattended.

Whilst ensuring all who pay tax are fairly treated and those who willingly comply do not feel unjustifiably oppressed, the responsibilities surrounding enforcement have not been shirked. Opportunity for the online submission of a suspicious activity report as well as a well circulated external fraud hotline has been successfully utilised by taxpayers and anonymous reports on tax evasion are part of the new compliance culture (Van Vuuren 2016: 57). A specialised investigations division that concurrently anticipates evasion just as it responds to active incidences of fraud is tasked to manage these threats directly and thoroughly.

Partly as a result of SARS's requirement that employers register all employees as taxpayers regardless of their tax liability (National Treasury 2016), there has been a noted increase in the number of individuals registered for tax, specifically 19.1 million on 31 March 2016 as opposed to 18.2 million in the prior year. While SARS's vigilance to ensure compliance in this regard has further contributed to this continuously growing number, it would seem that even greater efforts must be maintained to keep so many taxpayers 'in check'. Nonetheless, it is expected that by gradually enhancing voluntary compliance, the ultimate result will be to alleviate the burden to SARS in collecting revenue, all the while securing the revenue stream.

3.3.4 VOLUNTARY DISCLOSURE PROGRAMME

In the same manner as Australia and the USA, South Africa introduced the Voluntary Disclosure Programme (VDP) that gives taxpayers an opportunity to get their tax affairs in order. This is an effort to give taxpayers the opportunity to disclose their defaults so as to avoid the future imposition of interest, whereby such a taxpayer will be granted relief provided the voluntary disclosure is complete. Typically, a penalty or additional tax would have been imposed by SARS as it conducts its usual activities, but because SARS remains unaware of the taxpayer's transgressions at this point, and has not yet discovered the default, the taxpayer can remedy the situation (SARS 2018c). Non-compliant taxpayers can pay undeclared tax liabilities at a reduced interest charge and without such severe penalties or facing certain legal consequences and criminal prosecution proceedings (SARS 2009b).

The Special Voluntary Disclosure Programme (SVDP) was initiated for taxpayers who wanted to disclose their offshore assets and income within a limited window period where they could also apply for relief. This opportunity was created as result of the new automatic exchange of information between international tax authorities where SARS was more than likely to come across such information as a matter of course when receiving offshore third party financial data from other tax authorities in 2017 (National Treasury 2016: 1). The application window has since closed, as it ran from 1 October 2016 and closed 31 August 2017, but taxpayers who missed this deadline and still wished to disclose any information were, and still are, able to make use of the normal VDP process to disclose offshore income (SARS 2018c: 8).

This ability to follow global trends such as those highlighted above further reveals SARS's competency and the potential to introduce additional policies and strategies from developed

economies into the South African taxation framework. International initiatives, operational segmentation, integrated mechanisms to improve compliance, and the voluntary disclosure programme as part of SARS's alignment with global trends have been covered here. Next, SARS's own initiatives are provided, beginning with their governance, risk and compliance policy.

3.4 IMPROVED GOVERNANCE AND CURRENT POLICY

As this current study ultimately seeks to assimilate foreign tax policy that will promote compliance, policy related to good governance must also be investigated, while other factors enforced in South Africa need to be acknowledged. For one thing, SARS is still bound by the Constitution of South Africa, and although it may conduct its own affairs being its own autonomous organ of government, in terms of its public services, it must honour the principles laid down in the Constitution (Constitution of South Africa 1996). The Constitution promulgates accountability, a high standard of professional ethics, and an unbiased supply of services that is equitable to taxpayers and impartial. Despite being the custodian of its own resources, the use of such must be effective and efficient according to the Constitution, which is aligned with the requirement of transparency and the fact SARS's accounts and financial records are to be audited by the Auditor-General (SARS 2018b: 7). Furthermore, the Commissioner's annual report must be submitted to the National Assembly, parliament, stakeholders, the Minister of Finance and the community about SARS's activities and performance in administering the taxation system and customs (SARS 2018d: 1). SARS must respond quickly to public need, and even go as far as encouraging taxpayer participation in policymaking. SARS is further required to prioritise development.

SARS has incorporated these requirements and obligations into its Governance Framework that embodies good corporate governance principles as it specifies the responsibilities and leadership roles within the various SARS structures (SARS 2017a: 25). As a matter of course, transparency of operations and services is achieved through the clarification of accountability, authority and responsibility. Aware of the need to review their governance framework and management processes continually, SARS has created an internal value system to enhance the above-mentioned good governance while promoting co-operative governance with stakeholders in the public and private sectors to enhance tax administration itself.

Before considering the adoption of certain foreign policies promoting basic values, like their global counterparts, integrity already lies at the forefront of SARS's value system that was revealed through the implementation of their Integrity Promotion Framework and Plan (SARS 2009a). There is a heightened information security awareness, improved via the strict management of user profiles and passwords on shared systems and an emphasis on the internal control segregation of duties. The early warning system for Governance, Risk and Compliance (GRC) has been launched, which offers further security for good governance goals, enforcing the principle that SARS and its operational organs are accountable to GRC. In an incremental process, GRC initiatives are being integrated in planning and budgeting such that a risk-management approach ensures the standardised processes and specific procedures are followed, helping to eliminate opportunities for the circumvention of such standards that have been set (SARS 2009b). SARS's risk management plan has continued to be implemented and updated with new control measures as a result of ongoing monitoring (SARS 2017a: 10-14).

Overall, the improvements to governance have contributed to a consistent, optimal efficiency, maximising throughput and thereby improving SARS's reputation, maintained by the transparent clarification of accountability, authority and responsibility. This is one such indicator that South Africa has the necessary governance infrastructure to borrow and assimilate taxation policies of this specific nature from abroad. Having identified the governance policy utilised by SARS as part of their GRC early warning system, risk management within this system is covered next.

3.5 RISK MANAGEMENT

Personal income tax has reached a high level of development in South Africa regarding risk-management. SARS has outlined three components of which their risk management process is comprised (SARS 2009c), beginning with a pre-population of over 97% of tax returns in the first year of operation, which reduced errors introduced by manual capture, followed by declaration variance validation, which identifies contradictions between third party data and taxpayer information recorded on their return and where these differ materially. Following this measure, the declaration variance error-rate decreased to less than 3.5% of tax returns in the 2008/2009 financial year. Currently, this variance error risk is dealt with by an automated risk engine, utilised to screen the returns, identifying any anomalies contained in

the information within a particular investigation in a very secure manner (SARS 2017b: 1). Furthermore, these variances are identified as part of the tax-risk management strategy that is discussed next.

SARS has increased focus upon tax-risk management, acknowledging its importance and developing toolsets that are better able to identify risk areas surrounding company tax. Identifying the underpayment or absence of payment of these taxes has made the toolset an effective part of tax-risk management in this area. (Jansen van Rensburg 2012: 2). Furthermore, in collaboration with the OECD, SARS engages to produce new methods to identify the risks of revenue loss. This endeavour has led to a reshaping of the infrastructural environment that serves to mitigate tax revenue loss risk (Jansen van Rensburg 2012: 3). This focus extends to all forms of revenue, for example, as mentioned, the SARS risk engine has been integrated with the Customs Management System enabling SARS to analyse the activities of reprobate traders and better detect illicit and illegal trade (SARS 2014: 21).

To achieve a dynamic risk-management capacity so as not to overburden or bottleneck the process at one specific point, a four-step approach was developed to improve management, beginning with a re-engineering of current processes to increase capacity and reducing waste. Next, high-risk and high-value cases were prioritised to optimise the use of resources. Thirdly, new operational capacity was created for efficient throughput of the lower priority, low-value, low-risk cases via automation, scripting, systematisation and re-allocation of staff to higher value-added work. Lastly, active recording and analysis has allowed for the integration of continuous learning mechanisms findings are used to promote staff development and provide them with feedback. In conjunction, eCase management has been integrated with the risk engine as part of re-engineering the business areas of the audit process' enforcement and operations. This has also provided a workflow solution, assisting auditors in the planning and execution of audits, maximising the coverage and finalisation of cases (SARS 2009c).

In this area, it should be noted that SARS has aggressively implemented new compliance and risk management strategies to handle tax compliance issues, and many of these have found their way into the public eye as reported through major newspapers (Jansen van Rensburg 2012: 5). These are quite effective in the short-term, but may have other stigmatising repercussions affecting taxpayer compliance that are discussed in the next chapter when the theme of Reintegrative Enforcement is covered.

Having discussed risk management, which is an extension of SARS's GRC early warning system, the management of operations is dealt with next as it relates to productivity, and also, the final "compliance" aspect within the GRC system.

3.6 IMPROVED OPERATIONS ARRANGEMENT AND PRODUCTIVITY

The modernisation agenda began in 2007 to aid in a more efficient utilisation of constrained resources. Management of operations was to be improved, while a streamlining of various processes was to improve productivity. It aimed at transforming the income tax process into a highly automated and simple one, doing away with complex paper-based processes where possible and reducing labour-intensive processes where human resources were concerned. Audit software and case management tools were adopted to grant efficiency as the plan of the agenda in general promoted the use of electronic means. These channels supported rapid processing and reduced capturing errors in processing (SARS 2009a).

The new operating model was implemented successfully, within both financial and time budgets and without causing noteworthy operational disruptions. SARS was able to increase the number of registered users from around half a million in 2005/2006 to over five million at the end of the 2009 financial year, which was a 500% growth in the number of returns submitted (SARS 2009c). A revenue reporting system was developed and the use of standardised performance reports was implemented to enhance performance management and organisational reporting.

SARS made managers accountable for their actions by aligning them with their functions at an enterprise level, while simultaneously eliminating duplication of functions to secure the new operating model (SARS 2009b). Activity-based management enables management to make both strategic and operational decisions at the various levels they operate. These decisions are linked to greater automation, process optimisation, addressing performance through benchmarks and the identification and promulgation of best operating practice throughout the organisation (SARS 2009c). These process-based performance metrics are entertained and explored within the bounds of cost-benefit analysis that is integrated into the metrics as a tool to assist management in their planning and business processes, improve management information and also integrate sets of human resource data, financial information and transactional processing (SARS 2009c).

To improve operations, SARS is divided into functions of various types. Firstly, functions of an advisory strategic nature, which are involved with case selection or revenue management. In addition, functions that grant authority and enforce accountability through assignment of responsibility. Functions that offer support service delivery such as instances where any research or investigation would assist the organisation, and functions that are more commonly involved in service delivery such as education and enforcement (SARS 2009c).

SARS continues to conduct in-depth operating model efficiency and focus analyses in an effort to reposition themselves to improve their performance (SARS 2018b: 5). Having recently completed a review of its operating model, SARS began the process of implementing recommendations. The review revealed areas where SARS needed to build a new capacity to improve operational effectiveness and efficiency and strengthen their existing capability. To achieve this, they initiated key projects throughout the organisation and a new organisational structure to support the latest operating model and improve governance. SARS exhibited confidence that these projects could improve services, enhance education and strengthen enforcement (SARS 2017a: 11).

SARS acknowledged the significance of the Operating Model Review Programme to significantly alter the taxpayer relationship with SARS and so set in place some supportive mechanisms. SARS mitigated certain risks by assigning a sponsoring Chief Officer to the programme, managing the programme with a dedicated project office and implementing a comprehensive and ongoing change-management programme (SARS 2017a: 13).

The weight of these significant undertakings, both in the past and more recently, have shown SARS's determination to improve their operations and capability, but perhaps even more importantly, accountability. Undergoing review and expeditiously acting upon such recommendations shows maturity and progress. Both the risk management and the operations management processes have been discussed as internal mechanisms that will facilitate the provision of the external services that SARS provides, and so this service delivery capability is discussed next.

3.7 SERVICE DELIVERY CAPABILITY

Apart from promises of integrity, improved governance and effective management, the capacity to deliver on a promise is another hallmark of a competent, capable infrastructure,

and so, the basic tactile service responses need to be executed efficiently. Before there is any consideration of new means to improve taxpayer relations with the authority, additional attempts to promote compliance could be an immediate burden if the capability of the revenue authority is already limited. Investigating whether SARS is capable in this service-orientated context will determine which foreign tax policy opportunities are realistically employable locally.

To be effective, a holistic service strategy is required. SARS began by acknowledging that this must be based on the requirements of all taxpayers within each socio-economic segment to be truly “holistic” (SARS 2009a: 8), and in more recent times, to match the needs of taxpayers (SARS 2018b: 16). Through the improvement of staff skill levels in all contact facilities and office centres, SARS has sought to create the capacity and capability to resolve queries timeously. This was coupled with an increase in the number of physical service locations to assist taxpayers directly.

SARS has reviewed its own service charter with a view to making greater use of electronic means of communication and promoting service delivery via modern digital pathways. The SARS Service Charter is discussed later, but in terms of electronic service capability, the Service Charter’s revisions to electronic communication and additional service points were specifically geared toward promoting timeous revenue collection while providing the taxpayer with a more positive experience so as to improve taxpayer compliance. This marked a major change that saw an increase in the number of eFiled returns from 8% to 44% of total returns (SARS 2009c). In more recent years, this increase continues with 52.07% of returns filed through SARS eFiling in Tax Season 2018 which meant a 2% increase in the use of eFiling compared to the 50.08% of returns eFiled in the 2017 Tax Season (SARS 2018e: 1). Commensurate with this, the updated Service Charter spelled out SARS’s endeavour to ensure their eFiling channel would be open 24 hours a day (SARS 2018f: 3).

Extending the submission periods for electronic submissions within the Tax Season, while using a simplified scanning channel, as well as upgrading the processing systems, initially resulted in income tax returns being processed quicker than the government targets by 9% (SARS 2009c). These enhanced opportunities to file during SARS’s Tax Season have continued more currently with, for example, extended hours of operation over the 2018 Tax Season to support eFilers (SARS 2018g: 1) along with the aforementioned simplifications and upgrades.

Greater process automation and improved controls has quickened the turnaround time of revised declarations and other corrections requested by taxpayers. Initially upon implementation, assessments are repeatedly revised against Strategic Plan targets (SARS 2009c; SARS 2016a). At the time of these particular implementations, such improvements directly translated into a significant increase in taxpayer satisfaction, confirmed through an independent survey by Tax Season Research (SARS 2009c). The satisfaction of the taxpayer remains at the fore of SARS's service provision given the establishment and constant revision of clear, measurable service targets (SARS 2017a: 4).

All these have been important steps in encouraging taxpayer compliance as ease of use makes a notably positive difference to compliance. Furthermore, this shows SARS's ability to execute strategies to improve taxpayer compliance, and so, indicates that additional strategies, if implemented, could meet with the same success. Following this discussion on SARS's service delivery capability, SARS's principle function of collecting tax revenue is covered next, noting the cost efficiency of this process within international benchmarks.

3.8 REFINING REVENUE COLLECTION

SARS acknowledges that in order to achieve revenue targets within a harsh economic climate, an accurate estimate of revenue must be made to facilitate collection (SARS 2018b). This entails the in-depth analysis of the revenue potential of the economy, detailing how this will manifest monetarily within each category of taxation. Revenue analysis and forecasting capability will also have to improve, alongside an accurate revenue accounting system, all while making payment processing efficient and executing an early response to instances of non-compliance (SARS 2018b: 24). Revenue performance tracking, analysis and forecasting of revenue through collation, integration and the observation of tax data trends will all form part of the refined revenue management programme.

Taxpayers can currently make use of improved electronic payment systems to simplify the process, which simultaneously allows for virtually real-time tracking of such payments and supports SARS securing the revenue, while aiding in debt management. When SARS committed to building revenue collection capacity back in 1999, the transformational process saw an increase in revenue collection but naturally this was accompanied by a considerable increase in their expenditure budget as these rigorous processes resulted in a fractionally

increased collection cost of 1.03 cents per rand of revenue (excluding 2008/9 capital expenditure) compared with a cost of 0.98 cents in 2001/2002 (SARS 2009c). More recently, as expected, the cost of revenue collection ratio decreased from 0.97% in 2014/15 to 0.96%, well within the international benchmark of 1% (SARS 2016b: 1). As such, this represents SARS's competency and uniformity with international yardsticks.

Even with these improvements to SARS's mechanisms of revenue collection, the actual process can still be met with difficulties that are not related to the physical or technical aspects of collection, but rather, they are experienced owing to the many factors present in a country that influence taxpayer compliance with such a system. These compliance-influencing factors were highlighted in chapter 2. Having discussed the mechanisms to collect revenue, SARS's response to improve compliance with this process is provided next.

3.9 CURRENT COMPLIANCE STRATEGY

The compliance programme is an important, ongoing, evolving platform for SARS. SARS has focused on an outreach and education programme to promote awareness and an informed understanding of the gravity and importance of taxation and compliance therewith among taxpayers (SARS 2018h: 1). SARS are aware that meaningful engagement with taxpayers is the mechanism through which the foundation for compliance is built, thus they have attempted to improve the quality of this engagement by making inroads to understand the payment behaviour of taxpayers and maintain the completeness, integrity and accuracy of the tax register (2009a). A simplification of the registration process by facilitating single registration gave SARS an integrated view of each specific taxpayer. Then, to be alert to instances where such a taxpayer might be non-compliant, SARS places their attention upon compliance-risk rules and engines that utilise third party data to more accurately identify compliance-risk indicators.

In response to the sources of discontent and the pressure placed upon a thin and saturated portion of the taxpaying populace, the tax base broadening project was launched, which sought to register taxpayers who were not on the register for tax purposes (National Treasury 2001: 58). This was initiated as far back as 1997, significantly reducing the rate of non-compliance, and ensuring that more South Africans were paying their fair share of the tax burden. It is a controversial topic whether punitive measures are effective in dealing with

non-compliance, especially from a cost-benefit perspective regarding the investigative and punitive process (Slemrod 1992: 7). However, with the new systems for administrative penalties for non-compliance introduced in South Africa, compliance saw an upward shift (SARS 2016a). The reason for this was the improved hit rate on the investigative cases, which was attributed to appropriate case selection highlighted in the Strategic Plan 2016/17 – 2020/21, where such effective selection was intended to continue into the future (SARS 2016a: 43).

Diligent focus on end-of-function inspections and improved governance also went quite some way to establish the success of the administrative penalties without the associated decline in tax morale. All of the above means have been synergistically reinforced by key appointments of legal personnel to prosecute tax defaulters and further enforce compliance. The success was initially evident with a 78% improvement in compliance, exceeding their 70% target (SARS 2009c). More recently, the revenue collected by SARS from personal income tax continues to grow year-on-year, growing by R37 billion (8.7%) in the 2017/2018 tax years (SARS 2018i: 1). This is highlighted to illustrate that the compliance strategy is meeting challenges in a structured way, which could be considered becoming of a capable revenue collection authority.

Although compliance strategies are concerned with the taxpayer's behaviour, SARS's efforts to facilitate compliance do involve the use of much technology and information in order to be effectively executed. With this borne in mind, the actual technology infrastructure must be sufficiently robust to handle the information needs, not only to enhance compliance, but also, to facilitate the exchange of information as discussed earlier in the context of global compliance-enhancing trends. With a relatively comprehensive compliance strategy highlighted, the technological infrastructure that facilitates this process and many other processes is discussed next.

3.10 INFORMATION TECHNOLOGY INFRASTRUCTURE

Before recommendations, which may utilise technology or large quantities of quality data to improve taxpayer compliance and their relationship with SARS can be made, there must be an assessment of the IT infrastructure employed by SARS. This is necessary to provide relevant

strategic direction over the execution of its duties and the way it goes about collecting quality data to be processed into useable information.

The current state of SARS's IT infrastructure as well as the improvements made are provided below in three main areas to highlight its capabilities and so contribute to the fulfilment of research objective 2. These highlights include the digitisation of legacy data, which follows next, together with the delivery of income tax information and services online, and then, the modernisation of customs and excise systems.

3.10.1 DIGITISING LEGACY DATA

Any longstanding organisation has witnessed multiple technological evolutions, even in the last decade. SARS is naturally one such witness as older systems became inefficient and were left behind as part of their strategic plan (SARS 2009a). Unfortunately, a lower quality grade of data and information was also left behind and this presented limitations to SARS's ability to deliver in certain areas (Rasool 2011). The legacy systems for capturing and maintaining information on taxpayers constrained SARS's ability to provide world-class service and manage compliance risk effectively. Therefore, aside from introducing modern systems to additionally assist and supplement the legacy systems, SARS began cleaning legacy data, updating digital formats and keeping up with technology trends where feasible (2009b).

SARS has streamlined its tax systems by creating an environment where taxpayers keep their tax affairs in order by actively managing their own accounts using online facilities. However, delivering these improvements required a stable, scalable, consolidated accounting and financial management platform for all the taxes, duties, levies and charges collected, a consolidated billing platform to process tax returns and a sophisticated risk engine supporting taxpayer audits (SARS 2014: 40). These requirements are realised through a migration from separate legacy systems onto the consolidated Automatic Tax Processor (ATP) transaction-processing platform and the Systems Applications and Products (SAP) account management application where SAP is a world leader in Enterprise Resource Planning (ERP) software applications. The processing of VAT and Pay As You Earn (PAYE) returns and their associated billing have undergone this migration through the VAT and PAYE Replacement Project in conjunction with the Single Registration Project (SARS 2014: 40).

3.10.2 INCOME TAX ONLINE

Personal Income Tax (PIT) system changes have occurred to manage legislative amendments that affect tax calculations as well as addressing critical items that reduce revenue collection risk. New features introduced to the PIT systems include (SARS 2014: 40): Letters and statements can be opened on mobile devices; eFiling taxpayers automatically receive emailed correspondence via their eFiling account; SMS notifications provide the result of their tax return assessment; and lastly, email addresses and cell phone numbers are automatically requested from taxpayers by SARS. The latter is necessary as most functions in the system no longer automatically print and statements of account are only printed in branches on request.

To modernise SARS Corporate Income Tax (CIT) system, a customisable electronic tax return form for companies was introduced to reduce the administrative burden on CIT taxpayers, meet the specific requirements of the company and improve information accuracy about CIT taxpayers. Companies must verify or update their address, contact details, banking information and information about their public officer while mandatory fields prevent incomplete submissions.

SARS provided a new secure web platform that allows taxpayers to submit third-party supporting data electronically. They also upgraded the Tax Clearance Certificate (TCC) system to enable clients to request TCCs online (SARS 2014: 7). The TCC system was further modernised enabling clients to monitor a taxpayer's compliance status on an ongoing basis (SARS 2019: 1). This enhanced compliance, particularly amongst those entities doing business with government.

3.10.3 CUSTOMS AND EXCISE MODERNISATION

SARS's subsidiary called Interfront developed the automated Customs Management System that centralised the clearing of all import, export and cross-border declarations through a single processing engine. Now, virtually all customs declarations are submitted electronically where sophisticated workflow management processes utilising electronic information formats have replaced multiple systems and their manual paper-based activities, thus improving the speed and accuracy of SARS's import and export processes. Also, by integrating the Customs Management System with the SARS risk engine, the activities of illicit and illegal trade are more accurately identified and analysed (SARS 2014: 21). The Automated Cargo

Management (ACM) solution tracks goods travelling to and from South Africa using traders' electronically submitted cargo documents (manifests) (SARS 2014: 21).

Plans to establish an IT network that links regional customs authorities progressed through the South Africa/Swaziland and South Africa/Mozambique IT connectivity pilot projects that are modelled on the Globally Networked Customs (GNC) concept. The GNC concept is a standardised way for customs authorities to exchange information using agreed protocols and guidelines supported and monitored by the WCO. These piloted customs projects are steps toward the creation of an international eCustoms network to enable the seamless, real-time electronic transfer of customs information throughout southern Africa (SARS 2014: 22).

Excise activities have been modernised so excise taxpayers can submit returns through the Service Manager platform at a SARS branch or online using any device linked to the SARS eFiling service on the internet. Online account management facilities that processes such as reports, payments and refunds are available through the eFiling service as well as the SAP platform. All Customs and Excise declarations and payments are now conducted electronically, automatically reconciled and reported virtually in real-time, eliminating the need for manual reconciliations or interventions by branch staff, which has also improved transparency and efficiency (SARS 2014: 22).

Evident from these online modernisation efforts, SARS has managed to introduce in-built quality measures to provide consistency and completeness, thereby improving the system's ability to manage data along with the development of an account management system that promotes the integrity of account information (SARS 2014). This amounts to an essential stabilizing element in SARS's operating systems where taxpayers can be assured of world-class service, queries can be efficiently processed through electronic channels, and the turnaround time for processing all transactions is dramatically shortened to meet the demands of a digital world.

These examples serve to reveal the competency and capability of the IT infrastructure so that new compliance-enhancing strategies, which may rely upon these systems, may be considered for adoption when research objective 3 is explored in the next chapter. It should be noted that although SARS may have a relatively capable technological infrastructure, this does not imply that the general population has access to the same infrastructure. Having

investigated the capability of highlighted areas of SARS's electronic and technological systems, the management and competencies of the staff that operate and utilise the IT infrastructure is signified next.

3.11 NEW FOCUS ON HUMAN CAPITAL

The various iterations of the King Code on Corporate Governance each indicate a move toward the acknowledgment of different forms of capital (Thomson 2017: 30-31). This includes the recognition of human capital, as well as how this type of capital may be developed (Jackson and Stent 2016). SARS has committed to aligning the organisation with the King Report for Corporate Governance (SARS 2018b: 8). It does so by instilling the principles of Integrated Thinking and Integrated Reporting to promote a more cohesive, diverse reporting approach that communicates all the relevant and material factors that affect SARS's ability to create value over time.

SARS is aware that if they are to improve compliance levels and sustain revenue collection it needs to continue to develop employee technical ability and encourage an efficient and autonomous but accountable leadership. Fortunately, SARS has been given the autonomy to exercise administrative changes regarding recruitment and retention of skilled staff via human resource policies and systems. Certain capability requirements are essential to maintaining peak performance, which is simply unsustainable without employees who are continuously engaged in skills and competencies development. This is a need on a globally competitive level, let alone one acknowledged by SARS, and one which led them to coin the phrase "goodness of fit", an initiative promoting changes in operating and leadership models which has also been part of SARS commitment to serving the taxpayer (SARS 2009a; 2018b).

This focus on human capital has been in three areas that have been highlighted below. These areas cover staff skill development through a career path model, the leadership capability of management through a competency framework, and enhancing the general work culture through an employee engagement programme.

3.11.1 HUMAN CAPABILITY DEVELOPMENT

Enhancing the effects of these important changes, SARS has overseen the implementation of human capability development, as well as individual lifelong learning strategies, which were

developed to add further value to the process. A human capital planning system was initiated to identify current and future skills requirements. This would be able to target skills that needed incubation and develop those skills, retain skills that had not met with obsolescence, and support institutional redeployment (SARS 2009a). The development of an 'enterprise capability management system' aligned SARS's capacity plan with the changing needs of the modern world and is used in determining the specialist training needs which are, in turn, addressed by SARS academy (SARS 2011b: 63).

SARS's fundamental aims in securing revenue, improving service and enhancing cooperative-compliance relationships are bolstered by the learning and development strategy which focuses on developing human capital for enhanced competency and delivers on the aforementioned priorities. Talent and career management also forms part of SARS's human capital development strategies, and encompasses identifying and developing critical and core leadership roles to ensure organisational sustainability. This has manifested itself in the form of 95% of employees being positioned on the 'career model' that offers planned career development tracks within the organisation (SARS 2009a).

In recent years, SARS has actively supported programmes of skills development, knowledge sharing and capacity building (SARS 2018b: 61). Much of this has actually been done in support of South Africa's foreign policy objectives. The latter capacity building programmes included hosting 93 officials from 12 countries in South Africa where 18 incoming benchmarking visits focused on a plethora of developing areas. These engagements aimed to develop skillsets surrounding performance management, innovation management, human resource management, risk management as well as enhancing knowledge of VAT, taxation of the mining sector, data warehousing, high net worth individuals, voluntary disclosure, digital and forensic audits, eCommerce, customs centralised processing, tax court, alternative dispute resolution and revenue tracking (SARS 2018b: 6).

As part of their, Employer Value Proposition, SARS recognises that its ability to succeed is inextricably linked to the knowledge and skills of its workforce (SARS 2018b: 94). SARS supports employees with bursaries that are given to staff to allow them to obtain additional qualifications relating to their unique career aspirations and the skills requirements relating to their position and future role within the organisation.

These sessions and programmes are invaluable to a competent and capable organisation, and while training must be ongoing to remain effective, these efforts to develop SARS's employee skillset, capacity and capability are to ensure just that. To best manage and utilise the abilities of individual employees, those charged with leadership roles must be suitably developed as well, which is discussed next.

3.11.2 LEADERSHIP COMPETENCY FRAMEWORK

The leadership competency framework develops unique observational and proactive leadership skills, put in place to improve competencies in transformation, insight, empowering delivery and higher purpose. Leadership competency includes integrity among team leaders, middle managers and senior managers. The growth of institutional leadership skills is benchmarked, indexed and measured in a number of dynamic ways. The leadership effectiveness index allows progress in leadership development at various levels within the organisation to be monitored and scaled against, while the employee value-proposition plan measures the success in attracting, retaining and developing talent in strategically critical areas (SARS 2009a).

The leadership competency framework has evolved into the Leadership and Management Development Framework (SARS 2018b). This is still recognised as an essential element by SARS, who has initiated programmes within this framework such as the Executive Management Development Programme, the Senior Management Development Programme and Women in Leadership Programme. As a result, SARS has enrolled 100 and 140 employees for the 2018 and 2019 academic years respectively (SARS 2018b: 93).

SARS's executive committee is also suitably developed with relevant qualifications in leadership as well as other areas of expertise which contribute to the competency of the committee as a whole (SARS 2018b: 20-21). The development of SARS's leadership has allowed the leadership effectiveness index to reach SARS's targets, achieving 88.08% in the 2017/2018 financial year (SARS 2018b: 58).

These are strong indicators of a promising leadership structure with a positive trajectory. Next, the acknowledgement and recognition of employees engaged under the aforementioned leadership are discussed.

3.11.3 EMPLOYEE ENGAGEMENT PROGRAMME

The employee engagement programme has transformed the SARS work culture just as it continues to support business-enhancing behaviour. By injecting fundamental values into the process at the root while the integrated programmes of action and intervention are manifested as an overall improvement in the employee management index. The Amakhezi Formal Recognition Programme has been implemented to provide incentive and give recognition to exceptional behaviour that embodies SARS's values (SARS 2009a). SARS's Employee Engagement levels have grown since 2007, although there was a decline in 2017 as well as in 2018 which saw the Employee Engagement Index fall to 63.60% (SARS 2018b: 70). This has been noted by SARS who is concerned that the trend has continued for two years. Given that Employee Engagement aims to develop employee pride and loyalty toward SARS, perhaps recent developments that have also negatively affected public perceptions of SARS have had an effect on employees too (SARS 2018b: 72).

Barring this most recent trend, SARS's strategies on developing human capability have fostered engaged employees, and provided for better organisational service toward taxpayers. Simultaneously these programmes have afforded gains in organisational efficiency and innovation with a new and dynamic leadership. Having highlighted SARS's investment in human capital and the drivers of employee engagement and pride, the efforts to engage with taxpayers and provide support to the public are discussed next.

3.12 LOCAL CAMPAIGNS, COMMUNICATION AND WORKSHOPS

SARS's corporate identity plays a large role in taxpayer compliance as user perceptions of the organisation affect their actions. The communication division within SARS is largely responsible for the development of their identity as well as how it might be perceived. Their role is pervasive, ranging from establishing a media presence nationwide right down to seemingly trivial details such as ensuring that all SARS's forms are standardised according to corporate standards under the same badge.

The communication division has been actively increasing SARS's visibility in print media as well as electronic channels, including online media, some of which is within the social media sphere. Improving SARS's media profile has assisted in the projection of positive media coverage of SARS's successes and highlighted the modernisation programmes to make

taxpayers aware of such initiatives thereby encouraging the use of online services now available for which the communications division also plays a role in facilitating online user-friendliness and updating existing information including the SARS Media Page. The image of SARS has seen more than just online facelifts as larger campaigns have been held which served to portray their ability to be an effective, efficient service provider (OECD and FIIAPP 2015: 170). These campaigns are essential to combat the vexation of taxpayers who are disheartened by the facts surrounding the saturation of the South African tax base and the artificial shifting of the tax burden (Myers 2012: 65; Salin 2017: 70).

Public relations efforts are made particularly before and during Tax Season. These efforts can be as simple as radio broadcasts, but a more exciting addition has been the Walk-For-Tax. In July 2016, the SARS Commissioner and staff launched Tax Season with “Walk-For-Tax” where more than 1200 staff walked through Pretoria’s central business district in a jovial effort to show the public that SARS was fit and ready to meet the revenue collection target of R1,175 trillion as symbolised by the route which covered 11,75km (SARS 2016c: 1).

SARS’s staff and executive committee members joined the Commissioner in speaking to taxpayers in Pretoria, whether business owners, vendors, informal traders or individuals, about paying tax and who was eligible to pay in an effort to raise awareness and get South Africa ready for Tax Season (SARS 2016c: 1). SARS explained that they acknowledge the importance and significance of the taxpayer-revenue authority relationship and describe it as a partnership that makes a vital contribution to the country.

Branch Operations Engagement operates within SARS to provide strategic direction expanding the organisation to allow taxpayers access to SARS in ways other than through traditional branches. They hold such campaigns and are involved in education that improves the ease with which people can interact with SARS (SARS 2018j: 1). SARS officials are charged with bringing this awareness and education to the people, guided by the SARS Compliance Model which stipulates the need for a balance between service, education and enforcement (SARS 2018h: 1).

This Engagement Unit, which exists within Branch Operations, is instrumental in achieving that by running a number of campaigns and education interventions. These include education workshops and seminars held to explain the tax products and services that are administered

by SARS. These reach taxpayers by setting up Points of Service at strategic points including local malls, directly assisting employers with technical aspects of their PAYE reconciliations, visiting companies to assist employees in filing their individual returns during Tax Season, targeting small businesses, providing the knowledge required to remain compliant, and lastly, by identifying and physically verifying 'high risk' businesses as they apply for VAT numbers (SARS 2018j).

Tax Season is recognised as an essential partnership between government and taxpayers, where SARS acknowledges the vital contribution taxpayers make. It is the single greatest annual engagement between SARS and taxpayers, as over 4,299 million individual income tax returns were submitted in this period. These campaigns and workshops are all vibrant efforts to improve taxpayer compliance, and show the requisite competence and maturity of a developed taxation infrastructure.

These communication efforts do not only extend to current taxpayers, but rather, SARS is forward thinking and seeks to develop and equip future taxpayers who are presently young learners. The tax education programmes to equip these young learners are discussed next.

3.13 TAX EDUCATION EFFORTS FOR YOUNG LEARNERS

Apart from the workshops and awareness campaigns already discussed, SARS has made an effort to provide basic tax education programmes for educators and learners alike. The SARS Schools Project aims to help young South African learners from as many as 180 different schools across the country understand tax (Tax Education 2019). A group of professional tax educators have been assigned to these schools, tasked with teaching how and why taxes are paid, and their importance. This indicates that SARS is aware that it does not matter that these young learners are not active within the tax system yet, rather SARS appropriately recognises that these learners are future taxpayers (Sarker 2003; Bahari and Ling 2009: 39).

The SARS Schools Project is designed to add "SARS Interventions" to the subject of Life Orientation between grades 9 and 12 in the SARS School Learner Programme (Department of Basic Education and SARS 2014). Beginning with a brief history of taxation in grade 9, no technical aspects are introduced here, but between grade 9 and matric (grade 12), the definition of tax is covered, as well as who pays tax, why taxes are paid, and the penalties for noncompliance. It also adds more complex "Interventions" to the current Accounting

curriculum in the SARS Tax Programme. This is where concepts like provisional tax, personal income tax and PAYE are introduced in grade 10, followed by the taxing of partnerships, company tax and VAT calculations in grades eleven and twelve, successively increasing in complexity. Learners who do not elect accounting as a major subject do not receive the benefit of this particular programme.

SARS's relationship with some of these schools has grown tremendously culminating in the project awarding certificates in tax literacy to participating learners. As feedback from these schools has been positive, SARS plans to include more learners and more schools, both public and private, including those in rural communities. SARS's tax educators have also delivered tax lessons in several tertiary institutions of higher learning. The Executive for Taxpayer Services, Sobantu Ndlangalavu, defines the project as a "knowledge investment" as it targets future taxpayers while they are still young and imbues them with an understanding of the importance of tax (Tax Education 2019). The end goal, he states, is to "instil a culture of tax compliance and morality in South Africa". However, it should be understood that a concerning number of South African learners will not matriculate and many may never be exposed to the entire programme (Anderson 2018; Spaul 2013; The flaw in SA's 'real' matric pass rate figure 2018).

As mentioned, the SARS Schools Project is run in 180 schools between grade 9 and 12; however, there are around six thousand high schools in South Africa where this tax education is needed (Comprehensive South African Schools Resource Directory 2019). The task undertaken by SARS to educate the youth about taxation is simply astronomical, and most likely impossible without assistance. Fortunately, SARS has begun communicating with the Department of Basic Education, with intentions to collaboratively introduce tax into the national curriculum (Tax Education 2019).

Given that SARS has already directed some effort here and this initiative could be improved by considering the best practice of foreign counterparts regarding taxation education, this area has been highlighted for investigation as part of research objective 3. The exploration of new compliance-enhancing strategies from abroad in the next chapter looks at how the revenue authority can better cooperate with the Department of Basic Education and establish a tax curriculum for all learners of all levels in all schools.

With SARS's efforts and plans to educate current and future taxpayers noted above, the forward-thinking approach by SARS is commendable, but extends further than this. Additional resources have also been utilised by SARS to include and empower taxpayers who are hearing and sight impaired. The outreach projects directed to deaf and blind taxpayers are discussed next.

3.14 HELPING DEAF AND BLIND TAXPAYERS

As part of their pledge to improve accessibility for the deaf and blind communities and educate the public about tax matters, SARS embarked on an outreach project. This project's purpose was to educate deaf and blind communities on tax compliance around the country at various branches in cities and towns, beginning at schools that specifically cater for the deaf and blind. The public was invited to inform deaf and blind members of the community to visit SARS's branches and attend to their tax affairs in their language of choice. Here the SARS Language Unit began equipping the deaf and blind communities with the necessary skills and knowledge required to submit complete and accurate tax returns, and extended this to other members of the community where they would be serviced at specific branches. The project was an embodiment of the SARS Language Policy circumscriptions where a scheduled commitment was made to serve deaf and blind taxpayers in South African sign language (SARS 2017c: 1).

These measures to ensure that the hearing and sight impaired are adequately equipped to be competent, capable taxpayers is a testament to SARS's willingness to meet and fully engage with taxpayers in every circumstance. This is sign of a developed tax system that is both inclusive and accommodating. Having focused on the communicative, educational and outreach programmes of SARS, SARS's approach to delivering such programmes and achieving related performance objectives is outlined next.

3.15 A MEASUREMENT APPROACH ON PERFORMANCE

SARS continues to strive to achieve the clear outcomes associated with its strategic objectives that are first aligned to strategic priorities, otherwise known as the measurement approach. To link these priorities to the objective's outcome, SARS adopted a one-for-one direct mapping of outcomes to strategic priorities, rather than a dual mapping response to link each strategic objective and priority (SARS 2009b). This approach ensures activities in an individual's

work plan are aligned to overarching divisional plans and enterprise business plans as whole to generate consistent performance reporting at successive levels in the organisation and create multilateral synergy. The performance itself is measured through a myriad of outputs and outcomes further contrasted against baseline measures, forecasted outcomes and specific outcome measurements (SARS 2017a).

These measures are indicative that SARS is all the more capable of realistically assessing its own capabilities, which is very important should it decide to implement any new taxpayer compliance-enhancing strategies that require new and precise strategic objectives to be achieved. However, before many of these performance targets can be met or measured, service targets must be set and again clarified. SARS has done so utilising the SARS Service Charter (SARS 2018f). The SARS Service Charter represents another aspect of the measurement approach to performance, although it has additional roles within the taxpayer-revenue authority relationship. The function and potential of the SARS Service Charter is discussed next.

3.16 THE SARS SERVICE CHARTER

The SARS Service Charter is an important instrument which has evolved since its inception. It provides service delivery targets which taxpayers can expect from SARS, and it also reiterates fundamental rights and obligations expected from both parties in the taxpayer-revenue authority relationship. The discussion of this instrument focuses on a number of areas beginning with the SARS Service Charter's introduction into the South African taxation system, followed by a review of updates regarding its targets and principle clauses. After this, the rights and obligations that it reinforces are highlighted, and then, the mechanisms to enhance SARS's accountability toward this instrument are discussed. Lastly, the future and potential of the SARS Service Charter is contemplated.

3.16.1 THE INTRODUCTION OF A TAXPAYERS' CHARTER

The development of this instrument was set in motion partly by the OECD (1990: 7) who recommended that revenue authorities should issue a Taxpayers' Charter outlining taxpayers' rights and obligations, if they had not done so already. Acting on this advice, a Taxpayers' Charter was first published in South Africa in 1997 with a statement of intent regarding taxpayers' rights. As announced in 2002 by the Minister of Finance, the Taxpayers' Charter

was amended based on a review of taxpayers' rights, and now includes the levels of service that taxpayers can expect when dealing with the SARS (Edward Nathan Sonnenbergs 2005: 1). This was released on the 19th October 2005 as the SARS Service Charter with its service standards phased in by 2007.

An updated SARS Service Charter was repeatedly promised for quite some time. The Tax Ombud eventually lobbied for an updated Service Charter as well as an updated Taxpayers' Bill of Rights which would provide improved transparency and clarity (Visser 2017: 1). The acting SARS commissioner Mark Kingon "committed the tax authority to releasing the long-overdue service charter on July 1" (Visser 2018: 1).

The revised SARS Service Charter underwent a 'facelift' of sorts in 2018. This included updated turnaround times for registrations, applications and other processes and services provided (SARS 2018f). It also contains a reiteration of the constitutional rights it will honour, but the document itself is not a taxpayer's bill of rights which certain parties such as the Davis Tax Committee have called for (Visser 2017: 1).

3.16.2 NEW CHARTER VERSUS THE OLD

A deepened sense of ethics and responsibility is present in the new and improved SARS Service Charter. The spirit of the SARS Service Charter is made clear on the first page, set out as a list of principles, which among other things, aspires to contribute to the wellbeing of the country, encourage tax compliance, improve services, be respectful, counteract corruption, and as expected, adhere to the timeframes set out throughout the document. This initial list includes many moral and ethical undertakings which are new to the Service Charter and, in this sense, it is more holistic, encompassing elements of the South African Constitution as well as Batho Pele or "People first" principles. Service standard expectations as per the law and good governance are clearly linked and defined (Radzilani 2018).

There are also other more tangible and functional aspects which are made apparent within the document. Firstly, the focus is on what each function adds to the Value Chain, rather than a typical Front Office and Back Office division. Next, the Service Charter provides an integrated view of rights, obligations and service timeframes for Tax, Customs and Excise, all presented together in one document. No one specific channel of interaction takes precedence over another as the timeframes of service delivery for eFiling and Mobile Tax Units are the same

as those that can be expected through more traditional channels. Lastly the document flows logically according to each taxation processes beginning with the initial engagement, taken through registration, submission of returns, audits, refunds or payments, right up to objection processes and complaints to SARS or the Office of Tax Ombud (OTO).

These changes, improvements and additions are part of what makes the Service Charter a more versatile and meaningful document. Other new concepts may not be entirely obvious, but are nonetheless embedded in the wording of the Charter, as explored next.

3.16.3 NEW CLAUSES

Within the updated SARS Service Charter, a number of new clauses are contained which reveal that some new or enhanced principles have been taken on board. These principles may be as simple as showing respect, or referring to legislation where applicable, but nonetheless, these clauses reveal the nature of the Charter, the limitations placed on its scope, and the kind of environment it is intended to affirm. The clauses contained are as follows (SARS 2018f):

- *The Charter (including any time periods stipulated herein) is subject to any applicable Act of Parliament. Should any aspect of this Charter be in conflict with applicable legislation, then such legislation will take precedence.*

Here, the Charter provides a disclaimer. It shows that it reaffirms rights, but does not create them. An administrative charter protects taxpayers by reflecting their taxpayer rights that are first and foremost protected by separate legislation. This is in contrast to a legislative charter that protects taxpayers against a breach of specified legal rights that relate to tax law.

- *If a current year's refund is due SARS will pay within 7 business days of finalising the assessment provided that:*
 - *No other debt is due*
 - *All obligations have been met*
 - *SARS administrative control processes are adhered to, and*
 - *No inspection, verification or audit is required or has been initiated.*

These additional stipulations have been provided to give clarity on situations where refunds have had to be temporarily withheld. This shows SARS has acted to prevent further instances of confusion by now communicating the required conditions surrounding a refund.

- *Not encourage or be party to any corrupt activity or fraud in any form.*

As would be expected, there is an added on focus, discouraging miscreant behaviour from taxpayers or agents within the revenue authority itself.

- *Show staff respect just as they are expected to respect taxpayers. If someone else acts on a taxpayer's behalf, SARS expects the same from them.*

An important emphasis is on creating an environment of respect. The mutual display of such respect is extended to include those who act as intermediaries.

- *Taxpayers must take responsibility for their tax affairs, even if they have authorised someone to act on their behalf.*

The Charter also reminds taxpayers that they remain liable for their own tax affairs regardless of the misgivings of their tax practitioner or intermediary. SARS simply cannot accommodate incompetence from practitioners nor a lack of foresight from the taxpayers who elected them and remain an efficient, respected organisation.

- *Encouraging others to pay their tax and/or duties on time and in full.*

This is an element of positive tax enculturation, promoting good citizenship and the duties expected of taxpayers. It is a true step towards embedding the principles of Responsive Regulation within the Charter as discussed in Chapter 4 and Chapter 6.

- *Informing taxpayers if and when prescribed timeframes cannot be met.*

As a matter of courtesy, SARS is aware that even the updated timeframes may be difficult to fulfil at times, especially in peak-season. The result is another commitment to inform taxpayers of any delays and prevent negative stigmatic sentiments from developing.

These new clauses are particularly welcomed here as they are indicators of a shift towards a greater purpose and scope for the SARS Service Charter. The potential for this instrument can

only be fulfilled if endeavours like these continue to be made and embedded in the Charter itself.

3.16.4 NEW AND REALISTIC SERVICE TARGETS

In earlier incarnations of the SARS Service Charter, SARS acknowledged the importance of setting intended service levels against which results can be measured. This is still at the fore of the revamped Service Charter that has listed new service targets (SARS 2018f: 3-7). Compared to the initial Service Charter released in 2005, some the service targets provided in the latest version appear to be slower. This may be a result of a more realistic understanding of what is possible in certain areas of service. Perhaps the projections for this instrument were initially overly optimistic, which may explain why the updated targets illustrated below were more achievable.

For example, initially, SARS intended to answer 90% of all calls within 20 seconds and provide resolution without transferring the call, but has since simplified this endeavour to answer the call within four minutes during peak seasons and within one minute, off-peak. Still, as before, if the agent is unable to resolve the matter immediately the taxpayer can expect to be informed of the steps the agent will take in resolving their enquiry or be called back within two business days where additional specialist support is required (SARS 2018f: 3). Here it is clear that the timeframes have been adjusted to be more manageable, but the necessary procedures to provide the taxpayer with adequate and complete service have remained intact.

As another example of this, the SARS office first undertook to attend to 95% of visitors without appointment within 15 minutes of arrival, but with the updated timeframes it sought to serve visitors within three hours during peak season and to be available at the scheduled time for designated appointments. However, not all timeframes were adjusted, such as when writing to SARS, the undertaking was to respond to 80% of all correspondence received by post or electronic means within 21 working days of receipt, a target that holds firm in the new Charter. However, as before, the procedures to ensure service is fulfilled also remain such that SARS would explain when a proper response could be expected if an enquiry is unable to be resolved expeditiously.

In certain instances, SARS has provided timeframes where once there was none. Previous incarnations of the Charter saw SARS commit to dealing with enquiries and objections as swiftly as possible, but did not provide timeframes for finalisation of objections and disputes. With the version released in 2018, provided that no exceptional circumstances arise, SARS would give reasons for an assessment within 45 business days, consider the objection within 60 business days, but consider if a matter is suitable for Alternative Dispute Resolution (ADR) within 30 days from the date of receipt of request, and if applicable finalise ADR proceedings within 90 business days.

These examples reveal that SARS is aware of its limitations but also shows its willingness to fulfil its obligations. Revising timeframes is necessary and an element within more advanced service infrastructures. Monitoring itself and responding appropriately in this way shows maturity and responsibility.

3.16.5 REITERATION OF RIGHTS AND OBLIGATIONS

The Service Charter reinforces taxpayers' rights contained in the Constitution of the Republic of South Africa Act No. 108 of 1996, as amended. It also gives added weight to obligations in terms of the Tax Administration Act 28 of 2011 (South Africa 2011) where it expects no more of the taxpayer than to pay what is due under law, giving equal treatment that is also equitable by utilising progressive tax rates that increase with the taxable amount. The timeframes themselves can be supplementary to the prescriptions in the Tax Administration Act 28 of 2011, and this Act will always take precedence in the event of a conflict, but nonetheless, SARS endeavours to uphold the taxpayer's right to be informed if and when timeframes prescribed in the Charter cannot be met.

The SARS Service Charter restates the taxpayer's right to privacy, undertaking to deal with the taxpayer's affairs on the strictly confidential basis required by law. It also restates taxpayers' obligations to keep proper records of income and expenditure and supporting documentation that relate to information submitted in the taxpayer's return which must be correctly completed, personally signed and submitted timeously (SARS 2018f: 2).

Should a taxpayer's own representative or advisor assist the taxpayer with their affairs, this fact must be made known to ensure SARS does not compromise the taxpayer's privacy and confidentiality. In addition, tax advisors will need a special power of attorney from their client

confirming they are authorised to act on behalf of the client for their tax affairs. However, SARS reminds that even with the aid of a tax practitioner or intermediary, the taxpayer remains personally liable for their own tax affairs and compliance, and should ensure the tax practitioner they use is registered and accredited.

The protection of taxpayer rights, supplemented by the SARS Service Charter, has been evidenced relatively recently. Privacy and confidentiality rights were upheld when SARS noted widespread media reports relating to the controversial book *The President's Keepers* (SARS 2017d: 1). SARS expressed its deep concern about the publication of confidential taxpayer information in contravention of Chapter 6 of the Tax Administration Act 28 of 2011. SARS referred to Section 69 which prohibits the disclosure of taxpayer information by a SARS official or former SARS official and Section 69(3) of the Tax Administration Act prohibits the disclosure of confidential taxpayer information outside of a formal, judicial process, stating "SARS is duty-bound to address the violation of the Tax Administration Act." SARS viewed the publication as unlawful and a criminal offence and proceeded to seek legal advice in the matter.

Clearly many rights and obligation are reinforced by the Charter, and not all of them can be repeated here, but these examples of observing and acting on infringements upon the taxpayers' right to privacy and confidentiality serve to show that SARS takes such matters very seriously. These actions reveal the kind of diligence and responsible stewardship that is commensurate with a powerful instrument in the hands of a capable revenue authority.

3.16.6 SARS SERVICE ACCOUNTABILITY

With the updated Service Charter comes improved means to monitor and facilitate the actual performance of the Charter. The Charter's performance is to be shared with a number of audiences who will facilitate greater accountability and be able to action appropriate responses.

Service Charter performance is tabled at the Enterprise Operational Committee and the SARS Executive Committee (EXCO) as required. It is shared with the Recognised Controlling Bodies (RCB) at RCB EXCO, and annually, as required or as requested at the OTO. In addition, it is shared annually, and more inclusively, in the SARS Annual Report and SARS Executive Meetings. The taxpayer is involved too, albeit at a more rudimentary level. Should a situation

arise where a taxpayer believes that SARS officials are not complying with the SARS Service Charter, they are urged to contact a SARS call centre.

Concerning general dissatisfaction with service, taxpayers have a number of avenues to follow to rectify the problems they encounter. A taxpayer dissatisfied with the manner their tax returns or enquiries have been managed is required to put the matter on record with their local SARS office. If not resolved to the taxpayer's satisfaction they may contact their local call centre where an agent will register the complaint and provide a service request number. If this procedure fails to satisfy, the taxpayer is directed to lodge a formal complaint.

These complaints were previously lodged with the SARS Service Monitoring Office (SMO). However, it would seem that the SARS SMO activities were never reported to the public after its formation in 2002 until it was removed from the SARS structure and replaced by the fully fledged Ombudsman's office (Edward Nathan Sonnenbergs 2005: 1). Feedback on the role the original SMO office played in resolving taxpayers' frustrations with SARS was unfortunately not provided to taxpayers, and neither the nature of such complaints lodged was disclosed nor the resolution thereof. Although this absence of feedback is somewhat concerning to recount, it is then fortunate to note that this office was replaced.

The SARS SMO's function was elevated to the fully independent office of the Tax Ombud similarly to many other countries that have taken this step. The Tax Ombud answers directly to parliament, remaining independent of SARS, thereby granting greater confidence in taxpayers and their complaints lodged over breaches of administrative procedure or substandard levels of service from SARS and its officials. The Tax Ombud provides a fair, simple way to resolve a service, procedure or administrative dispute in situations where SARS itself cannot provide a resolution.

3.16.7 THE FUTURE OF THE SARS SERVICE CHARTER

The release of the SARS Service Charter in 2005 as well as its update in 2018 have been welcomed. Levels of service experienced by taxpayers measured against those detailed in the SARS Service Charter have fluctuated from time to time, but SARS has prided itself in reporting the service levels experienced by taxpayers and the remedial action taken to address identified shortcomings. With all this, it is easy enough to praise the instrument that does

achieve its current intended purpose. However, in this current form, it also exhibits limitations that are discussed with reference to international counterparts mentioned below.

There are somewhat conflicting reports as to the degree to which SARS has embraced principles of responsive regulation and reintegrative enforcement. Akinboade and Mokwena (2012: 11) previously stated that SARS had already begun applying accommodative reinforcement and responsive regulation, avoiding stigmatising reinforcement, opting to appeal to taxpayers through open dialogue. But upon viewing SARS's strategic plans and media statements, there is little in the way of this terminology, and neither does the Service Charter (SARS 2018f) speak to these ideals nor mention these approaches.

SARS (2016a: 21) indicates their awareness that human compliance responses range in a continuum from willing compliance and unintentional noncompliance through to begrudging compliance and intentional noncompliance, but SARS's (2016a: 22) proportional punishments only respond to the nature of non-compliance. Furthermore, education is not a response to unintentional non-compliance, nor is it used as a form of corrective action, but rather, a general provision. These responses are not indicative of accommodative reinforcement or responsive regulation principles being exercised.

Seemingly, the Charter is geared toward services and targets, and lacks more holistic and beneficial goals that could have seen the Charter accomplish more and do more for the taxpayer-authority relationship. Principles of accommodative enforcement and reintegrative enforcement are prescriptions that would be beyond the ambit of any document titled "Service Charter," and as such, the SARS Service Charter must evolve to stay relevant.

Tax Ombudsman, Judge Bernard Ngoepe, in his speech at the Tax Indaba 2015 while referring to the Taxpayers' Bill of Rights and the Service Charter, said the "noise is set to be louder until our SARS friends produce these important tools of service measurement, which would facilitate our task." Luther Lebelo, spokesperson for SARS at the time of finalising the latest Service Charter discussed in this study, provided a response stating that the previous Service Charter was no longer valid due to the modernisation of SARS's processes (Lamprecht 2015: 1). The fact that the Service Charter loses all relevance because of advancing technology indicates the lack of depth in this instrument.

Looking at the Taxpayers' Rights Charter of the Australian Tax Office (ATO), James, Murphy and Reinhart (2004: 17) found that it "has moved on from a simple list of principles and become more embodied in the culture of the ATO". Over two decades after its introduction, the Charter it is still seen as an essential component of the ATO's culture and norms (James *et al.* 2014). Such an integral part of enforcing taxpayer rights and improving the revenue authority-taxpayer relationship should not be overlooked, but unfortunately the revamped SARS Service Charter has remained much like its predecessor, vouching for certain rights and obligations, but still rooted in listing targets. The development of such a beneficial policy instrument should be a priority and the evolution of the Charter is something this study intends to emphasise as an outcome, provided the professional and academic interviewees add momentum to this motion.

Having highlighted the SARS Service Charter's introduction and development in the South African taxation system, as well as the potential it holds to enhance compliance and improve the taxpayer-revenue authority relationship, clearly certain challenges will remain until this instrument, among others, can be better utilised. The ongoing challenges that SARS is aware of are discussed next.

3.17 COMPLIANCE CHALLENGES IN SOUTH AFRICA

SARS has recognised that the following challenges surrounding the South African taxpayers' compliance culture and cooperation which remain and still require monitoring despite their lack of operationalisation or immediate remedy (SARS 2009a; SARS 2018b):

1. The global crisis necessitated a dramatic response to the significant revenue challenges faced, directing resources into a simultaneous counter-action, promoting compliance and deterring non-compliant behaviour by focusing on areas that potentially could yield higher revenue returns and a more substantial recourse to the compliance climate.
2. The safeguarding of a hard-earned asset, SARS's reputation, while still balancing the need to encourage compliance with empathy toward the difficulties taxpayers experience and maintaining a sensitivity toward the taxpayer base, continually aware that modernisation creates new obligations at an alarming rate.

3. A continual rapid response to changing service requirements, taxpayer behaviour and areas requiring specialist attention through the ongoing automation of SARS processes which facilitates the redeployment of human resources for alternative service expansion.
4. Betterment in the quality of information on taxpayers through improved registration systems and expansion via improved taxpayer account management systems.
5. Expanding service offerings to taxpayers, improving the quality of service and ease of access experienced through electronic channels and physical contact points.
6. Easing the compliance burden experienced by taxpayers by reducing costs and time needed, and simplifying the tasks required to fulfil their obligations.
7. Facilitating the most effective use of available resources through government and tax intermediary partnerships and cooperative ventures.
8. Developing a culture to deal with the increasing pressures on people, leadership and the workplace of the organisation to manage work volumes and tackle modernisation imperatives.
9. An ongoing improvement in SARS governance, ensuring consistent value delivery that honours the Constitution, laws and regulations, including their related frameworks.

SARS has acknowledged these challenges for quite some time, but many continue to present themselves as current concerns (SARS 2017a; SARS 2018b). Nonetheless, SARS's awareness of these challenges and the acknowledgement of their urgency and importance could be seen as a sign of institutional maturity, capability and forward-thinking stewardship. Only time will reveal whether all these challenges can be kept under control, but as detailed above in this chapter, many difficulties have been overcome. This ability to change and adapt that can be considered an additional indicator of the South African taxation infrastructure's competency. This further signifies SARS's capacity to adopt the cooperative compliance policies and strategies being utilised in foreign countries and adapt them to improve compliance in South Africa.

3.18 SUMMARY

The above discussion of the policy and services comprising South Africa's current taxation infrastructure indicates that SARS has taken the initiative to pay attention to certain global trends, to consider and implement new technologies to a certain extent as they became available, if affordable, for it seems to have built and maintained a reasonably capable and developed revenue collecting system. At the very least, the taxation framework is competent and robust enough to entertain the possibility of adopting foreign cooperative compliance taxation policy and strategy.

The tax reforms which have been covered in this chapter, particularly concerning personal income tax, have contributed to higher levels of tax revenue and served to support future growth, infrastructural investment and the capacity to sustain a strong fiscal position. However, SARS's endeavours thus far to secure tax revenue were still met with a shortfall in collections (SARS 2018b: 9). The maximisation of tax revenue collection cannot occur without improving taxpayer compliance. Unfortunately, the public opinion index has taken a recent downturn that SARS has attributed to taxpayer perceptions that there may be suspected political involvement in the revenue authority's activities (SARS 2018b: 72). The revenue shortfall and the public opinion downturn represent a ceiling that conventional thought and means have been unable to break through. If the capacity to incorporate and respond with alternative means exists, and such alternatives are explored, adapted and implemented, then this impediment to revenue maximisation can be overcome in the long term.

This chapter investigated the South African taxation infrastructure to determine whether an adequate aptitude existed to adopt taxpayer relationship-building policies and strategies from foreign economies and signify this capability to meet research objective 2. Certain needs and weaknesses related to current policy were also highlighted with a view to being addressed. The following chapter explores specific foreign countries that have successfully implemented tax policy and tools that have improved their revenue authority-taxpayer relationship and enhanced taxpayer compliance. In order to meet research objective 3, the collaborative cooperative-compliance policies utilised by these foreign countries will be explored and highlighted under four major compliance themes of transparency, education, responsive regulation and reintegrative enforcement that are discussed next.

CHAPTER 4

INTERNATIONAL COOPERATIVE COMPLIANCE TAX POLICY LESSONS

“Action without vision is only passing time, vision without action is merely day dreaming, but vision with action can change the world.”

Nelson Mandela, former President of South Africa

4.1 INTRODUCTION

Innumerable taxation policies and compliance reinforcing strategies have been implemented throughout ancient and modern times (Whait 2014; Burg 2004). Some have been methodically administrated, such as in Australia (James *et al.* 2004: 1), while others were almost casually announced and dispersed, as in the UK (James *et al.* 2004: 2). In this chapter, the cost-effective, successful implementations of these compliance policies and strategies are discussed within the international sphere, and the lessons that can be learnt from the countries that utilise these policies are extracted to meet research objective 3.

These compliance-enhancing policies were selected following a careful examination and comparison of collaborative-compliance agreements in selected foreign countries. Although a number of countries were used for the comparison, this study found that any lessons that could be adopted in South Africa came from mainly the USA, Japan, the UK, Kenya, Australia and Rwanda. The particular categories of these compliance-enhancing methods sought were based upon the conclusions drawn after research objective 2 was completed (see Chapter 3) which signified the infrastructural capability of the South African taxation system just as it identified certain weaknesses requiring remedial action. The selection of compliance policies that follows possesses much potential for local implementation, and furthermore, makes a positive contribution to the South African taxpayer-revenue authority relationship to deliver research objective 3. These policies have been listed as lessons as South Africa has much to learn from its international counterparts.

Some compliance-enhancing policies do in fact require others to create a facilitative environment, and accordingly, as any one policy has been entertained, others have revealed themselves as worthy counterparts. Some of these synergistic compliance-enhancing policies

could be paired or grouped into common compliance themes as they shared common characteristics or served a common purpose. Others policies with different characteristics called for new themes to be acknowledged. Over and above this, certain compliance themes mutually benefit other themes.

There are four major themes, each with associated lessons in compliance-enhancing policy discussed below, namely, lessons in transparency, lessons in tax education and awareness, lessons in responsive regulation through a taxpayers' charter, and lastly, lessons in reintegrative enforcement through communication. Each theme is structured to first present selected lessons in compliance-enhancing policy from foreign countries. This is followed by highlights from additional research supporting the policy within the theme. Then, local research recommendations are provided where relevant, and a summary of the theme is given. At the end of this chapter, a screening of the lessons within each theme is provided to highlight the compliance policies that have been considered, and to justify their inclusion as compliance proposals for South Africa.

4.2 THEME 1:

LESSONS IN TRUST THROUGH TRANSPARENCY

The following discussion investigates transparency as a taxpayer compliance-enhancing attribute identified in foreign economies that appears to have improved the taxpayer-authority relationship and promote cooperation. This lesson was given attention based on the findings of local South African research, and specifically, a study conducted by Oberholzer (2008) which revealed a significant numbers of respondents felt the government's transparency to be lacking. This lack of transparency leads taxpayers to believe they are paying unnecessarily high taxes, as they are unaware of the benefits that are being provided (Oberholzer 2008: 62). Furthermore, when the general contributors to taxpayer morale were investigated earlier (Torgler and Schneider 2006; Alm and Torgler 2011), it was highlighted that transparency which leads to greater taxpayer knowledge of the details and targets of public spending will make them more comfortable, trusting and in turn, compliant.

In a later study, Oberholzer and Stack (2014: 237) found that the majority of taxpayers have the opinion that the government is not sufficiently transparent about how they use taxpayers' money, which indicates the need for more information surrounding the utilisation of tax

revenue to be taken note of by government. Fortunately, SARS (2016a: 21) has indicated an awareness of the need to increase its transparency.

Supporters within the public sector have called for increased transparency (Afonso 2015). Among these advocates are citizens who believe that the mechanisms to see governments held accountable for their actions and corruption reduced can be found through transparency (Afonso 2015: 1), as well as elected officials who recognise it as a means to engender trust and cooperation between government and citizen. These elements of trust and cooperation were highlighted earlier as that which fosters an enhanced compliance relationship, so the importance of this sphere of investigation becomes evident.

Transparency as it relates to facets of the tax system and governmental use of taxpayer revenue is something that could potentially be accentuated in the South African tax environment to achieve similar positive results as identified in foreign counterparts. This theme begins by highlighting policies from the USA that utilise transparency to enhance compliance by creating accountability, publishing expenditure budgets, providing taxpayer receipts, and distributing online information. After these lessons, the research and theory on transparency is provided, discussing how transparency effects compliance, the obstacles to transparency, and how transparency is made more meaningful to taxpayers through education. Transparency within the fiscal institution is something that the USA is taking quite seriously and these lessons are discussed next.

4.2.1 USA ON TRANSPARENCY

The USA provides lessons of taxpayer confidence born of government confidence that is appropriately backed by fiscal transparency. Incentives for compliance in a taxation system may well need to be strong enough to convince taxpayers to pay promptly and accurately, but this can also be enhanced by the taxpayer's confidence in the system itself.

The focus on the USA within the theme of transparency concerns specific policies and strategies that enhance taxpayer compliance by developing trust and confidence in the fiscal system. This is achieved through greater accountability, published expenditure budgets, taxpayer receipts, and online information. Accountability and confidence in the USA fiscal system is discussed next.

4.2.1.1 ACCOUNTABILITY AND CONFIDENCE

Public discussion about federal tax administration is constantly occurring in the USA (Gupta 1997; Pechman 2001). Debates on public platforms and public hearings allow taxpayers to engage and give comment while the treasury and management of the Internal Revenue Service (IRS) respond through congressional oversight committees (Aberbach 2001).

The USA makes use of a Government Accountability Office (GAO) that provides fact-based, nonpartisan information to Congress. Dubbed the "congressional watchdog", the GAO investigates federal spending and performance via studies of tax compliance and tax administration as well as the annual congressional budgetary process (Alkin and Christie 2004: 15). The IRS must obtain its funds through this budgetary process while it simultaneously publicises both the successes of the IRS and its shortcomings. Periodically the IRS seeks to obtain independent and reliable data on taxpayer attitudes from a contracted polling company. The Taxpayer Compliance Measurement Programme's taxpayer auditing process affords the IRS knowledge of exactly where compliance problems are occurring. This transparency surrounding the tax administration in the USA does not extend to the taxpayer's financial intricacies and details. Rather extreme secrecy is maintained over the financial information of each taxpayer and that of the IRS. The dual nature of open transparency over public spending and performance coupled with absolute individual privacy has given confidence to taxpayers in the USA. Consequently, voluntary compliance has been achieved at a surprisingly low budgetary cost (Strauss and Hyun 2001: 44).

Taxpayers without confidence in their government or its allocation of tax revenue are less likely to comply, but several methods are employed by the USA use to enhance taxpayer confidence. For one thing, it appears their tax system has confidence in itself, this is demonstrated in their willingness to maintain transparency. This was evidenced by the fact that results of analysis and tax system statistics are perpetually delineated to the public (Strauss and Hyun 2001: 45). One such example is how the USA openly publicises the results of independently conducted surveys that reveal taxpayer attitudes about their taxation system. Furthermore, the Taxpayer Compliance Measurement Programme collects samples of tax returns along with other sources of information used by the IRS and periodically conducts audits of which the results are made publicly available. This information is even used the United States GAO to make alternative tax system proposals and address problems

identified in previous GAO reports. This kind of transparency could be beneficial provided that the results can be constructively acted upon.

Corporate tax audit information was effectively used in a study conducted by DeBacker, Heim, and Tran (2015). They linked tax evasion of corporations, which were held by owners in foreign countries outside of the USA, to the corruption levels within the foreign countries that held such corporations. The corporation's country of origin appeared to affect the compliance of the corporation itself, and corporations with owners from highly corrupt countries were more likely to be involved in the evasion of US taxes (DeBacker *et al.* 2015). What made this study possible was that the data it used to derive its results was from more than 25000 IRS corporate tax audits. This is a pertinent use of tax audit information for additional benefit. Luttmer and Singhal (2014: 154) believed this information about tax evasion processed from actual audit data was reliable but rarely available.

Accountability is called for from taxpayers as well. For any citizen who aims to be anything less than tax compliant, the likelihood of being identified for an audit after an instance where a taxpayer fails to report, or does not report fully, is extremely high. Most sources of income are detailed electronically along with computerised matching of reports from financial institutions. In addition, an individual's information is captured and linked to their Social Security Number once they have reached the age of six (Strauss and Hyun 2001: 45). This means that non-compliance, while already unconscionable, also becomes extremely difficult and ultimately this makes a very strong incentive to comply. This increased voluntary compliance allows for a lower marginal tax rate to attract a higher amount of revenue than if non-compliance was rampant (Strauss and Hyun 2001: 45).

If SARS and public officials wish to meaningfully and productively engage with taxpayers, then increased transparency is instrumental in the effort to rebuild trust. New policy can see that government moves to inform taxpayers of the government's scope of activities, while indicating what the benefits of these activities are, so as to justify why they provide such services. Finally, the necessary costs involved in these provisions could be divulged alongside an educational undertaking explaining how each citizen's tax contributions are involved in the financing of such provisions. This will provide the necessary knowledge that will prevent taxpayers from feeling incensed about paying taxes in the first place, and simultaneously

allow taxpayers to make appropriately informed decisions concerning the level of taxes required to reach the desired level of service from government (Afonso 2014a: 225).

4.2.1.2 PUBLISHING AN EXPENDITURE BUDGET

Although fewer states and local governments appear to be making a concerted effort to increase revenue transparency, there is some new exposure in the realm of government spending (Afonso 2015: 4). This goes a long way toward making government more transparent, and although it cannot directly convey the nature of a citizen's true tax burden, tax expenditure as a form of public spending affects equity and represents the playing out of tax policy. Acknowledging this dimension of expenditure does much to dispel fiscal illusion as it relates to tax burdens.

Massachusetts serves as an example, having published a budget of its tax expenditures, it gave taxpayers the opportunity to view all tax expenditures and, in context, understand the magnitude of each. Personal income tax, corporate income tax, and sales tax were all detailed for the benefit of the taxpayer and for greater transparency (Afonso 2015: 4). Vermont passed a law in 2013 that explicitly required the government to justify and evaluate its tax expenditures. This led to the publication of tax expenditure reports that provide an itemised representation of government spending, which allows for their defence.

San Francisco, Vallejo in California, St. Louis, Chicago, New York, and Boston utilise another method to increase transparency by involving citizens in the budgetary process (Afonso 2015: 2). This is achieved by utilising published expenditure budgets and once again highlights the value of developing citizen knowledge via budgetary process participation. Budget briefs allow citizens to choose how and where to spend a portion of their allocated budget. Participatory budgeting even provides a platform for groups of citizens to develop spending proposals and subsequently vote on them. This opportunity to take control of a portion of government expenditures requires a relatively developed knowledge of the budgetary process. In this sense, it might not be entirely possible to utilise this concept without attempts to inform and develop the population first. Nonetheless, as a necessary first step, a publication of an expenditure budget will open up this possibility in time.

As an effective and similar alternative to the publication of an expenditure budget, the creation of a taxpayer's receipt may provide an effective way to deliver many of the benefits

of the publication of an expenditure budget, along with the potential to personalise such a budget, tailored to what each individual receives from their taxes. Taxpayer receipts are discussed next.

4.2.1.3 TAXPAYER RECEIPTS

Governments in the USA have provided taxpayers with “receipts” for different tax instruments, which shows how the individual’s tax will be spent, disaggregated according to each government program (Afonso 2014b, 2015). In 2014, the state of Oklahoma’s Taxpayer Transparency Act created a taxpayer receipt to be used to assist taxpayers in understanding how their taxes support the state and as a basis to enable taxpayers to hold elected officials accountable. However, taxpayers would need to know and enter their tax burdens into the tax receipt form in order to receive a breakdown of where their tax revenue is being used (Afonso 2015: 3).

In a slightly different fashion, Utah was another American state that implemented the taxpayer receipt. After entering their income tax burden on a receipt form, the Utah system also allowed for the taxpayer to enter an estimated amount as their sales tax burden. Even without the latter information, the system approximated a sales tax estimate based on the taxpayer’s income, albeit without factoring in the individual taxpayer’s family size, preferences or behaviours. Still, a reasonably accurate estimation of the taxpayer’s state sales tax burden could be provided, thus leading to increased sales tax revenue transparency (Afonso 2015: 4).

Afonso (2015: 4) believes this process could be made to be even more transparent if Utah could link and furnish these receipts with the personal information from the taxpayer’s filed income tax returns, generate estimates of other taxes and fees, and allow for a comparison of such information with the average burden within the state. Receipts could be generated by creating model profiles of hypothetical taxpayers within particular income tax brackets and reporting estimated taxes that would be paid by such taxpayer profiles. This would enable real taxpayers to identify a hypothetical profile similar to themselves in order to gain an understanding and estimation of their overall tax burden and grasp the range of fees and taxes to which they are subjected. This receipt model could also detail how such tax revenue would be used (Afonso 2014b: 5), and so become a powerful form of citizen engagement and

participation that is a suitable tool to educate and inform taxpayers about the costs and provisions of numerous but unseen services by government.

Provided that citizens understand the need for taxes and the taxpayer-service provider relationship, then citizens are more willing to pay for services when the taxation mechanisms clearly link such payments to the consumption of services (Jimenez 2014: 930). This is more easily observable at the local and state levels than at the national level, which provides some justification to suggest the provision of more localised service provision information.

Perhaps the creation of relatable taxpayer profiles for comparison would be more meaningful and immediately useful to taxpayers who have not yet had any formal tax education, and allow them to understand the gravity of their tax contribution and what public services they are paying for. Until taxation education is at a point where more complicated and personalised tools can be used by taxpayers and local government to banish the fiscal illusion, this might be an effective first step.

Research has suggested that the systematic feedback that comes with local citizen engagement assists government when making difficult financial decisions, such as those made regarding budget outcomes during an economic downturn (Jimenez 2014: 934). Creating a taxpayer receipt can simultaneously inform taxpayers of what services they are receiving and allow them to make the appropriate recommendations over which services are to be prioritised in any such economic downturn.

However, Afonso (2014b: 6) has warned that this receipt could be open to manipulation and has the potential to mislead. The receipt's formatting can change how a taxpayer views an area of spending, for example, including the most popular areas of spending whilst omitting categories with divided support can become a political campaign tool instead of an informative one. Should local governments utilise taxpayer receipts, they would need to maintain diligence, providing the taxpayer's receipt an objective and neutral format.

The UK also created their own version of the taxpayer receipt which was called a "tax summary." This was intended to increase government transparency and so promote accountability, while also improving citizen knowledge surrounding government spending and revealing the costs of government (Barnes, Haselswerdt and Porter 2015, 2018). Studies revealed taxpayer receipts did improve government knowledge by as much as 10% in citizens,

but did not significantly alter their prior political persuasions. To encourage citizens to participate, UK taxpayers were unable to opt out as they were directly mailed the taxpayer receipt. This avoided the pitfalls of an online system as used in the USA but also meant that the “tax summary” was less personalised.

With this discussion of taxpayer receipts, it is clear that there is some value to be found in what appears to be an informative transparency tool. While there is a desire to increase the degree of personalisation and still ensure the majority of taxpayers receive such a receipt, presented in a simple and neutral way, there is much to be taken into consideration before it could be introduced, but given the appropriate execution, there may be a way forward for this tool in South Africa. As indicated, forms of the taxpayer receipt can be provided electronically, however, other transparency efforts that utilise online platforms reveal this may create additional challenges. These online efforts are discussed next.

4.2.1.4 ONLINE TRANSPARENCY EFFORTS

The American federal government has taken steps toward greater transparency by creating easy-access websites, enabling citizens to track the spending of stimulus money, the spending plans passed by Congress. State and local governments have echoed this trend by providing additional online information about how they spend tax revenue (Afonso 2015: 1). These websites are dedicated to fiscal transparency, yet in many cases, the fiscal data presented by the states are not necessarily easy to access or particularly easy to interpret by the new audience of non-experts or scholars. Consequently, the websites are not successful insofar as they don't reach the majority of the public (Afonso 2015: 2).

Similar challenges evident in the USA could occur in South Africa if the same methods to increase transparency online are adopted. However, Afonso (2015: 2) highlights the states of Kentucky, Arizona, and New York, which have improved the results of this online transparency effort by presenting such fiscal information alongside video tutorials of how to navigate the site itself – yet this too could prove problematic in a less developed technological infrastructure.

An additional method could utilise E-government initiatives which can foster collaborative transparency through a mutual exchange of digitally available financial information and data, although these would involve online communication technology to allow for this exchange

(Bertot, Jaeger and Grimes 2012; Bertot, Gorham, Jaeger, Sarin and Choi 2014). E-government initiatives may therefore require a sufficiently robust telecommunications infrastructure, and is perhaps not something that South Africa can capitalise upon yet.

Efforts by the USA to promote transparency and increase taxpayer trust and confidence through accountability, published expenditure budgets, taxpayer receipts and online spending information have been provided. There is more to learn from the USA within the next compliance theme, but first, research that illustrates the role transparency plays in enhancing compliance is provided next.

4.2.2 RESEARCH ON TRANSPARENCY

Typically, the goal of transparency is the increased government accountability and efficiency that is encouraged by greater citizen awareness (Afonso 2014a: 219), but there can be additional positive compliance by-products that come with transparency, given the appropriate environment. With adequate tax education, discussed later, taxpayers feel more comfortable when complying thanks to their understanding of what their taxes will be used for, and with properly collated information, taxpayers can make relevant assessments as to the government's stewardship of such revenue and banish the fiscal illusions that cloud their perceptions.

Fiscal illusion is a hypothesis which states that citizens will systematically misperceive what their true tax burden is and misapprehend the benefits they receive from the services provided by their government (Afonso 2014a: 220). Fiscal illusion theory purports that a government that is less than fully transparent about revenue spending or is perceived not to be fully transparent by taxpayers, will in turn be thought by citizens to have less costs associated with the running of that government than what it actually does (Nkundabanyanga, Mvura, Nyamuyonjo, Opiso and Nakabuye 2017: 931). Furthermore, obscured and opaque indirect taxes can contribute to this lack of transparency such that taxpayers consider their tax burden to be less than it actually is. This in turn leads citizens to believe government services cost less than they do (Afonso 2014a: 220), creating a demand for services beyond what is socially optimal (Afonso 2015: 3).

By underestimating their tax burden and the cost of government, empirical analysis of fiscal illusion suggests citizens demand a greater amount of public services than they would with

complete information (Afonso 2014a: 220). In this sense, without evidence of spending, the population could well assume there is less that needs spending upon. This is a barrier to transparency as, generally speaking, government revenues are only considered transparent when taxpayers are in a position to understand their total tax burden, which would include obtusely associated fees and license costs (Afonso 2015: 3).

Afonso (2015:3) explains that were taxpayers to understand the true cost of government, their policy preferences would change, and recalls the work of Sausgruber and Tyran (2005: 39) whose study tested the “Mill hypothesis” which states that the tax burden from indirect taxes is underestimated due to such taxes being less “visible” than direct taxes. The study revealed that the transparency of the local tax burden has a strong impact on citizen demand for redistributive policies whereby 90 percent of the citizens supported a policy when the tax was opaque, whereas only 10 percent were in support when the same tax burden was clearly transparent in a more direct form (Sausgruber and Tyran 2005: 68).

There are numerous strategies to increase transparency, but many are not feasible. A farfetched example would include improving transparency through limiting the number of revenue streams used at each level of government, or even limiting the use of a revenue instrument to a specific level of government only. This would simplify the situation by not overlapping jurisdictions as a tax base spread over multiple levels makes it difficult for taxpayers to track where their taxes are going, just as it would make it easier to hold the appropriate level of government accountable. Unfortunately, this would require an enormity of infrastructural changes and an uprooting of the tax system virtually in its entirety which is not an option, nor can the merits of revenue diversification be ignored merely to improve transparency through simplification (Afonso 2015: 1). However, there are more realistic and feasible options at any one government’s disposal.

Most public sector transparency efforts target public spending but seem to avoid focusing on revenue policy and collection. Afonso (2015: 2) suggests this may be because revenues are already so restricted and subject to limitation that the government is less inclined to converse with citizens around tax policy, or that it may be due to the fact accountability concerns are associated with how money is spent more than its collection. Either way, the lack of public discourse about revenue transparency does not imply they are already satisfactorily transparent.

Oberholzer and Stack (2014) recommend greater transparency, stating that most population groups in South Africa believe the government does not provide sufficient information about spending concerning the use of taxpayer revenue. The need for improved transparency in how the government is making use of tax revenue is a significant finding that Oberholzer and Stack (2014: 237) believe should be taken note of by government. This is supported by Nkundabanyanga *et al.* (2017) who reiterate that knowledge of tax revenue spending is important when contending with the phenomenon of fiscal illusion. Taxpayers could benefit from an enhanced understanding of the expenditure involved through transparency, as this would ease some of the tensions surrounding thoughts of misspending or misallocation of taxpayer revenue. This would mesh well with the lessons from the USA discussed earlier relating to how transparency enhances taxpayer confidence.

Taxpayers seldom remain oblivious to the unknown, and soon distrust and frustration are felt toward government as citizens do not understand the cost of government or where collected tax revenue actually flows. At this point, providing the kind of information that can actually be processed and contemplated by citizens may be the best hope to rebuild this trust (Afonso 2014a: 220), however, a number of obstacles present themselves against the delineation of such information. Within the research and theory surrounding transparency that permeates this theme, the obstacles to transparency are discussed next.

4.2.3 OBSTACLES TO TRANSPARENCY

Prevalent obstacles to making government revenues transparent are to do with the nature of certain revenue instruments along with policy choices and the complexities of tax administration, with an underlying reason being the high cost to citizens in getting complete information of their total tax burden. This forces citizens to be “rationally ignorant” of this burden, allowing governments to use deceptive revenue instruments. Furthermore, acquiring information is difficult as taxes paid throughout the year require that payments be carefully monitored to ascertain their full burden (Afonso 2015: 2), while the sheer complexity of the tax system contributes to fiscal illusion and exacerbates costs of compiling revenue information. With each policy change to ease the administrative burden, a loss of transparency is an accompanying side effect.

The tax system becomes less transparent with each additional revenue instrument. What is more, these instruments can be equally opaque with their tax burden spread over time. Sales taxes collected on the purchase of most commercial items means many pay sales taxes multiple times a day, but to know their total tax burden they would have to be vigilant with every receipt (Afonso 2015: 3). The equivalent revenue source receiving attention of late in South Africa is VAT, which is a consumption tax that is added at each point in the supply chain where value is added to a product. VAT is opaque, being included in the price of goods, with collection spread over time, obscuring the overall cost. Despite other economic advantages, VAT contributes to the fiscal illusion of temporal spacing which policymakers and taxpayers need be aware of (Afonso 2014a: 224). Although this is most apparent in sales tax, others such as excise taxes, tolls, park fees, and utility fees also cause a similar malady owing to the fact they are inherently less transparent (Afonso 2015: 3). An additional amplification of all these issues occurs when citizens need pay the same tax in multiple jurisdictions, at various federal, state and municipal levels, requiring an understanding of their tax burden spread over multiple governments.

In actual fact, there is less government incentive to provide transparency as, for example, property tax has revealed that the more transparent a tax, the less popular it seems to be according to fiscal illusion theory (Afonso 2015: 3). Owing to its infrequency, property tax is a more obvious example of a transparent tax, whereas the previously mentioned taxes escape the scrutinising gaze of taxpayers given their microtransactional indifference. Governments could choose to rely on more transparent taxes such as property taxes and less heavily on sales taxes, but property taxes can be extremely unpopular with the public, even though these more visible tax structures would lead to increased rationality of policy outcomes (Sausgruber and Tyran 2005: 68). Even income taxes have become less transparent with income tax withholding such as the PAYE tax in South Africa. Taxpayers are not confronted with a direct and obvious tax bill, and having not kept track of how that burden accrued over the year, are rarely incensed.

Government and its policy makers have little incentive to provide less obfuscated tax mechanisms as making taxes more transparent only makes them less palatable to the populace; something which fiscal illusion theorist have identified (Afonso 2015: 3). However, moving away from the transparency of any one specific type of tax, institutional transparency

would appear more promising to the taxpayer. There is some support that taxpayers exhibit more willingness to endure higher taxes when there is perceived transparency from the fiscal institutions themselves, and this willingness accompanies an increased trust in elected officials (Alt, Lassen and Skilling 2002: 233).

Even with all these obstacles, there is still great support for transparency; however, it has found no clear way of manifesting itself (Afonso 2015: 1). Regardless of the path that transparency efforts may take, the more general need to provide education in order to make fiscal and institutional transparency meaningful to taxpayers remains, and is discussed next.

4.2.4 AIDING TRANSPARENCY THROUGH EDUCATION

Many efforts of achieving the goal of transparency involve posting more information and data online, but “data dumping” is neither efficient nor effective, and by itself does not increase transparency (Afonso 2015: 1). The well-meaning provision of tax and revenue information can quickly become an information overload, and would be counterproductive at this point, given the current level of tax education and awareness. Information overload is a phenomenon experienced by the user when the information is excessive or irrelevant, or it can occur if the receiver cannot effectively manage or understand the information (Bawden and Robinson 2009; Farhoomand and Drury 2002). Taxpayer education can allow more of the tax and revenue information to be understood and therefore be perceived by the taxpayer as relevant. This could help the taxpayer manage and utilise such information effectively.

Education affects multiple areas, as revealed in the next theme, thus it may be considered a necessary tool before increased transparency becomes meaningful to the average taxpayer. Even if education is seen as a less direct or structural means of achieving increased revenue transparency, engaging and educating taxpayers allows them to gather a cognitive command over what have become increasingly convoluted revenue policies. Adequately introduced, this allows these enlightened citizens to pierce through the fiscal illusion “tricks” that prevent taxpayers from comprehending what their tax burdens truly amount to (Payton and Kennedy 2013: 190).

It may be true that citizen outreach and education is a costly exercise that presents a logistical challenge to government as it allocates scarce resources to encourage citizen engagement. However, to proceed without making a concerted effort to connect with and inform taxpayers

creates the evidently gargantuan task of trying to retroactively instil compliance values and enhance understanding once non-compliance has already become out of hand. Such outreach efforts by government become immediately invaluable with the provisions of as little as a basic understanding of government activities, reasons government provide services, the benefits citizens receive, the associated service cost and details on the financing of such. Access to this knowledge allows citizens to grasp and appreciate their current levels of taxes and services, and thereafter, make informed decisions regarding the future levels of these that they desire (Afonso 2015: 4).

With these benefits acknowledged by various foreign revenue authorities such as in the USA and Japan, as well as a number of other countries identified below, they have sought to educate their taxpayers and future generational taxpayers alike, thus eschewing in an implicit respect and ability to apply their understanding to various taxation considerations (Fallan 1999; Oberholzer and Stack 2014). By introducing taxation topics at a grassroots level, the outcome of such education appears to be a valuable addition that could prove equally valuable for South Africa.

4.2.5 TRUST THROUGH TRANSPARENCY - THEME SUMMARY

Within the theme of transparency discussed above, elements of trust and understanding emerge as mutually reinforcing factors where transparency and trust are assisted by understanding. The above cooperative compliance strategies provided by the USA reveal important lessons for South Africa concerning transparency and trust. These are supported by both local research recommendations as well as international research (Torgler and Schneider 2006; Oberholzer 2008; Alm and Torgler 2011). Strategies to publish expenditure budgets and taxpayer receipts have enhanced transparency and compliance, thus indicating their value (Afonso 2015).

Common limitations present in both developing and more developed countries are those experienced as a result of a limited technological infrastructure, such as those present in South Africa, as discussed in Chapter 3, and those mentioned by Afonso (2015: 2) relating to the USA. Notwithstanding these challenges, which may lessen over time as technology becomes more affordable and available, much of the information that is provided through these mechanisms to enhance transparency can still be utilised and delivered through other

mediums which will be considered later. A discussion of these compliance policies and strategies which utilise transparency are provided at the end of this chapter where they are screened to signify their potential for implementation in South Africa.

4.3 THEME 2:

LESSONS IN TAX EDUCATION AND AWARENESS

Education has been investigated partly based upon the advice of Oberholzer (2008: 50) who determined that for those who have been previously disadvantaged in South Africa, education regarding the tax system's mechanics and the application thereof is a prominent need. Most participants in Oberholzer's (2008) study could not list all the types of taxation unassisted, and over a decade later, since no fundamental breakthroughs have occurred in this area of education, it is possible that little has changed. A deficit of tax knowledge is a major contributor to non-compliance and can be considered one of the greatest drivers justifying both the urgency and the societal investment of tax education for all (Nwana and Richards 2010: 65).

Education can be defined as a lifelong learning of attitudes, values and behaviour, embedded in a particular culture (Oberholzer and Nel 2006: 108). This comes to form a complex social framework, preparing citizens for what will be expected of them from other social institutions. Education allows the lives of future generation to be orderly and productive by introducing the norms, values and sanctions of society, and as such, it is a deep component of socialisation (Oberholzer and Nel 2006: 108). The values being introduced could include a sense of duty to honour tax laws and pay taxes. It is important that, over and above basic taxation concepts, students are taught why they should pay taxes such that it forms part of their norms and intrinsic beliefs, thus entrenching an understanding of this process as an unavoidable part of their role in good citizenship as future taxpayers (Boadu 2013; Print 2010).

This compliance theme first focuses on the lessons observed from the tax education efforts in the USA and Japan, and the tax awareness initiatives in the UK and Kenya. Then, international research supporting tax education from studies within both developing and developed economies is discussed. This is followed by recommendations from local research in South Africa. Throughout the lessons in taxpayer education, general commentary is

provided regarding South Africa's potential to utilise these related policies and strategies. This also provides context regarding South Africa's current standing concerning the education of taxpayers. The lessons in taxpayer education are first drawn from the USA.

4.3.1 THE USA AND TAX EDUCATION

Research conducted by Oberholzer and Nel (2006: 105-119) sought to compare the tax curriculum in the USA against the level and standard of tax education in South Africa as did Koster (2012: 12) who looked into how schooling in South Africa has incorporated tax learning, using the USA as a benchmark, citing their high taxpaying compliance rate. The objective of this current research is to investigate compliance-enhancing policies and strategies and it does not seek to make an appraisal of the South African schooling system. It does however find value in what can be learnt from the USA, as this segment reveals.

Tax education in the USA is a mostly computerised programme where school students access teaching modules through the internet (Koster 2012: 13). A section of the IRS website is dedicated to helping secondary schools and other learners to understand taxes, another holds historical information and the economics of taxation, and another, for help preparing tax returns. These sections are centred to help students and other learners understand why taxes are essential in generating the revenue needed by the government to provide citizens with services. This is followed by a section on how taxes are calculated and collected, and so contains lessons that deal with various topics in tax, offering tutorials, fact sheets, simulations with guidance on how to complete tax forms and assessments reviewing the learner's understanding and skill (IRS 2014 cited in Koster 2012: 14).

The IRS website is also divided into a Student site and a Teacher site (IRS 2012). The teacher section contains detailed lesson plans guiding the teacher right from the introduction of a topic through to its conclusion. There is also a Custom Resource list allowing the teacher to customise lessons according to their classroom's needs, downloadable presentation components to provide visual aids, as well as education standards, given to provide a national and local benchmark (IRS 2014).

Even with the IRS website, Nwanna and Richards (2010: 62) believed the IRS was not ready to provide basic tax education to citizens or sufficiently cover the accompanying topics and issues. Tax education guided by the IRS is chiefly directed toward tax preparation, filing

assistance and tax collection, along with a focus on enforcement and compliance. This is provided instead of offering a citizen-wide tax education that is comprehensive enough to support effective tax administration (Nwanna and Richards 2010: 62 cited in Koster 2012: 12).

South African schools lack a sufficiently robust infrastructure to begin rolling out a tax education program that is as advanced as the American online tax education programme (Koster 2012: 13). Online educational systems are significantly challenging at this point given the technological shortcomings in South Africa. Considering that the USA is still not meeting with the greatest success in this sphere of online tax education, it would be unwise to recommend that SARS invest copious amounts of time and resources into this approach beyond what is already being undertaken. Nonetheless, this current study, notes the areas focused upon in online tax education in the USA. Next, the purpose of schools in the education of future taxpayers is discussed.

4.3.1.1 THE ROLE OF SCHOOLS IN THE USA TAX EDUCATION SYSTEM

Schools have long since served as conduits of knowledge to the extent that researchers in the USA such as Nwanna and Richards (2010: 63) believe they could successfully be utilized to provide a formal tax education to the public. Furthermore, they state that tax literate students ultimately become more compliant as taxpayers, and even come to possess better tax planning abilities.

The IRS acknowledges the importance of tax education in schools for their role in ensuring USA taxpayers understand the reasons they should pay taxes and how to do so (Koster 2012: 20). This led to the creation of the Student and Teacher site discussed earlier, and although this section on the IRS website is geared toward students, any person may access it, allowing important tax system information to be imparted to citizens. However, Nwanna and Richards (2010: 62) explain that many users experience difficulties using this section of the IRS website while many individuals are simply unaware of its existence.

In providing lesson plans and tax information on their website, the IRS appears to be assuming that taxpayers have computers and internet access. Even in a first world country, this can be a lot to expect from its technological infrastructure. Understanding the reality of this limitation, many researchers express the importance of including basic tax education in the school curriculum, and treating it with the same level of importance as any other subject

being taught (Bahari and Ling 2009; Koster 2012; Nwanna and Richards 2010). This approach would utilise the resources available within the school, and may not necessarily require the use of technology to be effective.

Noting the tax education strategies employed by the USA, the use of online education may serve as a future goal when the technological infrastructure in South Africa has developed more. Nonetheless, certain elements such as the customisable lesson plans can be taken from the USA's example and used in South African classrooms today. The next section focuses on the lessons drawn from Japan's efforts to educate and support taxpayers in a myriad of ways.

4.3.2 JAPAN ON TAX EDUCATION AND SUPPORT

Tax compliance is not simply a result of increased repression, but the synergistic outcome of voluntariness, education and high levels of fiscal citizenship (Davis Tax Committee 2017: 63). Japan is acutely aware of this as they promote all these elements in effective ways (Sarker 2003). Accordingly, valuable lessons come from Japan whose levels of tax compliance are exceptionally high thanks to the efforts of the Japanese National Tax Administration (NTA) who is responsible for the significant progress in this regard.

The Self-Assessment Service (SAS) brought into effect in 1947 meant that voluntary compliance had to be promoted if taxpayers were to adhere to the letter of the law when submitting their own returns (Sarker 2003: 20). The Japanese SAS has chosen a specific objective within taxpayer compliance that is to raise appropriate tax filing and payment through taxpayer co-operation, which symbiotically reinforces the process (Sarker 2003: 17). As taxpayers calculated, reported and paid their taxes themselves, the NTA took it upon itself to promote the associated voluntary compliance principles known as the "four pillars of tax compliance" (Sarker 2003: 20). These pillars relate to tax education, tax counselling and consultation, tax guidance and examinations, as well as public relations. Each of these areas is focused upon individually below, with the coordination of taxpayer education discussed next.

4.3.2.1 TAX EDUCATION OF CURRENT AND FUTURE TAXPAYERS

For active taxpayers in Japan, cooperation is promoted by providing information and education in the appropriate bookkeeping procedures prescribed in the blue form tax return

system, a system that gives additional tax benefits and deductions to participating taxpayers who maintain proper accounts. Every effort is made to provide information regarding this system where the prescribed practices and procedures are taught by private organisations who cooperate with this initiative (Sarker 2003: 19).

Of particular interest is how tax education has been incorporated into their schooling system by the Japanese government as they appropriately recognise these students as their future taxpayers (Sarker 2003; Bahari and Ling 2009: 39). Acutely aware of how crucial tax education is, Japan has utilised tax education as a tool to enhance tax compliance. Here successive generations of taxpayers are taught their role in the taxation system and their duty as citizens to comply, as well as the gravity of non-compliance. An understanding of how taxes finance the government budget and how filing accurate returns and paying their fair due affects this.

The NTA formed a body called the 'Council for Promotion of Tax Education' to coordinate tax education in each major city. This council is comprised of the NTA themselves, local tax authorities and various educational organisations. Through this body, textbooks for tax education are issued; classes for tax education are facilitated, just as the syllabus is renewed; high school essay writing contests are sponsored, encouraging new thought around taxation; and seminars on public finance and the economy are held, benefiting student and teacher alike (Sarker 2003: 22).

Having discussed the taxpayer education and support programme that focusses on taxpayers as well as young learners, representing current and future taxpayers, the taxpayer counselling support system is highlighted next.

4.3.2.2 TAX COMPLIANCE COUNSELLING AND CONSULTATION

Taxation counselling is provided via a formal tax counsel office in Japan. Tax counsellors assist taxpayers in various tax matters, providing advice on the interpretation and application of tax laws, assisting with applications and submissions, and encouraging the voluntary submission of accurate tax returns and payment using appropriate procedures. The Japanese tax administration has instituted a principle that every tax official is also a tax counsellor. Their telephone consultation service rapidly evolved into the Tax ANSER (Automatic answer Network System for Electrical Request) system by 1987, which possessed the capability to

answer using telephone messages, but has since expanded to make use of online channels through the internet (Sarker 2003: 23).

After noting this taxpayer counselling support system, which focuses on helping taxpayers comply with tax laws and submissions, next, the additional types of guidance available to taxpayers as well as the taxpayer-audit case selections are discussed.

4.3.2.3 GUIDANCE AND EXAMINATION

In Japan, tax administration provides guidance to taxpayers to improve their bookkeeping standards which facilitates greater taxpayer compliance on their voluntarily filed tax returns and appropriate payments. Various private cooperative organisations, such as Blue Returns Associations, Corporation Associations, and the Indirect Tax Association assist tax administration, and do so in a very effective way, as they are more connected to taxpayers and their members' information needs. Such guidance includes anything from assisting start-up companies and firms in new business ventures, to sessions that explain amendments to law. Consultation services via the telephone and email are also available to the taxpayer (Sarker 2003: 14).

As in any successful taxation system, the tax audit process in Japan is a major component in securing proper voluntary compliance. Even with all the measures taken to provide an atmosphere that is conducive to compliance and payment from taxpayers, their self-assessment system still carries all the risks that come with taxpayers determining their own tax liability. Consequently, a computerized system is in place to identify non-compliant taxpayers who receive specific penalties once processed (Sarker 2003: 15). Next, tax audits are directed toward taxpayers suspected of not reporting taxable income (Sarker 2003: 23-24). They are referred to as examinations and in this regard, the Japanese SAS has strong and disciplined examiners making up their tax audit teams.

Selected cases are appropriately chosen and reviewed, which is much like the case selection process utilised by SARS in South Africa (SARS 2016a: 43). Examinations are classified into three categories of income tax, namely; general examination of basic details only, special examination of complicated business cases or where tax evasion is suspected, and point examination which is a field examination of specific items. A chief examiner allocates the audit

assignments, supervises quality, accuracy and prevents abuses and observes the examiner's accuracy in the audit.

Having noted the additional forms of guidance available to taxpayers, as well as the taxpayer-audit process, the public relations activities held to strengthen the bond between taxpayers and the NTA are highlighted next as they represent a valuable lesson for South Africa.

4.3.2.4 TAXPAYER PUBLIC RELATIONS

Public relations' goals aim to promote tax compliance, spread and improve public knowledge of taxation, develop a common understanding and mutual trust between taxpayers and their revenue authority and finally obtain the understanding and cooperation of mass-media to enhance tax administration. Public relations in Japan seek to facilitate a tax conscious environment among taxpayers as well as latent taxpayers. Sarker (2003: 21) has emphasised that even latent taxpayers and the general public are influenced by these activities, and even tax education can be considered an exercise in public relations as it enhances tax awareness and cooperation.

The NTA, the Regional Taxation Bureaus and tax offices cooperatively handle public relation activities. Printed media and the internet are widely used, but the use of frequent television and radio programme slots mean that other forms of media are also effectively linked to public relations activities. Here current tax information is provided including dates, deadlines, current rates and so on, but also a more organic interaction being the answering of viewer questions who call in "on the air." This more engaging and personal touch prevents taxation from becoming a sterile, unpalatable topic for the public. A 'Know-Your-Taxes Week' is also held annually to provide tax information and answer questions which the public may have. During this week, the tax authority set up booths in public areas in order to meet people face-to-face, once again bringing life to the topic and keeping compliance culture alive in the public eye (Sarker 2003: 21).

These public relations efforts utilise a degree of human interaction as well as marketing techniques, but the "Know-Your-Taxes-Week" provides a more powerful combination that generates awareness, educates and develops positive associations. Other forms of this taxpayer-orientated week do exist and are discussed later. Next, the synergy created by all of Japan's collective compliance efforts is highlighted.

4.3.2.5 TAX COMPLIANCE POLICY SYNERGY

Beyond the strength of any one of these principles and procedures mentioned above, it is the synergy of the “four pillars of tax compliance” that have pervasive effects upon the taxpaying citizens of Japan (Sarker 2003: 20). A combination of education, counselling, guidance, audit examination, and public relations’ exercises all work together to produce higher levels of compliance. There is much to learn from this multi-pronged approach to taxpayer compliance, and with this in mind, multiple policies that can be utilised in conjunction with one another in South Africa are considered where possible.

Having noted Japan’s compliance strategies and the lessons that can be drawn from them, as well as the value of executing compliance strategies and reinforcing policies in combination with one another, some additional studies are highlighted to further illustrate the importance of public awareness. In this regard, the UK is discussed next.

4.3.3 THE UNITED KINGDOM AND PUBLIC AWARENESS INITIATIVES

New and insightful studies have been used in the UK to analyse the effectiveness of awareness-raising campaigns to enhance taxpayer compliance attitudes. Williams and Franic highlight a UK study by the National Audit Office that revealed benefits arising from running advertising campaigns (2016: 94). The UK Tax Office ran such a campaign and saw a surprising rate of return, as their expenditure of £2 million reeled in a return of 19:1. When this is compared with the overall return of 4.5:1 on the 41 million pound’s-worth of spending by the UK Tax Office that went toward detection and compliance work in 2006-2007, it may have seemed like such funds could have been better directed into a more fruitful compliance-enhancing venture (Williams and Franic 2016: 94). Unfortunately, the specific point at which a particular compliance policy is no longer cost-effective is not easily discernible since even the revenue stream does not measure the number or types of taxpayers that may have been positively affected.

Regardless of the point at which a compliance strategy begins to deliver diminishing returns against the costs of implementing it, there is clear value in enhancing compliance in this way observed in the form of tax revenue. However, not all the results of compliance-enhancing efforts can be quantified. The following lesson taken from Kenya regarding the compliance

encouraged by hosting a week dedicated to taxpayers is an example of how to utilise non-pecuniary rewards to produce pecuniary benefits.

4.3.4 KENYA AND PUBLIC AWARENESS

Kenya has dynamically utilised the unique facets of its culture and history, together with the natural momentum of its public holidays and calendar year, to create a positive and morale boosting event known as the Taxpayer's Week (Luttmer and Singhal 2004: 150). In 2004, Michael Waweru, the head of Kenya's revenue authority at the time, described the way this Taxpayer's Week would boost taxpayer morale in a presentation to the President of Kenya. Waweru announced that the Kenya Revenue Authority has organised a Taxpayers' week over a period specifically chosen to coincide with Kenyatta Day which honours Kenya's national heroes. Luttmer and Singhal (2014) point out that the link created between tax compliance and the honouring of their national heroes enhances intrinsically motivated compliance.

The running theme was "Kulipa Ushuru ni kulinda Uhuru" which translates to "Pay your Taxes and set your country free", a slogan which no doubt would develop new compliance attitudes. In his speech, Waweru (2004) highlighted that compliance would reduce their dependence upon donors, promote economic independence and create a direct benefit for their society. He also appealed to their patriotism, explaining that compliance would be paying tribute to those who freed their country from colonialism. Over and above all this, the influence of peer pressure and social norms was effectively exploited by recognizing "Distinguished Taxpayers" in the final day of the celebration which both generated momentum and created a climatic effect (Luttmer and Singhal 2014: 150).

Kenya's decision to become more financially independent in this way shows foresight as other developing countries have met with negative consequences through excessive borrowing. Relying heavily on foreign financial aid from the international community can have detrimental consequences as experienced by Ghana who did so while trying to uplift and improve its public sector, ultimately affecting the success of their reforms (Conteh and Ohemeng 2009; Ohemeng, 2005). The organisational structures which had been put in place through the assistance of foreign financing could not be maintained by their internally generated tax revenue streams once foreign aid ceased (Ohemeng 2010: 126).

The methods utilised above were not altogether unheard of, as many countries have adopted an intensive period to acknowledge or support taxpayers in one form or another (OECD and FIIAPP 2015). However, what makes this particularly pertinent is its similar post-colonial context, much like South Africa, and the potential for this strategy to be successfully directed in South Africa's developing economy. Having highlighted these lessons in taxpayer education and harnessing taxpayer awareness, next, the international research explored in light of these lessons will be discussed.

4.3.5 INTERNATIONAL RESEARCH ON TAXPAYER EDUCATION

The following research provides valuable guidance as the theme of taxpayer education and awareness is explored. Discussed below are the findings of international researchers Sarker (2003), Nwanna and Richards (2010), as well as additional highlights from research conducted within both developing and developed economies. Sarker's (2003) exploration of taxpayer education through the lens of a developing economy follows next.

4.3.5.1 SARKER (2003) ON EDUCATION AND AWARENESS

Sarker, who provided recommendations on what Bangladesh could consider to improve its tax compliance environment, has much to offer to South Africa considering certain similarly developing aspects of the local economic climate. He stressed the importance of taxation being rooted in formative levels of education such that the next generation of taxpayers were aware of the significance and role of taxes. Sarker (2003: 31) suggested that councils for the promotion of tax education at schools would first need to be established, with a view to enhancing taxpayer consciousness and taxpayer education in the medium to long-term (2003: 31).

Tax education of students would be strengthened by involving both education and finance ministries so as to create an effective curriculum. Sarker (2003: 31) believed that it would be more appropriate to introduce tax education at high school level for Bangladesh, which South Africa could too, given the timing of the introduction of other finance subjects and its increased relevance at that point. Teachers would also need to be provided with training in tax education in order to execute this idea.

Sarker (2003: 31) also describes his recommendation as a public relations exercise, and that this proposal would begin a long-term relationship with members of the public and the tax authority at an even earlier age, etching into their minds the importance of taxes before they have even left school. This can condition a sense of tax morality, which would promote their compliance despite a poor attitude towards other factors which they may become exposed to in the future relating to the government and the taxation system (Torgler and Schneider 2006: 2).

Further public relations engagements would include a publicised “tax week,” hosted bi-annually by the revenue authority before the tax filing season to help citizens more fully understand their duties as taxpayers, as well as prevailing issues and changes in taxation legislation. The revenue authority should also obtain the assistance of local public bodies and cooperation from relevant private organizations (Sarker 2003: 32).

Sarker (2003: 32) recommends that tax officials be provided with relevant training to better understand international and local tax issues, which would assist in formulating successful tax compliance strategies, and also recommends working conditions of tax officials to be improved so as to motivate them to carry out their duties more efficiently and professionally.

Education of students at a high school level would combine the above advice of Sarker (2003) with Oberholzer and Stack’s (2014), providing education at an appropriate level to a new and receptive group. What is more, citizens’ distrust and frustration in government is exacerbated because citizens neither understand the cost of government nor where their tax payments are going—providing education to future taxpayers and officials which allows them to process and absorb tax-related information may be the best hope to rebuild this trust (Afonso 2014a: 220).

Having observed the findings of Sarker (2003), the recommendations provided are of value to South Africa owing to the fact Bangladesh has a developing economy, just as South Africa does. Over and above this, South Africa does possess a sophisticated taxation framework and infrastructure. (Valderrama *et al.* 2017: 1). This may warrant the exploration of taxpayer education research derived from developed foreign economies, and so, such research follows next.

4.3.5.2 NWANNA AND RICHARDS (2010) ON EDUCATION, EMPOWERMENT AND SOCIO-ECONOMIC TRANSFORMATION

The research conducted by Nwanna and Richards (2010) has provided a comprehensive view of taxpayer education. Nwanna and Richards (2010: 65) identify that the USA suffers from a significant tax gap, however they believe “tax education has the potential of reducing that gap significantly,” as well as reducing the costs of enforcement incurred by their revenue authority, the IRS. This closely resembles South Africa’s revenue collection issues, and so the words of Nwanna and Richards (2010) become ever more relevant.

Highlights of their work have been provided below grouped according to three positive outcomes they state are possible through taxpayer education. Nwanna and Richard’s (2010: 61-63) view that taxpayer education can be used as means to enhance taxpayer understanding, confidence and appreciation is discussed first, followed by how tax education has the capacity to empower both citizens and government alike (Nwanna and Richards 2010: 64-65), and lastly, they highlight the power of tax education to facilitate socio-economic transformation (Nwanna and Richards 2010: 63-65). The confidence, understanding and appreciation that is developed through taxpayer education is discussed next.

4.3.5.2.1 EDUCATION TO ENHANCE CONFIDENCE AND UNDERSTANDING

Nwanna and Richards (2010: 61) believe that the absence of a basic understanding of taxes is unjustified as taxes form such an important role in the livelihood of citizens that the knowledge introduced from a basic tax education is an absolute necessity; valuable to the taxpayer and the government imposing such taxes alike (2010: 61). Furthermore, as uneducated taxpayers fail to take advantage of the tax credits, rebates, deductions and legally available means of reducing their burden, this lack of knowledge could collectively be costing them millions (Nwanna and Richards 2010: 64). Nwanna and Richards (2010: 64) argue that those who fail to file their taxes, are afraid due to their lack of basic tax knowledge or tax education (2010: 64). This would suggest that much non-compliant behaviour could be resolved through education by making taxpayers confident and competent enough to submit their returns correctly.

Many taxpayers not only fail to appreciate the important role of tax revenue, but also are tax averse as a result; oblivious to the role of government, the range of services they provide, and

how their taxes are connected to the higher standard of living they seek. Nwanna and Richards (2010: 64) make the connection that the uneducated taxpayer's antagonistic association with taxes is often redirected as disdain for the revenue authority responsible for collection. Perhaps it is reasonable to assume that this could echo into a resentment of the government itself. Radicals and extreme groups could use such counter-productive beliefs held by uneducated taxpayers to create and fuel doubt over the legitimacy of the governments' rights to impose and collect taxes.

Nwanna and Richards (2010) note that schooling itself has traditionally served as a key conduit of knowledge, utilized to provide a formal education and meaningful information to future taxpayers. They recommend a relevant taxation curriculum, providing well-structured lesson plans, targeted for an appropriate age; introducing topics at specific and receptive levels ranging from elementary school to college in private and public capacities (Nwanna and Richards 2010: 63).

Students in the USA are provided with basic education on American History and Civic Education, and Nwanna and Richards (2010: 63) believe basic tax education can be implemented in the same way, such that lasting benefits will be gained for both the future taxpayer and the revenue authority. Students themselves will be conscious of their constitutional obligations regarding taxes; appreciating the role of taxes, why governments impose taxes, the public services provided as a result, how to legally reduce this tax burden, and what Nwanna and Richards (2010: 63) call "the futility of tax evasion". These two authors believed tax conscious students become better taxpayers, improve their tax planning, participate less in tax avoidance, let alone tax evasion, and thereby reduce the revenue authority's enforcement and compliance costs (Nwanna and Richards 2010: 63).

Taxpayers find knowledge of taxation useful as those who are unaware of the refunds and rebates they are entitled to are made aware and benefit financially, just as they would be able to avoid penalties for non-compliance and appropriately file their taxes as required by law, unlike citizens who remain unaware of their responsibility to pay until they meet with punitive consequences such as penalties and interest (Nwanna and Richards 2010: 64). Tax education in this way would lead to fewer citizens not filing for tax when they should have and an increased overall compliance rate from more law-abiding taxpayers.

Having discussed Nwanna and Richards's (2010) recommendations on how taxpayer confidence, understanding and appreciation is enhanced through education, their views on how citizens and government are also empowered in this way are covered next.

4.3.5.2.2 EMPOWERMENT OF CITIZENS AND GOVERNMENT

Nwanna and Richards (2010: 64) highlight that education has the potential to create an empowered taxpayer. This concept is of interest and perhaps is not given enough attention in terms of how a taxpayer can be empowered by knowledge as can any learner. Empowerment could be expected to take the form of confidence overcoming any fears associated with filing returns, the ability to challenge tax disputes, and giving purpose through taxpayers' understanding of their role in a symbiotic relationship. This concept of empowerment was noted for inquiry in the interviews conducted in this study.

Tax education allows taxpayers to comprehend and appreciate the role of government, but in turn, it also serves to equip citizens with the tools, knowledge and awareness to demand accountability. Informed taxpayers will be in a position to work with tax planners and even challenge incompetent tax preparers (Nwanna and Richards 2010: 64).

Given that tax education is not always swiftly and satisfactorily introduced into school curriculums, one would be forgiven for not believing that informed and tax-knowledgeable citizens are actually an advantage for government, but in fact, each new tax literate citizen benefits more than just the educated individual themselves. Government benefits from the increased compliance of tax educated citizens, which reduces the associated costs of enforcing compliance. Through an understanding of the nature of the symbiotic relationship, taxpayers are more likely to appreciate the role government plays and support government initiatives while all of this accompanies better chances of tax collection and increased tax revenue (Nwanna and Richards 2010: 65). An empowered citizenry is an asset to government who, while being held accountable, will also be able to develop better policy through collaborative cooperation.

With an educated and empowered citizenry and an appreciated and equally empowered government, an opportunity for socio-economic transformation present itself (Nwanna and Richards (2010: 63). The socio-economic transformation that can be facilitated through taxpayer education is highlighted next.

4.3.5.2.3 SOCIO-ECONOMIC TRANSFORMATION

Nwanna and Richards (2010: 63) also believe the beneficial outcomes of a tax-educated citizenry, namely the increased revenue from greater compliance and collection, will largely determine the success the government has in carrying out its planned economic and social objectives (2010: 63). In South Africa, this translates to the continued unfolding of socio-economic transformation. The radical economic transformation which society will be mobilised around requires policy interventions built upon certain key pillars (African National Congress 2017: 16). Two of the pillars mentioned in the African National Congress's Economic Transformation Discussion document presented at the 5th National Policy Conference are highlighted as they can clearly be seen to benefit from a steady revenue flow and education itself. Firstly, the calibration of a reconstructive macroeconomic framework "to drive reconstructive policies in a sustainable manner will need to be funded by a well-managed fiscus and well-governed state owned enterprises" (African National Congress 2017: 16). Secondly, the strengthened "package of radical economic interventions" which aims to increase access to education, job opportunities and land, is also intended to increase access to subsidised services for low income households and a minimum wage regime for the working poor (African National Congress 2017: 16). Simply put, these two pillars alone will require the suitable spending of taxpayer revenue before they can be successful and as Nwanna and Richards (2010: 63) have identified, the educated taxpayer is an ally in this regard, being more likely to comply and provide a steady revenue stream.

To educate potential and current taxpayers, Nwanna and Richards (2010: 65) recommend the involvement of multiple levels of society including the government, the revenue authority, educational institutions, community groups, non-profit organizations, tax practitioners, professional tax and accounting organisations, legislators, and policymakers, all working cohesively together. Basic tax education and even tax planning should be embedded in financial education, financial planning and other practical aspects of citizenship, and considered as valuable as history, reading, writing and arithmetic. A coherent, comprehensive, explicit and planned tax curriculum will convey the technical and complex nature of taxes in a systematic manner, articulated to the appropriately receptive age (Nwanna and Richards 2010: 65).

Of special import to the compliance policy research under investigation is a remark from Nwanna and Richards (2010: 63) which noted that policy makers would have to be involved in creating an environment that both enables and supports new policies and initiatives, including the appropriate legislative changes and a technically sound infrastructure (2010: 63). Earlier in chapter 3, the infrastructural aptitude of the South African tax systems was investigated and signified. This aptitude was conservatively determined to be suitably developed enough to support new compliance-enhancing policies and strategies. While legislative changes are not the focus of this study, support from government on this level is necessary in certain instances. With these support structures and policy enabling mechanisms in place, the opportunities for cooperative-compliance-enhancing policy and educational strategies can materialise.

After highlighting the research provided by Sarker (2003) within a developing economy and Nwanna and Richards (2010) who provide research on tax education within the context of a developed economy, insight is also available through additional studies from widely varying economies in different stages of development, which follow next.

4.3.5.3 ADDITIONAL RESEARCH SUPPORTING TAX EDUCATION

Many of the sentiments, views and suggestions noted above are supported by further research. Just as Nwanna and Richards (2010: 65) stated that the practical aspects of citizenship should be articulated within a basic tax education and tax planning programme as part of citizens' financial education, teachers agree regarding the importance of citizenship education, specifically at the primary school level (Ajayi 2007; Law 2004). In this sense, the ability to understand taxes and submit tax returns is an important aspect of basic citizenship.

In a study from Norway, which compared students whose tertiary studies exposed them to knowledge of tax law against those who opted for marketing knowledge instead, Fallan (1999: 174) found that increasing knowledge of taxation significantly changed both male and female students' attitudes such that they considered the tax system to be fairer. The tax system had not changed in any major way, but tax education had shifted their perspectives.

In a study conducted in the Malaysian states of Sabah and Sarawak by Kamaluddin and Madi (2005) into the introduction of on-line submissions of taxation, education was determined to be very necessary in order to avoid the compliance issues that befell these regions. There it

was found that salaried employees were not yet literate enough to comply with self-assessment systems (Kamaluddin and Madi 2005: 3). These results did not vary significantly between members of different sectors of employment, but only between states, which indicated an overarching lack of tax literacy throughout private and public sectors.

An appropriate balance of social interventions can prove to be more cost-effective than other typical enforcement mechanisms when attempting to enhance compliance (Luttmer and Singhal 2014: 164). Introducing taxation education into school systems is one such social intervention which could bring with it benefits for those who would become empowered and informed taxpayers, as well as for government who would benefit from improved compliance of a competent citizenry. Now, in the taxation era of self-assessment, accounting academics and educational authorities need to consider making tax education in the non-accounting curriculum a priority (Bahari and Ling 2009: 37).

Creating taxpayer awareness is an important factor highlighted and recommended by researchers in the plan to educate taxpayers (Sarker 2003). In this regard, Luttmer and Singhal (2014: 150) state that certain countries have begun public awareness campaigns designed specifically to shift taxpayer perspectives surrounding tax evasion. In Italy, countrywide broadcasts and advertising campaigns have been initiated to emphasise to taxpayers that coping with the European debt crisis requires that tax evasion be significantly curtailed (Povoledo 2011).

Following this guidance drawn from international research, the recommendations and suggestions within South African research provides relevant insights into what may be needed to enhance taxpayers' education and compliance attitudes locally. These recommendations from South African studies in tax education follow next and provide guidance on what should receive immediate attention concerning the lessons that were explored.

4.3.6 SOUTH AFRICAN RESEARCH RECOMMENDATIONS ON TAX EDUCATION

Local research shows that the current level of education presented to students in South Africa is not adequate with only a general overview of indirect taxation and direct taxation briefly introduced as income tax, provisional tax and PAYE (Koster 2012). Any taxpayer needs a competent level of knowledge surrounding the taxes they pay and returns they submit which

will also need to be of the standard required by SARS and the local government (Koster 2012: 40).

The recommendations of local researchers in tax education will be taken from the work of Junpath (2014) as well as that of Koster (2012) concerning the introduction of tax education into the school curriculum. Then Oberholzer and Stack's (2014) suggestions on the communication of important values to taxpayers in order to improve their perceptions and attitudes will be highlighted. The research and recommendations of Junpath (2014) is discussed next.

4.3.6.1 JUNPATH (2014) ON TAXPAYER EDUCATION

In his study involving tax amnesties, Junpath (2014: 98) concluded with suggestions that tax education should be introduced in schools and universities so new generations of taxpayers entering job markets and starting businesses will understand the importance of being tax compliant and reduce the perpetuation of doubtful perceptions regarding the tax system. Junpath (2014: 99) also emphasises the importance that revenue authorities should educate taxpayers about fiscal issues stating that this would "create and enhance a more efficient tax collection system which contributes to building legitimacy and trust."

Junpath (2014) also reiterates the recommendations given by the African Economic Outlook's (2010: 111) annual reference book where educational campaigns provided via new technology and media can help ensure taxpayers understand compliance requirements. Opportunities and challenges in utilising technology will be addressed later when the lessons from the USA in taxpayer education are discussed. Koster's (2012) research into taxpayer education within the schooling system follows next.

4.3.6.2 KOSTER (2012) ON EDUCATION IN SCHOOLS

Koster (2012) provides some more specific advice on how tax education should be delineated in both private and public schools. Of particular interest is Koster's suggestion to bring in tax education at all levels, specifically including the elementary level (2012: 19). This suggestion might sound far-fetched, but when considering the drop-out rates of South African school students it does seem justified. Certain statistics reveal that a very low number of grade 10 students will complete their high school education, with only 37.3% of these grade 10 learners

matriculating (Anderson 2018: 1). Granted, these figures do not appropriately accommodate repeat students, but even more conservative estimates which account for this using school supplied statistics still see only 55% of grade 10s matriculating (The flaw in SA's 'real' matric pass rate figure online 2018: 1).

Well-structured curriculums and lesson plans which are relevant to the age of the school learner would be most useful. Koster (2012: 19) also provides a suggested weighting of the tax curriculum believing it should be comparable to how the USA values American History or Civic Education, of which the latter might be most closely related to Economics and Management Sciences (EMS) in South Africa. Out of this, students will develop an intrinsic sense of duty toward their constitutional obligations to pay taxes and understand how this role is necessary to allow governments to provide them with services after levying such taxes.

Koster reminds that the benefits of tax education within schools will be life long and a win-win situation for both the taxpayer and the revenue authority (2012: 19). Next, the work of Oberholzer and Stack (2014) regarding the importance of communication to convey values, change attitudes and educate taxpayers is discussed.

4.3.6.3 OBERHOLZER AND STACK (2014) ON EDUCATION AND COMMUNICATION

Oberholzer and Stack (2014: 238) stress the need for tax education such that government focuses their efforts on communicating to the population exactly why paying their taxes is of such importance. An appropriately diversified approach will be needed if understanding and sculpting the multifactorial influences that affect individual behaviour is to be made possible. In order for the South African government to discern the most effective way to communicate tax issues with citizens, they will need to regularly re-evaluate their corporate communication strategies, which is what Oberholzer and Stack (2014: 238) recommend.

To shift the taxpayers' attitudes to enhance cooperation and compliance, SARS should concentrate on changing taxpayer perceptions of taxation (Oberholzer and Stack 2014: 238). Developing an improved communication strategy that would provide adequate tax information to South African citizens could improve the South African citizens' tax understanding and emphasize the importance of paying tax, which synergistically reinforces taxpayer education efforts. Oberholzer and Stack (2014: 238) suggest taking this communicative strategy into the educative sphere such that it informs taxpayers how to

efficiently and effectively calculate their own tax liability. Research therefore indicates that improving taxpayer relationships with the revenue authority is part and parcel of improving taxpayer perceptions, and that communication and education can be mutually reinforcing (Oberholzer and Stack 2014: 238).

4.3.6.4 COMMON LOCAL RESEARCH RECOMMENDATIONS

The recommendations from these local researchers assists in the screening and selection of which taxpayer compliance strategies from foreign countries should be highlighted for local adoption in order to meet research objective 3. Within the theme of education, the local research recommendations suggest the education of future taxpayers such as learners within secondary and tertiary levels, and even those within elementary levels (Koster 2012: 19). Furthermore, these recommendations reveal that taxpayer education should include policies and strategies that best utilise various forms of communication to educate existing taxpayers (Oberholzer and Stack 2014: 238). Lastly, regardless of whether it is younger learners or existing taxpayers who are being taught, the communication of fiscal issues and good values is equally important (Junpath 2014, Oberholzer and Stack 2014).

In this section, the South African research recommendations of Junpath (2014), Koster (2012), and Oberholzer and Stack (2014) were provided. Having discussed these insights, recommendations and suggestions, a summary of this theme in taxpayer education and awareness is given next.

4.3.7 EDUCATION AND AWARENESS - THEME SUMMARY

Within this theme encompassing taxpayer education and tax awareness, a multitude of compliance-enhancing policies and strategies have been devised and implemented in both developed and developing economies (OECD and FIIAPP 2015). These have been explored as lessons for South Africa together with the recommendations of foreign research and local South African research to pursue compliance-enhancing policy that develops taxpayer education, tax values and communication (Junpath 2014; Koster 2012; Oberholzer and Stack 2014).

The current communicative and technological infrastructure in South Africa, as discussed in chapter 3, encounters similar difficulties to those experienced in some developed economies

when attempting to take advantage of new modern avenues to educate or promote compliance and raise awareness (Koster 2012). Some of these technological means have been looked into because certain online applications are being employed locally by SARS already, although the potential of these online applications is still being fulfilled.

Apart from these technology limitations which are common to developing and more developed economies alike (Nwanna and Richards 2010: 62), the cooperative compliance strategies highlighted at the beginning of this theme serve as valuable lessons for South Africa. Specifically, the taxpayer education efforts utilised in the USA and Japan, and the tax awareness initiatives noted above in the UK and Kenya. A discussion of these compliance policies and strategies concerning the theme of education and awareness is provided at the end of this chapter where they are screened to justify their suitability as collaborative, compliance-enhancing taxation policy proposals.

4.4 THEME 3:

LESSONS IN RESPONSIVE REGULATION THROUGH A TAXPAYERS' CHARTER

A number of factors support the need for this theme. Limitations within the SARS Service Charter, as identified in chapter 3, and the constant delays in its overhaul suggested that the impetus to evolve and refine the Service Charter was somehow lacking. The vision for the SARS Service Charter seems limited when compared to the dynamic charter applications in foreign tax jurisdictions such as Australia. The failure to prioritise the expansion of this potentially formidable compliance-enhancing tool is perhaps owing to a poorly conceived understanding of the potential the Charter holds.

A further link was revealed during the exploration of education and awareness where responsive regulation within the context of a Taxpayers' Charter was found to foster compliance by using education to improve taxpayer attitudes and understanding. Education was only one level of the dynamic risk-based responses to redirect taxpayers toward improved future compliance (Braithwaite 2017: 117). The emphasis on the synergistic interaction of these various levels of response revealed the need to discuss responsive regulation as a whole.

Responsive regulation “is a dynamic model in which persuasion and/or capacity building are tried before escalation up a pyramid of increasing levels of punishment” (Braithwaite 2017: 118). The ATO’s compliance strategy exemplified a diverse, strengths-based approach to regulation that was embodied in the Australian Taxpayers’ Rights Charter (Bentley 2016: 296). The Australian Taxpayers’ Rights Charter was created within the context of the Australian Tax Office tax compliance model that was developed by the Cash Economy Task Force (1998). SARS also adopted the Australian Tax Office tax compliance model and an improved service-client approach has developed as a result (Bornman and Stack 2015: 792; SARS 2012: 4). However, the SARS Service Charter and the Australian Taxpayers’ Rights Charter have manifested in significantly different ways as revealed in this investigation.

Embedding responsive regulation within the Australian Taxpayers’ Rights Charter was an intentional design providing greater purpose for the Charter and structure for the responsive regulation approach. With this in mind, responsive regulation within the context of a refocused taxpayers’ charter will be considered in this theme. This begins with an exploration of the ATO’s use of responsive regulation within their Taxpayers’ Rights Charter. This serves as the primary example to provide lessons to South Africa. A discussion of the research surrounding and supporting responsive regulation follows with reference to the ATO’s use of regulatory pyramids that involve escalating forms of support or sanction, depending on the taxpayer’s attitudes and actions. Then, the shift from service-orientated compliance climate into confidence-orientated climates is discussed to suggest the future of these regulatory approaches and compliance paradigms before this theme is closed with a summary. Next, the lesson provided by the ATO in embedding responsive regulation within their Taxpayers’ Rights Charter is explored.

4.4.1 AUSTRALIA ON RESPONSIVE REGULATION THROUGH A TAXPAYERS’ CHARTER

There is a disproportionate bias of power favouring tax authorities which has been justified in the hopes of ensuring compliance, but this often overrides taxpayer’s rights, which are often unknown to the taxpayers themselves (Davis Tax Committee 2017: 63). Concerning these rights, Australia has provided an invaluable lesson through its successful Taxpayers’ Rights Charter implemented by the ATO. Their charter moved on from a well-meaning list of principles to ultimately become embedded in the very culture of their Tax Office (James *et al.* 2004: 17).

The exploration of this example begins with a background to the unique form the Australian Taxpayers' Charter takes, then the continuum of the responses utilised by the ATO are highlighted, followed by a look at how their compliance model accommodates taxpayer attitudes, facilitates reason-based trust, and uses complimentary supports and sanctions to enhance compliance.

4.4.1.1 BACKGROUND TO THE CHARTER

Together with Valerie and John Braithwaite as well as their colleagues within the Australian Centre for Tax System Integrity, the ATO worked to reengineer their enforcement practices into a responsive, mutual learning process. Here, Valerie Braithwaite discovered the added benefits of enforcement techniques with motivational drivers, which in turn broadened the perspectives of the ATO on how to enhance compliance in this way (Bentley 2016: 292; Scott 2017: 276). The project's key goal was to foster a cultural change in the ATO that incorporated developmental training and continuous reflection to develop and implement a responsive enforcement pyramid (Job, Stout and Smith 2007: 90).

A charter can take a number of directions. A legislative charter is geared to protect taxpayers against the breach of specified legal rights that relate to tax law. An administrative charter protects taxpayers in a different way, reflecting their taxpayer rights that are first protected by separate legislation. A mutually symbiotic combination of legislated rights supplemented by an administrative charter is also possible as a complete and integrated set of rules to protect taxpayers' basic legal rights in the context of an effective compliance framework. The Taxpayers' Rights Charter in Australia is administrative in nature and so protects rights concurrently as taxpayers comply with tax law. It focuses on improving the quality of daily interaction through 'collaborative capacity building' between taxpayer and revenue authority (Braithwaite 2011: 475).

Once introduced in 1997 following systematic preparation, reviews of experience and consultation, the Australian Taxpayer's Charter became integral in applying the responsive regulation approach, improving taxpayer compliance and securing the Australian tax system's integrity. Furthermore, it was instrumental in generating a service culture within their tax administration, providing an effective basis for the tax administration to operate from when interacting with taxpayers. All the while, the Charter remained fluid enough to support

effective implementation of the newest and most sophisticated compliance frameworks. Despite having no real weight of its own to give legal rights as it fulfilled its primary function articulating the administrative operation of legal rights, it still managed to develop into an important component of the tax system, the tax compliance framework and the legal framework.

Given the background to the Australian Taxpayers' Rights Charter provided above, next, Aspects within the ATO's Charter are highlighted below to further accomplish objective 3. First, the continuum of responses, which forms part of responsive regulation theory, is explored. Then, the preference to utilise certain types of responses that leads to the responsive regulation pyramid is discussed, and research that supports a less rigid regulatory approach is also provided.

4.4.1.2 THE CONTINUUM OF RESPONSIVE REGULATION

The Charter employs responsive regulation to give taxpayers the surety of fair treatment and goes about responding to their state of receptivity, meeting taxpayers 'on their level'. It also serves as means of focusing the ATO's efforts on influencing taxpayer behaviour, engaging with taxpayers and nurturing their voluntary participation in the process (Bentley 2016: 295). First initiated with a taxpayer-focused service model, the Charter has adopted an increasingly risk-based approach as it responds to taxpayer behaviour, which would also describe the process utilised in responsive regulation.

Their compliance model has been formulated with the understanding that there are significant contextual factors such as influences from industry and business as well as sociological, economic and psychological factors affecting taxpayer compliance (Bentley 2016: 296), but it also acknowledges the need to shape the effects of these factors on how taxpayers engage with the tax system, so as to address the cooperative capacity building espoused by Braithwaite (2011: 475). As the Australian Charter was built around Braithwaite's (2011: 475) responsive regulation theory, it serves to note that in this form of regulation, paradoxically, "by having a capability to escalate to tough enforcement, most regulation can be about collaborative capacity building". A regularity authority that correctly utilises responsive regulation theory is still able to enforce penalties, but such penalties are no longer a primary response (Braithwaite 1985).

With the range of responses available to the regulatory authority, certain responses, such as dialogue, are more cost-effective and time-efficient, thus they become favourable interventions (Drahoš and Krygier 2017: 5). The result is more resources are directed toward these favourable interventions that are the base response before more coercive actions are taken to obtain compliance. The order of responses begins with the cost-effective and time-efficient responses and sequentially escalates into the punitive interventions that are strongly coercive but less cost-effective. The response of the individual being regulated determines whether the authority is required to utilise the stronger enforcement responses or not (Drahoš and Krygier 2017: 5). The economical choice to use cost-effective responses, and the fact more resources are directed here, coupled with the likelihood most regulates will respond to these earlier interventions before more forceful methods become necessary, means that the favourable, cost-effective methods come to resemble the base of a pyramid when depicted graphically, tapering gradually into the less utilised punitive responses at the pyramid's peak (Braithwaite 1985).

The ATO's implementation strategy uses a strengths-based approach regulating the allocation of the majority of resources to a base where the focus is on improving attitudes to compliance, thereby reducing compliance costs and engaging taxpayers in way that engenders maximum cooperation between them and tax administration. The Charter first provides the taxpayer rights and obligations as the basis for such cooperation, and then escalates this toward an educative approach, informing them of such rights and duties, which builds capacity and increases understanding to see taxpayers maintaining a cooperative attitude.

Taxpayers that do not comply are met by the punitive resorts available once communicative and educative efforts have failed. Even then, the penalty framework is integrated with the self-assessment system to encourage taxpayers to enter into dialogue with the ATO before the matter reaches a point where it must be escalated through the rulings regime. Responsive regulatory pyramids may well have the harshest enforcement methods available at its disposal at the peak, but Braithwaite (2017: 118) states that even in the face of the most serious matters, regulatory scholars have stood by the presumption that it is better to begin with dialogue at the base of the pyramid, unless reason compels otherwise (Drahoš and Krygier 2017: 5). To further support the importance of avoiding a rigidly firm response,

Muhammad's (2013: 190) study into tax auditor regulatory styles in Malaysia suggested that strict approaches could likely fail to deal with vastly differing compliance behaviours or be able to swiftly navigate through tax administration complexity.

With that in mind, discretion is given to the Commissioner in the decision to enforce penalties and interest as every effort is made not to sour the relationship and rather persuade the less cooperative taxpayers that compliance is the easier route to follow. Enforcers can be responsive to the capability of the citizen in effectively regulating themselves before justifying an escalation involving the intervention of the regulator (Braithwaite 2017: 117). Administrative modes that rely on threats and imposition of penalties are simply not emphasised. Only where taxpayers remain uncooperative are the more direct measures such as sanctions and fines considered as an intervention (James *et al.* 2004: 15).

The above approach employed by their Charter aligns with the Australian Tax Office's 'Compliance Model' that gives the appropriate response to the particular attitude motivating taxpayers' compliance (James *et al.* 2004: 15). This is a very different approach as it looks at the mindset and motivations currently affecting the taxpayer, not their immediate conduct and responds to this instead. This responsiveness to regulatee attitudes is highlighted next.

4.4.1.3 RESPONSIVENESS TO TAXPAYER ATTITUDES

The Australian model acknowledges a continuum of taxpayer attitudes towards compliance existing at four levels together with the appropriate compliance strategy serving as the response. Firstly, those who have decided not to comply are met with the full force of the law, while those who do not want to comply are deterred from noncompliance by risk of detection. Those who try to comply, but find the process difficult or do not always succeed are simply helped to comply, and for those who are in fact willing, the process is made as easy as possible.

The enforcement method utilised is determined not only by attitude rather than conduct, but going one step further, it also begins by factoring in the problems, motivations and conditions behind non-compliance as well as the economic and psychological factors mentioned before. The revenue authority's trust in the taxpayer's honesty is an important part of initiating any tax encounter such that taxpayers are given a favourable opinion in advance, despite initial uncertainty. A taxpayers' charter comes together with compliance policy in a mutually

reinforcing synergy which prevents antagonistic relations developing as the revenue authority acknowledges that contented, honest and co-operative taxpayers are much easier to deal with than those who are not (James *et al.* 2004: 15).

In congruence with Braithwaite's (1985) responsive regulation theory, by placing deterrence measures at the top of the compliance structure, more levels exist at which voluntary compliance can be fostered such that the bulk of the ATO's resources are directed toward servicing and educating taxpayers in order to reinforce their positive compliance attitudes. As such, far fewer resources are committed to deterrence and punishment, but these measures increase depending upon how actively non-compliant a taxpayer might be, coupled with a widely publicised emphasis on paying taxes as the only conscionable action for any law abiding citizen. The system is legitimised by the ATO's powerful propagation of the Charter's values of justice and fairness along with practical steps taken by the ATO to assist taxpayers in paying tax at every stage, all of which serves to reinforce voluntary compliance (Bentley 2016: 296).

This highlights that just as responsive regulation theory suggests a sequence of escalating responses; it also recognises a continuum of taxpayer attitudes that warrant specific types of responses. More than one continuum can be said to exist, or rather, a positive and negative continuum of attitudes could be distinguished and met with appropriate positive and negative responses as discussed next.

4.4.1.4 REGULATORY PYRAMIDS OF SUPPORTS AND SANCTIONS

Regulation can be as much about support as it is about punishment. Regulators must find problematic areas and fix them, but they must also find strengths and grow them further (Braithwaite 2014; Braithwaite, Makkai and Braithwaite 2007; Sparrow 2000). The idea of rewarding and acknowledging compliant taxpayers has been mentioned earlier. This idea is revealed in strategies such as the Taxpayers' Week utilised in Kenya as discussed in Theme 2, but it is also present in the alternative regulatory pyramids that utilise positive reinforcement as well as coercive enforcement methods. The implementation of responsive regulation can take the form of regulatory pyramids (Bentley 2016: 296). This is partly owing to the tendency to favour cost-effective compliance measures at the base of the pyramid before escalating to

coercive sanctions at its peak (Braithwaite 1985; Drahos and Krygier 2017: 5). An exploration of these complimentary supports and sanctions follows next.

If the strength to be acknowledged is the compliance of taxpayers and the way to grow such a strength is additional incentives that may take the form of rewards, pecuniary or otherwise, then this is a logical step in inducing greater compliance. The responsive regulation pyramids contain an entire range of responses to respond to varying levels of non-compliance. Although at the positive end of this pyramidal responsiveness there are favourable responses such as education and assistance to help taxpayers, there are not necessarily any positive rewards at this end of the spectrum. This could be either extended to include rewards for consistent compliance, or creating a new pyramid of positive responses altogether (Dukes *et al.* 2014: 289).

A separate pyramid of positive responses might include a similar starting point to the regulatory pyramids discussed earlier, namely, the education provided to those who try to comply but fail, however, now something of pecuniary or non-pecuniary value could form part of the rewards available to those who try to comply and succeed. Compliance was seen to improve in experiments utilising a system of rewards in a tax environment (Alm, Jackson and McKee 1992; Bazart and Pickhardt 2011; Kastlunger, Kirchler, Mittone and Pitters 2009; Kastlunger, Muehlbacher, Kirchler and Mittone 2011; Torgler 2003). These experiments focused on rewarding taxpayers found to be honest and compliant through a tax audit and suggest that this further enhances compliance.

Braithwaite who takes the lead discussing these pyramids of sanctions and supports in the book *Pharmaceuticals, corporate crime and public health* provides an escalating series of rewards (Braithwaite 2014: 289). This is much like the escalation of negative responses to non-compliance in the responsive regulation pyramids used by the ATO (Braithwaite 2017). The difference is obviously instead of progressing through dialogue to engage with non-compliant taxpayers, escalating up to penalties and sanction, this series of responses is of an entirely positive nature.

The regulatory pyramid of supports begins with education on the strength that has been exhibited, which would be compliance in this instance, and then informal praise would be provided for compliance or early submission. The next rewards step would be a prize or grant

given to the compliant taxpayer, but moreover, it could be a prize that encourages further compliance, facilitates compliance or is compliance-enhancing. Lastly, even greater rewards, which were purely incentivising, could be given, but even this would serve to encourage others to be compliant for their share of such a reward. This suggestion is a simplified adjustment of the pharmaceutical pyramid of supports provided by Braithwaite (2014: 289).

In support of this, the psychological contract between taxpayers and the authority can be acknowledged as it is strengthened by fair treatment and respect as well as incentives (Feld and Frey 2007). Additionally, acknowledging compliant taxpayer behaviour with these kinds of rewards has been shown to elicit an enhanced voluntary compliance response from taxpayers (Bornman and Stack 2015: 791). It should be noted that there is a risk that a monetary reward will affect taxpayers' motivations to comply, possibly crowding out intrinsic motivations, however, this risk can be reduced by giving non-monetary rewards instead (Kamenica 2012; Lacetera and Macis 2010).

The increased administration of managing rewarding responses to favourable taxpayer attitudes may be less daunting and complicated than it may appear. Research (Rillstone 2015: 61) has indicated that positive responses such as reward mechanisms would be possible as part of the overall taxation system. The way the costs of a rewards mechanism are covered will have to be carefully considered in order to ensure support for such a strategy. Regardless of how a rewards mechanism is funded, the associated costs could be justified by the increase in net revenue which occurs as a result of the additional incentive created by the reward (Feld, Frey and Torgler 2006: 16).

An entirely new pyramid of escalation is not entirely necessary so long as a simple rewards system accompanies the other responses to taxpayer compliance actions and attitudes. With these responses available, a greater demonstration of fairness and legitimate power is possible. This legitimate power and the role the general service climate plays in facilitating voluntary compliance through trust is discussed next.

4.4.1.5 PROMOTING REASON-BASED TRUST

The model adopted by the ATO has moved beyond a prescriptive list of duties to regularly embrace and integrate the findings of new research into their charter. Research (Hailey 1938; Torgler and Schneider 2006; Myers 2012; Gangl, Hofmann and Kirchler 2015) has found that

legitimate power and high levels of trust are the essential drivers behind effective tax compliance. The demonstration of this legitimate power takes the form of detection risk awareness, enforcement of compliance and punishment of tax evasion, as well as portraying a strong service climate. The latter service climate builds trust, increasing taxpayer capacity to comply.

The ATO has developed the Taxpayers' Rights Charter to embody the values of its theoretical framework and align with how the ATO operates, supporting responsive regulation by reinforcing the taxpayer's right to "fair and reasonable" treatment and by making fair and equitable decisions warranted by the taxpayer's unique situation (ATO 2018: 4). Furthermore, this Charter was developed to ensure the ATO's responsive regulation compliance model was procedurally fair in practice (Waller 2007: 67-68). This procedural fairness is linked to perceptions of legitimacy and trust (Tyler 1997; Tyler and Boeckmann 1997; Hough, Jackson, Bradford, Myhill and Quinton 2010).

By developing reason-based trust and exercising legitimate power to enforce compliance with the law, the result sees a shift from an antagonistic climate to a service-orientated, stable environment based on observable rules and clear standards. Here taxpayers choose compliance voluntarily as they perceive the tax authorities to be supportive and competent. The isolated instances where service falls short of taxpayer expectations do not permanently tarnish the relationship as both taxpayer and authority share an ongoing commitment toward making the system work effectively (Gangl *et al.* 2015: 20). While it is true that producing explicitly detailed rules and complex procedures to treat taxpayers fairly can produce additional administrative overheads, this is still necessary if fairness is the goal.

With the service climate's role in enhancing trust alongside demonstrations of legitimate power discussed above, as well as aspects of the ATO's compliance model which have been explored earlier such as their continuum of compliance responses and responsive regulatory pyramids. Significant lessons can be drawn from this example and are discussed at the end of this theme.

4.4.2 RESEARCH ON RESPONSIVE REGULATION

Kangave *et al.* (2018: 7) are of the opinion that any sustainable tax system will rely on the taxpayers' fundamental willingness to pay, where means of enforcement are only employed

in the event of non-compliance. Provided there is sufficient capacity to utilise the databases of local governments and the capability to enforce laws, then avoiding taxes such as property tax becomes increasingly difficult such that the heightened incidence of detection and the associated consequences will positively shift tax compliance (Kangave *et al.* 2018: 8).

The use of force to secure compliance has high economic and political costs. Such force is more prevalently used in developing countries, notably at the subnational level (Fjeldstad and Therkildsen 2008: 17). Unfortunately, developing countries are not in a suitably strong position to handle the additional burden. Economically, the use of force involves costly activities such as sending in a tax collector to physically collect taxes, imprisoning tax defaulters and even deploying roadblocks in certain instances (Fjeldstad and Therkildsen 2008: 12). The associated costs of enforcement activities like these can be quite high relative to the revenue secured, while the administrative burden also consumes time that could be better spent (Havnevik 1993: 211). The initial measure of threatening such enforcement may be affordable of itself, but these threats must be acted upon to remain effective. The chain of events triggered to render threats effective ultimately results in a costly sum being spent once enforcement is actioned (Luttmer and Singhal 2014: 164). Politically, force can create resistance, affecting the relationship between taxpayers and the revenue authority such that the government itself becomes very unpopular with their citizens (Kangave *et al.* 2018: 7).

Search and seizure, as well as the separation of the judicial authority from the tax authority are powerful administration tools to ensure taxpayer compliance (Strauss and Hyun 2001: 45). However, Strauss and Hyun (2001: 46) warns that without independence of the revenue authority from political influences and economic pressures, such authority might be taken advantage of, working to the taxpayer's disadvantage, reducing taxpayer confidence in the system, and damaging the relationship between authority and taxpayer such that voluntary compliance is negatively affected.

The lessons provided by the ATO's Taxpayers' Rights Charter and additional theory and views within responsive regulation have been discussed above. Before a summary of this theme is provided, the potential for the service-based climate embodied by the ATO (Bentley 2016: 295) and SARS (2012: 4; 2018f) to ultimately create a confidence climate in the future is provided next.

4.4.3 SERVICE CLIMATES INTO CONFIDENCE CLIMATES

SARS has released the latest version of the Service Charter in South Africa, which marks the renewed interest and intention of developing and maintaining an effective service climate (SARS 2018f). Within the context of a robust service-orientated climate, Gangl *et al.* (2015: 19) suggest there can then be a move to a confidence climate where cooperation is a natural consequence of implicit trust. Compliance as a mode of habit is first based in the shared moral values and commitment to society that celebrates the “spirit of the law”, and may one day reduce the need to meticulously follow complicated tax legislation (Gangl *et al.* 2015: 20).

The charters mentioned earlier also function best in the appropriate climate. Creating a service-oriented culture, or climate, allows a charter to be accepted as an organisational opportunity that, in turn, upholds this culture (Thomassen, Ahaus, Van de Walle and Nabitza 2014: 573). Service charters may well fail if they are not part of a programme to deliver improved quality of service within the organisation’s customer-focused strategy (Torres 2006; Ohemeng 2010; Thomassen *et al.* 2014). Charters in this context could be the tools that facilitate a true ‘confidence climate’.

Perhaps hopes for a confidence climate might be overly optimistic, and this is something that Gangl *et al.* (2015: 21) acknowledge; the evolution of reason-based trust into implicit trust to foster a confidence climate that will see taxpayers willingly embodying a spirit of tax compliance represents a difficult ideal to fulfil. However, just as Bentley (2016: 298) highlights this, he also points out that progress towards such a lofty climate is still possible through the consistent practice of a service-based approach. Even until such time as this goal is reached, the stability engendered by this approach will be a positive outcome nonetheless. It is precisely for this reason that such a practical service-based approach should be followed; there are both precipitate tangible benefits and, for the authority that employs it, the final destination is an entirely new compliance paradigm.

4.4.4 RESPONSIVE REGULATION THROUGH A TAXPAYERS’ CHARTER - THEME SUMMARY

Many lessons can be drawn out of this theme concerning responsive regulation theory and taxpayers’ charters through the example set by the ATO. These lessons have been explored to capitalise upon the potential of the SARS (2018f) Service Charter, and to make use of

combinatory approaches to enhance compliance as other countries have utilised effectively (Sarker 2003).

Given the similarities between the ATO and SARS in terms of their taxpayer-focused, service-based approach (Bentley 2016: 295; Bornman and Stack 2015: 792; SARS 2012: 4; 2018f), the additional steps taken by the ATO leading to the inclusion of responsive regulation within the the Australian Taxpayers' Rights Charter is not necessarily out of reach for SARS.

Although there are certain limitations highlighted in the SARS (2018f) Service Charter in chapter 3, these do not preclude the possibility this instrument can be developed and adapted to provide for an escalating approach to enforcement which first engages dialogue and education before moving on to more coercive methods. The limitations that might be experienced are more to do with the additional administrative burden that could be experienced by the revenue authority (Gangl *et al.* 2015: 20).

With this lesson in responsive regulation and taxpayers' charters, a discussion concerning the development of these charters in South Africa is provided at the end of this chapter where the example provided by Australia is discussed to justify the proposal to embed responsive regulation within the SARS Service Charter.

4.5 THEME 4:

LESSONS IN REINTEGRATIVE ENFORCEMENT THROUGH COMMUNICATION

The value of accommodative styles of enforcement such as reintegrative enforcement became apparent based on the outcomes of responsive regulation. In the pyramidal responsive regulation model discussed in the previous theme, it was determined that as a final consequence, punitive means would be used to address non-compliance from taxpayers. Reintegrative enforcement in this current study describes the attempt to handle non-compliance situations that call for enforcement in a more diplomatic and rehabilitative way.

Field experiments have effectively provided new information on taxpayer compliance behaviour. While these field experiments typically involved researchers linking a specific intervention to a change in taxpayer behaviour (Kangave *et al.* 2018: 12), they also revealed the importance of communication in the taxpayer-revenue authority relationship and seemed to be an efficient way to use an existing medium of communication in a new, compliance-

enhancing way. Certain measures that reinforce tax morale are discussed in this theme as they provided further insights into how the last resort of a punitive response can be avoided or better executed to secure long-term compliance.

One such measure described in the reintegrative approach relates to appropriate communication (Wenzel 2006). Rwanda provides a valuable lesson in non-threatening communication, and since South Africa has a developing economy, it would be beneficial to explore the lesson provided by a country in similar economic standing. Thereafter, Australia provides a lesson in respectful and fair notification letters that do not necessarily require excessive use of resources despite being from a developed economy. Then, research on accommodative approaches to enforcement, namely, reintegrative enforcement is discussed. This is followed by the research by Williams and Franic (2016) concerning institutional symmetry as it relates to the harmony between taxpayers and the revenue authority. Lastly, a summary of this theme of accommodative and reintegrative enforcement is provided. Lessons found in Rwanda's effective use of non-threatening communication is highlighted next.

4.5.1 RWANDA ON NON-THREATENING COMMUNICATION

In their published collaborative effort, the International Centre for Tax and Development (ICTD), the Rwanda Revenue Authority (RRA) and the African Tax Administration Forum (ATAF), conducted a field experiment investigating how different communication messages affected Rwandan taxpayer compliance (Mascagni, Nell and Monkam 2017; Mascagni, Nell, Monkam and Mukama 2016).

A pilot study was initiated involving 2,000 taxpayers, testing the message delivery process and gathering insights into taxpayer compliance. Two randomly selected groups were created from a pool of 2000 taxpayers after noting prior behaviour regarding revisions to their tax returns. A letter detailing the taxpayer penalties for under-reporting income and the partial waivers should taxpayers decide to voluntarily disclose their declarations was provided to one group only, while the other acted as a control group. The RRA delivered about 600 personalised letters, drafted in English, French and Kinyarwanda, to the recipient group.

Taxpayers in the letter recipient group showed a noted increase in compliance and were more likely to revise their tax returns to declare a larger amount of income as opposed to any

attempts to reduce their burden. This experiment also provided evidence that personalised letters played an important role in this positive shift (Mascagni *et al.* 2016).

The success of the pilot study instigated further research into the impact of alternative types of messages. Three different message types were chosen, a deterrence message reiterating non-compliance penalties; a message providing information on how taxes fund public services); and a message reminder of the deadlines for paying taxes. 11 000 communications were sent out via letter, email or SMS, in both English and Kinyarwanda.

The results revealed that the deterrence message was the least effective, predominantly affecting small-scale taxpayers who did not add much to the revenue pool. It was the reminder and information messages that created a broader range of positive responses from different taxpayers. Of particular interest was that while letters were still found to be effective in increasing compliance, positive declarations from the recipients of SMS and emails were also apparent. More specifically, a greater increase in declarations was noted from the recipients of emails compared to the taxpayers receiving traditional letters.

This demonstrated that non-traditional taxpayer communication mediums are equally effective methods that could be used to dramatically reduce revenue collection costs. It also revealed context is an influential factor as, in Rwanda, the non-threatening messages were more effective than deterrence messages when it came to increasing compliance, whereas prior studies conducted in developed countries found the opposite. Ultimately this means even more studies at the subnational level will be required to understand what these contextual factors are in order to enhance tax compliance (Kangave *et al.* 2018: 18).

Rwanda more closely approximates the situation that could be experienced in South Africa given that it is also a developing economy. The communication methods chosen by Rwanda are cost-effective and yielded positive compliance results. This provides a valuable lesson for South Africa, should personalised letters be considered as a compliance strategy. Lessons can also be drawn from developed economies in this area, provided they remain cost-effective, therefore communication policy from Australia is explored next.

4.5.2 AUSTRALIA ON RESPECTFUL TAXPAYER COMMUNICATION

A simple adjustment to the form and content of an authority's communication sheds light on the benefits of incorporating respectful language into such interactions. New literature (Williams and Franic 2016; Kangave *et al.* 2018) has begun to evaluate the effectiveness of paradigm shifts in the way informal and formal institutions operate, which includes new approaches to communication.

Field experiments, where researchers work alongside revenue authorities using their anonymised taxpayer information, identify certain types of taxpayer and deliver specific messages to them so as to measure their compliance behaviour following a particular type of message which may be tested through inclusion in, say, their tax bill. The message will include information that is intended to influence the taxpayer's perception of the system and ultimately their future compliance behaviour is compared against a control group who would not have received that same information (Kangave *et al.* 2018: 11). In this way, researchers can link the specific intervention to a change in behaviour.

Some of the first evidence that an automated but respectful, collaborative approach can be developed and delivered to large numbers with relative ease was revealed in an Australian taxation study conducted by Wenzel (2006: 345). Wenzel (2006) observed the effectiveness of different reminder letters to small business taxpayers over their obligation to supply quarterly business activity statements to their Australian Tax Office. As Wenzel (2006) worked with the ATO, his study looked exclusively at non-compliant taxpayers who had all failed to lodge their business activity statements by the stipulated date.

Wenzel (2006) tested three different types of reminder letters on subsequent lodgement compliance, the first being the standard ATO reminder letter which simply makes penalties and punishment clear, while the other two letters were themed around procedural fairness that is closely associated with reintegrative principles. The first procedural justice themed letter embodied interpersonal fairness principles of consideration and respect for taxpayers, but was also consistent with reintegrative shaming theory in that it communicated that the taxpayer had not fulfilled their taxation obligations. The second procedural justice themed letter embodied interpersonal fairness principles, providing information about their obligations and justifications as to why the ATO will need to pursue them further. Any one of

the three differently themed letters was sent to individuals in a random sample of the defaulting taxpayers. Results revealed that both the informational and interpersonal letter led to greater lodgement compliance and fewer complaints against the ATO than the standard reminder letter while fewer complaints were received from taxpayers receiving the informational and interpersonal letters (Wenzel 2006: 353).

This demonstrates that a move away from the clinical, deterrence-based communication strategies can win over previously non-compliant taxpayers in an easily implementable, affordable, yet effective way that reintegrates tax offenders into a cooperative symbiosis. Murphy (2008: 129) warns that these new forms of communication must still be carefully scrutinised to ensure they do not suggest an air of tolerance for non-compliance to offenders that may subsequently serve to exacerbate non-compliance. The key to successful regulation is a synergistic approach that simultaneously regulates in the fair and reintegrative way that an accommodative approach can provide for, while still communicating disapproval of the offending action and that noncompliance will not be tolerated.

Murphy's (2008) study highlighted the importance of considering the potential impact enforcement tactics have on people's subsequent emotional reactions. The challenge for tax authorities will be to create cooperative support for their decisions and laws through the use of strategies that are both seen and felt to be reintegrative and fair by compliant taxpayers and tax offenders alike (Murphy 2008: 130). Her suggestion that "Learning to better manage such emotions will leave regulators and authorities with a better ability to shape compliance in the future" means that outmoded compliance mechanisms can no longer be the go-to solution to compliance issues, nor can authorities ignore the fact that every taxpayer is an emotional being. With such knowledge comes an advantage that regulators can intentionally work with the human need to be validated, vindicated and accepted back into a welcoming system.

Williams and Franic (2016: 94) suggest the use of an alternative form of compliance-enhancing policy that can nurture the implicit psychological and social contract that exists between the state and its citizens as a means to develop institutional symmetry. This highlights the value of establishing trust and developing congruity between taxpayers and the revenue authority. Research (Murphy and Harris 2007: Murphy 2008) conducted in Australia concerning the treatment of non-compliant taxpayers contains such an alternative and

provides lessons for South Africa in avoiding antagonisation and re-establishing the congruity between taxpayers and SARS. This research is discussed next.

4.5.3 AUSTRALIA ON REINTEGRATIVE ENFORCEMENT

Survey data relating to the enforcement experiences a group of 652 tax offenders who dealt with the ATO revealed those perceiving their experience to be stigmatising were more likely to become resentful and hostile towards the Tax Office, and less likely to express remorse for the offence (Murphy and Harris 2007: 901). Furthermore, the emotional effects of the stigmatisation echoed into subsequent tax compliance behaviour (Murphy and Harris 2007: 909) such that there was an increase in offenders reporting to have evaded their taxes two years later. Murphy mentions Kagan and Scholz (1984) who determined that authorities who behave unreasonably toward citizens, or are dismissive of their concerns when enforcing regulations, only serve to increase resistance to compliance and weaken their respect for authority and the law (Murphy 2008: 115). These unreasonable encounters can generate perceptions of a lack of legitimacy of the law (Tyler *et al.* 2007: 575).

Murphy's (2008: 127) study revealed that those who perceived the Australian Tax Office's treatment of them as stigmatic were more likely to admit that they had subsequently evaded their taxes in the following years and contrasted this against those who perceived the ATO's treatment as reintegrative disclosing fewer instances of evading taxes subsequently. While causality cannot be determined from the study's cross-sectional data, the results still supported reintegrative shaming theory's central forecast that offenders re-offend less after reintegration, and more after stigmatisation.

Murphy's (2008) study finds support for the hypothesis that feelings of resentment play a role in mediating the effect of different forms of disapproval on compliance behaviour such that resentment towards paying tax mediated effects of both stigmatisation and reintegration on subsequent compliance, and resentment towards the tax authority mediated effects of stigmatization on compliance behaviour. Her results further suggest that the resentment held by those accused and punished for their tax evasion significantly affects their future compliance with the law, which is congruent with scholars' assertions in regulatory fields about how unreasonable behaviour from a regulator in an enforcement encounter may engender resistance to compliance as well as disrespect for the authority (Murphy 2008: 127).

Murphy (2008: 128) points out that the aim of regulatory enforcement is to regain compliance from past offenders, and Murphy affirms that enforcement practices should not result in the alienation of those who face such enforcement measures. Considering regulatory enforcement within the field of taxation, the regulation of this behaviour forms part of the long-term health of the community and, as such, the goal should be to ensure taxpayer compliance over the long-term.

While some form of punishment is necessary to firstly discourage potential offenders, and secondly to reinforce offenders' understanding of the consequences of offending, the shift in the regulatory mindset occurs over *how* a tax authority should go about punishing a non-compliant taxpayer in order to secure their voluntary compliance in future. Murphy's (2008) study suggests that regulators would do best to employ enforcement procedures that emphasise reintegration and fair treatment in order to prevent a re-offence after the initial incident of non-compliance.

Murphy (2008) acknowledges that reintegrative enforcement might be difficult to promote in the field of taxation regulation where there are millions of taxpayers to contend with, and that indeed, deterrence-based approaches would be seen as the most pragmatic solution to the sheer volume of regulation required. Analysing 96 Australian regulators' enforcement styles, Grabosky and Braithwaite (1986: 203-219) observed that those regulators of smaller numbers of entities or individuals would adopt less formal means of enforcement to achieve compliance, while regulators with large numbers did not have this luxury. Braithwaite, Walker and Grabosky (1987: 337) stated that this was easier for a "Benign Big Gun" such as a reserve bank with fewer regulatees, but had not been employed by other regulators such as the Australian Tax Office, a "Token enforcer" (1987: 331). The argument was that it was easier to establish cooperative and collaborative relationships with smaller numbers of regulatees (Murphy 2008: 128).

Murphy (2008: 129) highlights the challenge presented when contending with large volumes of taxpayers, and that an automated process is necessary to engage with these masses. This is because reintegrative forms of enforcement cannot be efficiently delivered in a one-to-one basis with offenders in quite the same way as in other fields of restorative justice, but Murphy (2008) also states that this does not mean it is not possible. Murphy and Harris (2007: 913) state that tax authorities could move toward the reintegration of offenders by re-strategising

and restructuring their taxpayer communication such that it respects individuals and their rights to privacy and confidentiality, giving explanations for enforcement decisions and opportunities to contest such decisions, and ultimately reach agreements (2007: 913).

By working with and acknowledging human needs and sensitivities instead of enforcing punitive measures in spite of them, South Africa can also benefit from this new style of reintegrative enforcement. Additional research related to the broader sphere of accommodative enforcement is discussed next to provide support and context for this approach.

4.5.4 RESEARCH ON ACCOMMODATIVE APPROACHES TO ENFORCEMENT

Different schools of thought exist between those believing taxpayer compliance enforcement through deterrence-based strategies are effective and those who believe persuasive cooperation is more effective in lowering rates of subsequent re-offending (Murphy 2008). Those who acknowledge 'deterrence' regulation as effective believe taxpayers will only comply with rules and regulations once they are confronted with penalties and sanctions, while those who believe taxpayers respond to appeals to their better judgement see the merit of cooperative, 'accommodative' forms of regulation.

Offenders find themselves at the mercy of either stigmatic or reintegrative enforcement methods. The former can induce feelings of resentment toward the tax authority, while this resentment echoes the negative effect of the stigmatising punishment into future compliance conduct. Murphy (2008: 113) points out that the deterrence model has been a popular enforcement approach guiding most taxpayer-compliance policies; consequently, tax offenders are more likely to be alienated, perpetuating their non-compliance. In contrast, reintegrative enforcement strategies, which are perceived to be fair and respectful, have a positive impact on long-term compliance behaviour.

Accommodative enforcement models see the individual's motives driven in part by a legitimate belief in the rule of law, but also by a long-term self-interest that preserves their tendency to comply. In this sense, they are not only viewed as law-abiding 'rational actors' but also as self-serving 'social actors' (Braithwaite 2017: 118). More geared toward cooperation than coercion, authorities adopting the accommodative model are more likely to consider themselves to be service providers than strict enforcement agents, granting second

chances, offering compliance advice and potentially overlooking additional penalties provided the violation is rectified (Scholz 1984: 385). The establishment of a collaborative relationship is an important aspect of the accommodative approach for the regulator (Grabosky and Braithwaite 1986: 207).

More often than not, the use of force results in resistance and has political ramifications. This damages the relationship between taxpayers and the revenue authority, and gives government a bad name among their own citizens (Kangave *et al.* 2018: 7). Individuals appreciate and value being treated with respect by those charged with authority, and these individuals believe such respectful authorities are more worthy of being obeyed (Tyler 1997; Tyler and Boeckmann 1997). If revenue authorities could change how they approach taxpayers by acting upon the new insights provided through research, the taxpayers would, in turn, also change their behaviour (Kangave *et al.* 2018: 6).

The accommodative approach has found support through research in the field of procedural justice within which the associated criteria of polite, dignified, respectful treatment where the individual's rights, voice and social status are honoured generate feelings of fairness among regulates and has positive effects on taxpayer behaviour (Feld and Frey 2002; Murphy 2005; Wenzel 2006). Regulators willing to treat regulatees fairly and engage in dialogue may serve to encourage support for the law and lower rates of re-offence (Tyler, Sherman, Strang, Barnes and Woods 2007), while unreasonable deterrence enforcement strategies may amplify non-compliance behaviour and engender a resistance to the law. Furthermore, in the face of continued resistance, punishing repeat-offenders with increased severity is not consistent with, nor justified by literature (Chu, Hu and Huang 2000: 127). Sanctions supporting the tax administration may always be necessary, but the frequency of their use is a source of debate (James and Alley 2002: 28).

Murphy (2008) points to an explanation found in Braithwaite's (1989) theory of reintegrative shaming which was an amalgamation of perspectives on multiple predictive theories surrounding criminal behaviour. This took the form of a framework in Braithwaite's book *Crime, Shame and Reintegration*, which focused on the effect of shaming in the forms of social disapproval, punitive responses and regulatory enforcement. Here the nature of the action taken in communicating such disapproval has a dramatic effect on the subsequent offending

behaviour of individuals (Murphy 2008: 116). The forms these communications of disapproval take are discussed next, together with their effects upon the taxpayer.

4.5.5 RESEARCH ON REINTEGRATIVE AND STIGMATISING ENFORCEMENT

Two major forms of disapproval response to offence exist, that which is reintegrative and that which is stigmatizing (Braithwaite 1989). According to Braithwaite (1989), reintegrative disapproval, which is closely associated with an accommodative enforcement approach, is delivered in a respectful, reconstructive manner where labelling is avoided and forgiveness or reconciliation concludes the interaction and, as such, is the final impression left upon the offender. Since accommodative enforcement approaches include two-way communication with the offender, discussing what caused the offender to default, followed by forms of collaborative cooperation to gain their continued long-term compliance, Braithwaite (1989) forecasts that reintegrative forms of disapproval reduces instances of repeat offence. Reintegrative disapproval ultimately promotes feelings of shame and remorse in the offender, compelling them to take responsibility and right their wrong-doing (Ahmed, Braithwaite, Harris and Braithwaite 2001; Braithwaite and Braithwaite 2001).

In contrast, stigmatic disapproval, linked to deterrence-based enforcement, often contains disrespectful communication and an ostracising negation of the individual, reduced to a negatively labelled identity. No opportunity to vindicate oneself other than the payment of the fine exists, as the label perpetuates its negative effects without revocation. Concerning taxation enforcement, taxpayers who appear to have defaulted are sent written letters informing them of their supposed intentional violation of tax law for which they are culpable, and the penalty they must pay as punishment. No caution is exercised in terms of identifying a potentially wrongful or erroneous accusation, and no consideration can be given to personal circumstances surrounding the noncompliance event nor the psychological repercussions and damage to the taxpayer-authority relationship which an incorrect notice can likely cause. Offenders have little say in the ordeal as the letter is already signed, sealed and delivered, yet the Davis Tax Committee itself has found this sort of process to be inappropriate, suggesting rather that taxpayers should have the right not to pay tax amounts in dispute before having an impartial review (2017: 69).

According to the research surrounding reintegrative shaming theory, a style of disapproval such as this written penalty notice ultimately results in increased re-offence rates (Murphy 2008: 117). This may be because stigmatic forms of disapproval do not appeal to the offender's sense of remorse, serving rather to simultaneously humiliate the individual on the receiving end such that they may likely blame other forces, feel outcast from the associated values the regulators are trying to uphold, and harbour resentment for the disapproving entity. The building angst from such feelings of embarrassment and anger increase the likelihood of non-compliance in the future, and even rebellion by the offender (Braithwaite and Braithwaite 2001).

There is a more direct form of deterrence from authorities that utilises public shaming to secure compliance (Tyler *et al.* 2007). These public shaming methods are intended to alter the behaviour of the offender, but also other individuals, provided that they witness or become aware of the consequence of non-compliance (Azman 2010: 1252). This shaming mechanism may serve as a deterrence to others, but it is made to the detriment of the offender being publically shamed (Tyler *et al.* 2007), the community which is undermined (Condry 2007; Massaro 1997), and ultimately, it does not benefit the authority who fails to secure the offender's long-term compliance (Murphy 2008: 127).

This resentment and further rebellion by taxpayers implies low tax morale and it highlights the incongruity between the regulatee and the regulator. This incongruity can be called institutional asymmetry (Williams and Franic 2016). The relationship between tax morale and institutional symmetry is discussed next.

4.5.6 WILLIAMS AND FRANIC (2016) ON INSTITUTIONAL SYMMETRY

William and Franic's (2016: 101) logistic regression analysis revealed no association between tax avoidance through participation in undeclared work and the perceived risk of detection and severity of penalties, but a strong association between levels of participation in noncompliance through undeclared work and the level of tax morale. This provides some support to rather seek alternative means of promoting compliance beyond standard punitive deterrence methods. Research into such alternatives was found to be lacking for a lengthy period in the past (Tyler *et al.* 2007: 554), but it began to receive new attention in recent years as other fields of thought have shed significant light on the concept.

This institutional symmetry refers to the congruity between citizens and the authority, working together harmoniously. Tax morale, in this context, is a by-product of institutional symmetry between taxpayers and the revenue authority. Williams and Franic (2016: 98) deduce that policies that dole out greater punishments and ever increasing chances of detection are still unlikely to affect taxpayer compliance, yet policy that improves tax morale and the associative level of institutional symmetry can more effectively reduce participation in the undeclared economy. The Davis Tax Committee (2017: 63) has also emphasised that tax compliance is not merely the resultant outcome of increased repression. It would seem that, after a certain point, the efforts to enhance compliance by increasing penalties and detection probabilities become futile.

Williams and Franic (2016: 101) use the phrase “cops and robbers” to describe the approach of simply increasing penalties and detection risk. Furthermore, they reveal that this approach engenders a counterproductive view of citizens as criminals who are to be caught. The basic precept here lacks trust, inspires none, and becomes a self-fulfilling expectation where taxpayers adopt their prescribed role as poorly committed adversaries to compliance (Williams and Franic 2016: 100). The absolute opposite is needed in order to heighten tax morale and institutional symmetry. Likened to a ‘customer service-orientated’ approach, the relationship should be based on a trusting view of citizens that acknowledges and psychologically reinforces their commitment.

To bring about a customer service-orientated approach, Williams and Franic (2016) propose three changes within institutions to promote trust and commitment to government from citizens. It requires improvements in procedural justice where authorities treat citizens with respect, remaining impartial and acting responsibly. Then, procedural fairness must be maintained such that citizens believe they pay a fair share compared with others. Lastly, redistributive justice needs to be perceived so that citizens believe they receive equal goods and services in return for their taxes (Williams and Franic 2016: 101).

Procedural fairness and redistributive justice cannot be achieved until the laws and regulations are perceived to be in place to better the citizenry. Without this, tax morale will suffer and citizens will continue to avoid tax in legitimate but aggressive ways, or even attempt to evade tax. Ultimately, Williams and Franic (2016: 101) discourage the pursuit of further detection and punishment measures and instead encourage new strategies and

policies to address instances of injustice and correct any unfairness inherent in the authoritative institution.

Having explored the lessons in both non-threatening and respectful communication between the revenue authority and the taxpayer, as well as, reintegrative enforcement and its place within accommodative styles of enforcement that may enhance institutional symmetry, a summary of this theme follows next.

4.5.7 REINTEGRATIVE ENFORCEMENT THROUGH COMMUNICATION - THEME SUMMARY

Williams and Franic (2016: 94) describe an alternative policy approach “to nurture the social contract between the state and its citizens in order to promote greater institutional symmetry and thus commitment to compliance”. A less antagonistic, more respectful and harmonious response could be one way to promote this symmetry between taxpayers and the revenue authority. This can be achieved through respectful, fair communication (Mascagni *et al.* 2016; Wenzel 2006).

The example provided by research in Australia and Rwanda offers lessons to South Africa in appropriate communication that are valuable despite the fact that much of what increases tax morale and motivates taxpayers to comply is contextual and sometimes unique to the country from which it originates (Kangave *et al.* 2018: 18). With respect and fairness, the social and psychological contract implicit between taxpayers and the revenue authority is expected to become more harmonious and cordial, and thereby improve compliance (Williams and Franic 2016).

While a more accommodative enforcement approach may seek to avoid stigmatisation, communication must still be carefully constructed to avoid creating a sense of tolerance for non-compliance (Murphy 2008: 129). These accommodative approaches should not be seen as a ‘license to be non-compliant’. An expectation of leniency can be detrimental as, for example, non-compliant behaviour may result as a consequence of the taxpayer’s anticipation of an amnesty period (Junpath, Kharwa and Stainbank 2016: 105). The abuse of such opportunities like the amnesty period will require careful consideration before being considered as a policy.

Furthermore, from the outset, it may be more difficult to establish cooperative and collaborative relationships with large numbers of regulatees (Murphy 2008: 128). Communication may present its own logistical issues or difficulties stemming from a weaker communications infrastructure, but as technology advances while traditional and alternative forms of communication are considered, this may present less of a hindrance.

The accommodative enforcement approaches such as reintegrative enforcement contain lessons in respect and fairness that can play a role in enhancing other compliance policies from other themes. The complimentary infusion of these lessons into other themes and their related compliance strategies is included at the end of this chapter as part of the screening process when the suitability of these compliance strategies for South Africa is discussed. A summary of the accommodative and reintegrative enforcement approaches has been provided above, concluding the exploration of the fourth theme. Therefore, non-legislative cooperative-compliance taxation policy and strategies employed overseas has been explored and highlighted within each of the 4 themes in order to meet research objective 3.

The screening of the compliance strategies discussed within the themes of transparency, education and awareness, responsive regulation and reintegrative enforcement is discussed next in order to signify whether they are realistic suggestions for adoption in South Africa.

4.6 SCREENING OF COMPLIANCE STRATEGIES FOR SOUTH AFRICA

The taxpayer compliance strategies and policies explored above all have varying degrees of suitability within the South African taxation infrastructure. Some of these have elements within themselves that are suitable for adoption, even if the entire strategy or policy is not. The investigation also revealed various mutually reinforcing policies that could be grouped together, not only to meet the research objectives, but also to synergistically tackle the compliance blight marring the South African tax revenue landscape.

To give an instance of such mutually supportive strategies, when looking into the relationship-enhancing opportunities provided through greater transparency, education was revealed as a natural concomitant of this force for greater compliance. While one would expect a strategy might be naturally complementary to another, what is more, multiple strategies appeared to be encouraged. Within the bounds of cost-efficiency, the use of multiple strategies becomes mutually reinforcing as it leads to greater trust, while using several types of citizen

engagement can create a local sense of community (Ebdon and Franklin 2006: 444). These are precisely the elements of a relationship that would enhance co-operative compliance and create the kind of community that allows for collaborative input.

Certain policies from abroad cannot be automatically adopted given the specific political systems unique to such countries that allow for their taxation system and the accompanying tax policy to develop in an equally unique way. Examples would include the participation rights of the taxpayer in a semi-direct democratic federal republic such as in Switzerland, whereas by contrast South Africa has a representational democracy that does not provide the platform to facilitate such participation. In other instances, compliance strategy undertakings would simply be too ambitious or costly. While the discussion so far has indicated that some confidence in the taxation infrastructure is justified, the future economic stability of South Africa cannot be vouched for, nor can the telecommunicative and technological modalities be considered to be sufficiently developed to handle any foreign taxation compliance-enhancing policies that excessively rely on such things.

Occasionally, the methods observed from overseas provided examples on how *not* to go about implementing a particular compliance strategy or policy, or at least indicated that the process used was not yet perfected. Still, where such efforts had merit, those strategies were examined all the same for the light they could shed upon tax compliance policy and any pitfalls associated with certain forms of implementation.

What follows next is a recapitulation of the major compliance policies and cooperative elements which have been covered under the four major themes, as well as a brief reasoning to explain their inclusion or rejection from the compliance strategies which are to be presented to tax experts in contemplation of their potential adoption in South Africa.

4.6.1 SCREENING OF TRANSPARENCY STRATEGIES

Transparency as a major theme is included in the compliance strategy proposals taken forward into interviews with tax experts. Transparency can combat fiscal illusion and improve trust (Afonso 2014a; Nkundabanyanga *et al.* 2017), and it is believed that certain obstacles to transparency can be overcome provided the improved tax education of citizens is also considered.

Increasing the transparency of individual taxation instruments utilised by government or addressing the opaque nature of certain types of taxation is not an element which will be brought forward as the solutions require dramatic restructuring of the taxation system. Furthermore, opaque taxes, simply put, are more likely to be accepted and paid by citizens than more visible tax structures (Sausgruber and Tyran 2005: 68).

Although accountability is important, the perpetual delineation of taxation statistics to the public, as seen in the USA, was not seen as a necessarily valuable addition to transparency until the majority of taxpayers have a sufficient tax understanding and education. Furthermore, SARS already provides relevant performance and spending statistics in a summarised and more understandable form every year. The publication of compliance statistics, however, is to be considered, although the nature of how this information would best be provided, and into whose hands, is to be discussed with selected experts in interviews.

Much of the lessons regarding publication of expenditure budgets is answered through the decision to include taxpayer receipts as a potential compliance strategy in interview discussions with taxation experts. These taxpayer receipts are believed to have value owing to their potential for simplicity and their applications in which they could enhance taxpayer morale and understanding, even where recipients of such taxpayer receipts possessed only a limited tax education.

Online transparency, much like online tax education, was not an area which was given much consideration in the form of an entirely new compliance strategy. However, online elements are likely to be present in discussions over the mediums of delivery concerning, say, the taxpayer's receipts, which could well be delivered after a taxpayer completes their online eFiling. The provision of large volumes of information regarding spending online in real-time simply would not have viewership to make it feasible given the limitations of the technological infrastructure in South Africa, especially when these limitations are already experienced in a developed country such as the USA.

The collaborative transparency fostered through E-government initiatives require a suitable telecommunications infrastructure before the mutual exchange of digitally available financial information and data becomes possible (Bertot, Jaeger and Grimes 2012; Bertot, Gorham, Jaeger, Sarin and Choi 2014). These initiatives are typically related to companies and online

business, and not necessarily individual taxpayers, but it is possible that larger entities in South Africa could be a part of this in order to enhance the general perceptions of trust and transparency held by citizens. Nonetheless, the need for a sufficiently capable online infrastructure might preclude the use of such a form of information exchange in South Africa until there are developments that make this avenue more affordable.

A list of cooperative compliance strategy proposals concerning the theme transparency is provided at the end of this chapter. The screening of compliance strategies from the theme of education and awareness follows next to determine additional strategies that can be considered for local adoption in South Africa.

4.6.2 SCREENING OF EDUCATION AND AWARENESS STRATEGIES

The broader theme of tax education is to be entertained with a series of compliance strategies involving tax enculturation, education and awareness. Tax education is earmarked as extremely important owing to its recommendation by multiple researchers, both local and international (Bahari and Ling 2009; Junpath 2014; Koster 2012; Nwanna and Richards 2010; Oberholzer and Stack 2014).

Once again, online education is not chosen as a major strategy to enhance compliance owing to the technological shortcomings that can be experienced as well as the cost and limited communicative resources available to most South Africans. Furthermore, SARS does have an online learning platform that can provide users with relatively useful information provided they have access in their communities. Directing more funds into online tax education was not considered appropriate when virtually all researcher recommendations made tax education in schools and higher learning institutions the primary focus.

Many researchers and studies emphasized the importance of the taxpayers' understanding of the role of taxes and their importance as part of a fair exchange for government services (Boadu 2013; Junpath 2014; Latina 2013; Oberholzer and Stack 2014). This focus within tax education is clearly different from developing their ability to navigate the tax paying process; it is about an understanding and appreciation of the reciprocity of the taxpayer-government relationship. Given this difference, this idea is taken forward as the concept of tax enculturation which would allow its importance to be discussed separately and the unique means of this aspect's delivery to be suggested independently.

A knowledge of how to actually calculate taxes and submit tax returns cannot be overlooked either (Koster 2012; Oberholzer and Stack 2014). Furthermore, an awareness of the presence of opaque taxes should be taught as this knowledge influences the decisions of taxpayers (Afonso 2014a). Consequently, this aspect of taxation education is also taken forward into the interviews as its own compliance-enhancing strategy. This allowed the methods of delivering the technical aspects of taxation to be discussed as well as their importance.

Although some studies recommended the introduction of tax education at high school levels (Sarker 2003: 31), others do suggest its inclusion at all levels and in all types of institutions (Koster 2012: 19; Nwanna and Richards 2010: 63). With this latter suggestion in mind, the split between tax enculturation and more technical tax education allowed for appropriate aspects to be introduced earlier. An important factor that is considered important to be provided to taxation experts in interviews is the drop-out rates in South African schools (Anderson 2018, Real matric pass rate 'probably closer to 40%' 2019). The acknowledgment that less than half of students will actually complete their high school education is thought to be an important prompt for the tax experts discussing the suitability and timing of tax education topics. As many students will not complete a tertiary education, the scale adopted for a tax curriculum may have to be metered in a more condensed focus.

Neither tax counselling nor tax guidance were selected to be taken forward into discussions as a major tax compliance strategy as SARS does provide a degree of support to taxpayers, especially via eFiling (SARS 2018k: 1). Other forms of assistance come in the forms of local taxation workshops as covered in Chapter 3, although it was stipulated in this study's assumptions that many will not utilise these means.

Taxpayer public relations were considered and chosen to be taken forward into discussions with tax experts as a major compliance strategy, however the form this would take is chosen to be a composite inclusion in the Taxpayer's Week. Here the general public can likely be influenced and compliance consciousness can be created (Sarker 2003: 21). The utilisation of radio and other media was also considered, but not limited to any one particular compliance strategy. Taxpayer compliance campaigns were also encouraged in the context of the greater momentum added to the Taxpayer's Week which was the major compliance strategy presented to taxation experts. Of particular interest was the use of public holidays and

national celebrations of freedom as further catalysts of intrinsically motivated compliance as in Kenya (Luttmer and Singhal 2014: 150).

Oberholzer and Stack's (2014) symbiotic recommendations on transparency, education and communication will be borne in mind together as they relate to the lessons observed within the transparency compliance theme as well as this theme of education and awareness. Japan provided an important lesson in the value of synergy amongst compliance-enhancing policies which should not be ignored (Sarker 2003). As multiple cooperative compliance taxation policies are to be considered for local implementation in order to meet research objective four, it is hoped that this synergy will be possible provided more than one strategy is deemed suitable for implementation in South Africa.

The cooperative compliance strategy proposals chosen concerning the theme of education and awareness is provided as a list at the end of this chapter. To determine additional suitable strategies which will be highlighted for adoption, the screening of compliance strategies from the theme of responsive regulation follows next.

4.6.3 SCREENING OF RESPONSIVE REGULATION STRATEGIES

The direction of the compliance model adopted by SARS, as well as the SARS Service Charter and its potential to be utilised as a formidable compliance-enhancing instrument, prompted the development of this theme of Responsive Regulation (Bornman and Stack 2015: 792; SARS 2012: 4). Other benefits were in turn acknowledged, including cost benefits that come by avoiding additional physical enforcement measures (Havnevik 1993: 211; Luttmer and Singhal 2014: 164).

Much effort has been poured into the SARS Service Charter including a recent update and, as expressed as an exception in the delimitations of this study, larger, costlier attempts to improve compliance could still be contemplated if finance that was already being poured into such an area could be better directed. The success of the ATO simply could not be ignored and much of the compliance strategy to be brought forward to tax experts is based upon the Australian Taxpayers' Rights Charter. The inclusion of escalating responses to the taxpayer's attitude and conduct is also included, namely, dialogue, support, education, deterrence and finally penalisation (Braithwaite 2011: 475). The ATO's Charter focuses on improving taxpayer-authority interaction through 'collaborative capacity building' (Braithwaite 2011:

475), and it is precisely this kind of collaborative compliance agreement that this current study seeks to explore, adapt and adopt locally.

Rewards have been described in many taxpayer compliance celebrations and campaigns including those associated with Taxpayer Weeks (Luttmer and Singhal 2014; OECD and FIIAPP 2015). This prompted the inclusion of a compliance rewards system in the topics to be discussed with experts. As research in New Zealand has indicated, positive responses and reward systems are possible components within the overall taxation system (Rillstone 2015: 61). The fact that this rewards system has often been described as part of a pyramid of supporting responses to encourage positive behaviour is not as important as the fact that a simple rewards-based incentivisation be considered in whichever form the interviewees deem effective.

When describing the use of indirect controls such as incentives instead of punishments, Williams and Franic (2016: 92) state, “the intention is to nurture the social contract between the state and its citizens so as to encourage a commitment to compliance among citizens and thus greater self-regulation”. Many researchers have expressed the importance of the workings of this psychological contract (Feld and Frey 2002: 89; Torgler and Schneider 2006: 9), and so too has the President of South Africa at the State of the Nation Address (Ramaphosa 2018). This makes the implementation of rewards as part of the responsive regulation approach, in some form or another, a priority.

The creation of a confidence climate from the current service-based climate was considered to be an idealistic goal that could be achieved but not with any one single policy or strategy. Perhaps if all these compliance strategy proposals were made into a reality such a harmonious climate could be created within the taxation system.

Cooperative compliance strategies concerning the education and awareness theme is provided at the end of this chapter as part of a list of proposals. Screening of compliance strategies from the theme of reintegrative enforcement follows next to highlight additional strategies that can be considered for local adoption.

4.6.4 SCREENING OF REINTEGRATIVE ENFORCEMENT STRATEGIES

While some positive steps are considered for adoption to reward compliant taxpayers on the positive end of the responsive regulation spectrum, the likelihood that non-compliant taxpayers will still find themselves on the punitive end of this spectrum prompts the need to address this in a separate compliance-enhancing strategy within reintegrative enforcement. Many additional areas have opened up adjacent to the sphere of accommodative enforcement, including procedural justice, restorative justice and reintegrative shaming among others. Nonetheless, a common line of thought among these areas is to introduce fairness, understanding and rehabilitation to the process when penalties are administered. Many researchers have expressed the importance of these areas when a collaborative taxpayer-authority relationship is sought after (Murphy 2017: 55; Grabosky and Braithwaite 1986: 207).

Accommodative approaches to regulatory enforcement exist as a composite range of strategies (Hutter 1989: 153). With this in mind, lessons from the accommodative and reintegrative enforcement approaches that form part of theme 4 should be considered pervasively throughout all the proposals, as the respect, fairness and reintegration they promote will likely enhance the relationship between the regulator and the regulatee in a cooperative way that promotes compliance. Principles concerning the respectful and fair treatment of taxpayers should be incorporated into other compliance strategies wherever possible. The pervasive nature of this theme even relates to education of taxpayers so as to recognise their worth and value for providing revenue to the government to fulfil its responsibilities. Although this is a more open area for discussion, the intention is to seize opportunities that engender respect and contemplate rehabilitative measures that could be put in place.

It is possible that elements of reintegrative disapproval could be embedded in the continuum of responses made available through responsive regulation in the taxpayers' charter discussed in theme 3, which is a separate but potentially symbiotically related theme. It is also possible that the taxpayers' charters could emphasise certain rights that assist in the reintegration of offending taxpayers. In this regard, the ATO (2018: 15) does indicate that it emphasises the taxpayer's right to "fair and reasonable" treatment within its Taxpayers' Charter. Furthermore, it states that the taxpayer has a right to being treated as honest and

given the opportunity to explain an unfavourable discrepancy (ATO 2018: 15). This assumption of the taxpayer's honesty is a welcome refrain from the "cops and robbers" approach described by Williams and Franic (2016: 101) in criticism of antagonistic regulatory practices. As such, these rights could be added to the rights reinforced in the SARS Service Charter, although these accommodative concepts do form part of theme 4, they can reinforce and relate to the taxpayers' charter discussed in theme 3.

A specific proposal brought forward into interviews that promotes the rehabilitation of offenders to a compliant status is centred on reintegrative shaming. South Africa has begun shaming non-compliant taxpayers in an effort to dissuade other taxpayers from doing the same (Sokutu 2018: 1). In order to prevent a decline in compliance in the long-term in favour of a short-term measure that antagonistically shames the taxpayer (Braithwaite 1989; Murphy 2008), reintegrative shaming theory should be introduced into the current process of shaming non-compliant taxpayers in a way that does not belittle or demean the taxpayer, but rather the action of non-compliance. It is possible that the non-compliant taxpayer can be given the opportunity to atone or make recompense and restore their compliant status.

While notification letters themselves are not necessarily the essential lesson in this theme of accommodative and reintegrative enforcement, its importance in creating an atmosphere of respect and cordiality. This is something that is intended to be carried forward into the interviews with tax experts presented in chapter 6, albeit it is not presented as a separate compliance strategy proposal. The effectiveness of communication and notifications that have been centred around respect and the rehabilitation of non-compliant taxpayers is dependent upon context (Kangave *et al.* 2018: 18), but nonetheless the findings from research in Australia (Wenzel 2006) and Rwanda (Mascagni *et al.* 2016) do suggest this is a good starting point to enhance compliance. Making a distinction to rather condemn the act of non-compliance and not the offending taxpayer has significant psychological ramifications that may only be able to be touched upon in this study.

The screening of the compliance strategies, policies and other relationship-building elements that have been explored as lessons for South Africa under the four major themes has been presented above. Reasons to justify their inclusion or rejection from the list of compliance strategy proposals presented to tax experts have been discussed. The cooperative compliance

proposals chosen to be presented to tax experts in contemplation of their potential adoption are provided next.

4.7 COOPERATIVE COMPLIANCE PROPOSALS

Based upon the lessons learnt from each of the countries who have instituted and successfully implemented various compliance-enhancing measures and polices, an aggregated list of these potential policies and practices has been put together below. This aggregation of global ideas has been justified based upon the various researchers' recommendations uncovered throughout the course of this study as detailed earlier, as well as the compliance mechanisms that were underdeveloped or missing from the South African taxation system and its compliance climate. Additional literature that vouched for the effectiveness of these policies and strategies was provided followed by noteworthy case studies of such policies being implemented in foreign countries along with brief acknowledgements of those policies and strategies that could not foreseeably be assimilated locally.

Bentley (2006: 247) makes it clear that laws "should never be taken from one jurisdiction and enacted as they stand in another, as many developing countries have discovered to their cost." Although this current study does not intend to recommend the import of entire laws per se, the foreign tax policy South Africa can emulate will have to be tempered and appropriately harmonised to function accordingly in the local infrastructure. Certain strategic models would have to be simplified and, by such time, could become brand new, unique ideas in and of themselves. Bentley (2006: 248) goes on to qualify this notion by emphasising that a "model's value is where it can be used as a guide to the development of new systems and processes that can be tailored specifically to fit within those that already exist in a jurisdiction." This serves to suggest that even though the proverbial wheel has already been invented, one might have to somewhat reengineer it in order for it to roll effectively in one's country.

This reengineering is an essential element that must be addressed within each policy contemplated for adoption locally and the interviews with taxation experts are intended to address this. A summary of the policies outlined is provided to local taxation academics and experts in Chapter 6 to allow these tax experts to determine whether the potential these policies held for South African implementation was justified, and to forecast and address any

challenges that could be anticipated. This determination of each policy’s potential and anticipation of challenges will assist in meeting research objective 4 in chapter 5 where the practical possibility for implementation will be investigated.

The list of taxpayer compliance strategies to be taken forward as proposals into interviews with taxation experts is presented alongside their themes as follows:

| <u>THEME</u> | <u>Proposal</u> |
|----------------------------------|--------------------------------------|
| TRANSPARENCY | Personal Taxpayer Receipt |
| [see 4.2] | Publication of Compliance Statistics |
| EDUCATION AND AWARENESS | Tax Enculturation in School |
| [see 4.3] | Tax Aptitude in School |
| | Taxpayers’ Week |
| RESPONSIVE REGULATION | Responsive Service Charter |
| [see 4.4] | Compliance Rewards System |
| REINTEGRATIVE ENFORCEMENT | Reintegrative Shaming |
| [see 4.5] | |

4.8 SUMMARY

Policies and strategies employed in developed economies to improve taxpayer relationships, morale and compliance have been explored to address the elements that are missing from the current South African taxation system whilst avoiding duplication of present practice. Researcher recommendations and literature have been cited to support or abandon their potential adoption locally, meeting research objective 3. A final summarised listing of policies proposed for implementation has been prepared for delivery in contact session interviews with tax experts, after which, key findings from these interviews will allow conclusions to be drawn, fulfilling objective 4.

Consequently, this chapter has traced relevant taxpayer morale, relationship building and compliance-enhancing themes over time and represents theoretical lessons and potential recommendations for South Africa based on the prominent policies, strategies and supporting research. The next chapter examines the research methodology used in this study.

CHAPTER 5

RESEARCH DESIGN AND METHOD

“At the back of my mind was always a worry that I would come to a place and all contacts would break down... If you travel on a theme the theme has to develop with the travel. At the beginning your interests can be broad and scattered. But then they must be more focused; the different stages of a journey cannot simply be versions of one another.”

V.S. Naipaul, A Turn in the South – (1989: 222)

~

“Methodology is too important to be left to methodologists.”

Becker, admired American sociologist (1977, p. 3)

5.1 INTRODUCTION

The previous chapters examined the history, literature, theory and research studies applicable to this study. This foundation paved the way for the study and the decision to use an inductive exploratory qualitative methodology.

Before embarking on any journey into research, integral to the entire approach is the expectation a researcher will set aside personal past experiences, perceptions, and preconceived biases to ensure objectivity while conducting the study itself and also when drawing conclusions (Chenail 2009; Madill, Jordan and Shirley 2000; Pannucci and Wilkins 2010). Gratton and Jones (2010: 4) define research as “a systematic process of discovery and advancement of human knowledge,” and with that in mind, research design sets a navigable course for this process.

The objective of this chapter is to describe the research methods and procedures used to conduct the empirical part of this study. The chapter first presents the research design, followed by a description of the population; its sample and the accompanying sampling techniques employed, whereafter an explanation of data collection and analysis are given. The instrument involved in the collection of the data and the appropriate methods used to

enhance the reliability of such instrument and its validity are explained. Before closing, the chapter discusses the ethical considerations relating to the study's design and execution.

5.2 RESEARCH DESIGN AND INQUIRY STRATEGY

Although the research design comprises the general plan of how the investigation will be conducted and organises the order and nature of activities (Walsh and Wiggins 2003: 69), the research design needs to be formulated in such a way that it leads to a reasonable and accurate assessment of the matter in question. The temptation to contemplate the data collection techniques and analysis procedures before having established the objectives must always be avoided (Saunders, Lewis and Thornhill 2009: 155). The broader plan of action containing the rudimentary steps of how the researcher goes about answering these research questions is provided through the research strategy (Saunders *et al.* 2009: 136).

Collis and Hussey (2013: 13) explain that a research design is likened to a science or art that schedules procedures to ensure the study generates the most valid findings. As such, a research project must be so structured as to answer the associated research questions, while, simultaneously, controlling peripheral factors in a fashion that ensures the outcomes and generalisations drawn are valid (Jang 1980: 398). The research design incorporates a specific approach to best fulfil its outcomes.

5.2.1 RESEARCH APPROACHES

Inductive (qualitative) approaches are geared toward understanding the significance humans attach to events, gaining a more intimate understanding of the research context, collecting qualitative data, maintaining flexibility within the structure to allow for focal changes following new insights, and an acknowledgement of the fact the researcher is inextricably linked to the research process (Saunders *et al.* 2009: 127). Inductive approaches are concerned with generating new theory from the data whereas deductive (quantitative) approaches involve the researcher developing a hypotheses based on theory or a collection of theories, then collecting data which will be used to test the hypotheses. This testing allows the researcher to assess whether the data collected refutes or actually supports the hypotheses.

To explain the decision in selecting an inductive qualitative approach, the following contrast is important: Deductive approaches generally have an emphasis on causality, whereas inductive approaches typically focus on exploring new phenomena or re-examining previously researched phenomena from a different perspective (Gabriel 2013: 1). In light of the latter, this study determined, at the outset, that it would need to explore phenomena by analysing data, determining patterns, identifying new focal points, establishing themes and developing a theoretical understanding of the phenomena observed. Each of these activities unfolded in the following way:

- The study compared collaborative compliance agreements, extracting from them only those which could be implemented in South Africa, and examined previously conducted research on taxpayer compliance-enhancing strategies, analysing this data for patterns. These were the patterns of success evident in certain compliance policies and strategies utilised in other countries.
- The study reviewed the conclusions of prior assessments of SARS, repurposing such information to reveal the theoretical capability of SARS to adopt new compliance strategies.
- An exploration of relevant research studies providing new perspectives and possibilities for South Africa's taxpayer compliance strategy. This formed part of the inductive reasoning that generated the theoretical conceptualisation of what could be possible for South Africa.
- Focal changes did occur once the literature review and archival analysis of past research studies revealed new insights, something that inductive research is primed for.
- The data collected from past research was examined before the researcher decided on pertinent areas of thematic focus. The literature review and archival analysis of foreign compliance strategies guided the choice of compliance themes, which also is congruent with inductive approaches.

The above activities are consistent with the notion that theory is developed inductively as a result of the data analysis (Saunders *et al.* 2009: 129).

Lastly, the instrument of interviews is often associated with inductive qualitative approaches by working from the 'bottom-up', using participants' views to outline broader themes and

ultimately build a theory which connects these themes. Owing to the fact that these interviews further explored possibilities and the opinions of experts on the value and need of adopting new compliance strategies from abroad, they still remain part of a theoretical exploration.

The inductive research approach supported the exploratory nature of the study which is discussed next.

5.2.2 EXPLORATORY RESEARCH

Within these designs and approaches, unique studies will still fall into broader categories of purpose; describing phenomena, explaining them or exploring. Descriptive research is one such category and it entails the analysis of collected data to characterise a particular group, theoretical concept, or worldly phenomenon (Fitzpatrick and Wallace 2012: 122). Explanatory research connects the causal relationships between variables (Saunders *et al.* 2009: 140). It may also be called causal research, and can be used to explain the patterns of relationship between variables. Neither descriptive, nor explanatory purposes appropriately described the purpose behind the somewhat uncharted ambit of this research. Exploratory research has a unique purpose, closer akin to the objectives undertaken in this study.

An exploratory study is recognised as a way to discover what is actually occurring in a situation or context; to uncover insights; build new questions and ‘to assess phenomena in a new light’ (Robson 2002: 59). Exploratory research becomes useful when an area has not yet received much attention, with only limited data available, and the researcher wishes to keep future avenues of research open (Polonsky and Waller 2018; Cooper and Schindler 2006). Primarily, it provides an insight into new phenomenon and lays down a foundational groundwork for further studies to expand upon certain specificities by adopting more rigorous methods (Davis 2000; Zikmund, Babin, Carr and Griffin 2013: 54).

Saunders *et al.* (2009: 139) noted that time invested in an exploratory study which revealed that the research was not worth pursuing would still have been time well spent. This is to suggest that before new ground is chartered, it should be probed for the promise it may or may not hold. The research objectives of this study ultimately seek to explore the possibility of assimilating new taxpayer compliance strategies into the local taxation infrastructure and as such the exploration is probing for possibilities.

Exploratory research is undertaken using certain *modus operandi*, principally involving an archival analysis of the literature surrounding the subject and interviews with ‘experts’ in the field or focus group interviews (Saunders *et al.* 2009: 140). Such an exploratory research design was chosen to provide insight into whether certain compliance enhancing taxation policies and strategies from other countries could be adopted locally.

When delving into a novel topic, with new areas to explore that are generating fresh discussion or debate, it can mean that there is less existing literature. Consequently, it may stand to reason that through inductively working to create new data, thereafter analysing and contemplating what has been generated, the theoretical themes which the data point toward may become apparent (Saunders *et al.* 2009: 127). These themes could be taken further, as this study thematically analysed literature and previously conducted case studies which lead to more specific questions for interviewees.

It should be noted that the availability of multiple paths does not mean that exploratory research lacks direction. The line of enquiry may begin with a broad focus but ultimately this narrows as the research advances and is progressively refined (Schvaneveldt and Adams 1991: 106).

The research approach chosen here fulfils the following criteria:

- Compiling a diverse array of taxpayer compliance strategies based upon multiple researcher recommendations and past research,
- Involving individuals who have in-depth understanding surrounding taxation and associated fields of taxpayer compliance, public economics and tax literacy,
- Promoting an expression of their thoughts, expertise, advice and even experience surrounding the possible implementation of these strategies locally, and
- Granting the opportunity to gain deeper insights into compatibility issues and other alternatives that may be identified.

5.3 RESEARCH METHODS

Research methodology is the approach elected by the researcher to conduct their research (Kumar 2019: 16). It requires various components to be brought together to execute a goal-orientated function. This function leads to the expansion and confirmation of knowledge,

whilst simultaneously making such knowledge relevant and meaningful to the contemporary world (Ethridge 2004: 5).

Research requires some form of data collection, analysis and procedures which culminate in a conclusion or relative certainty (Khanzode 2004: 3). Goddard and Melville (2004: 1) stress the importance of generating novel work, bringing something brand new into existence or perhaps resolving questions which have as yet remained unanswered.

The two primary approaches to research are quantitative and qualitative research, albeit these two can be mixed where necessitated by the particulars of the study. The use of both quantitative and qualitative techniques in combination is known as a mixed-methods study (Saunders *et al.* 2009: 152). Multi-methods refers to using more than one data collection procedure where all such procedures and related analysis techniques are either quantitative or qualitative (Saunders *et al.* 2009; Teddlie and Tashakkori 2003).

There is limited guidance regarding the most appropriate instances to apply multiple methods in research, especially 'how, when and why different research methods might be combined' (Bryman 1988: 155), and often researchers do not thoroughly consider why multi-method approaches are chosen (Bryman 2006: 107). Bryman (2006: 111) explains that although research in this combinatory vein oftentimes builds more understanding than the researcher may have expected, he warns that the "outcomes may not be predictable."

Typically, when deciding between these two courses of approach, the study's unique purpose as well as the nature of information sought from the available data will fundamentally steer this decision (Naoum 2007: 37).

5.3.1 QUANTITATIVE RESEARCH

Quantitative research is typically focused on gathering some form of numerical data and forming generalisations about broader groups of people or an explanation of a specific phenomenon. Data may be collected using structured instruments such as polls, questionnaires, and surveys. These are more likely to have a numerical basis for feedback to promote objective measurements, but may also deal with logic and convergent reasoning. A statistical, mathematical, or numerical analysis of this data is then conducted, but the manipulation and repurposing of pre-existing statistical data is also a possibility by utilising

various computational techniques (Babbie 2010; Muijs 2010). The research results will likely be arranged in tables, charts, figures and other numerical forms.

5.3.2 QUALITATIVE RESEARCH

Qualitative research finds answers to the questions “what, why and how?” and so explores meaning rather than quantifiable measurements and figures (Keegan 2009: 11). This is achieved using a qualitative method as the primary data collection tool and analysing such data using qualitative procedures.

Qualitative designs are either descriptive, measuring a subject or phenomenon once, or experimental, measuring a subject before and after treatment to investigate causal relationships and be able to predict future results. They draw upon larger sample sizes as representative of a population and these studies can usually be replicated onto a different population owing to their consistency, which also means they are able to generalise concepts more widely. As all aspects of the study are designed prior to data collection with clearly defined research question to address a specific objective their reasoning is convergent rather than divergent (Babbie 2010; Rich, Brians, Manheim and Willnat 2018; McNabb 2015; Singh 2007).

Exploratory approaches lend themselves to qualitative studies that are rich in data. This is useful in seeking to understand an issue before developing solutions or proving related theories (Cooper and Schindler 2006; Cavana, Delahaye and Sekaran 2001). Since qualitative research provides rich, in-depth data which is ideal when exploring new topics (Yucedogru and Hasseldine 2016: 552), a qualitative study using an exploratory approach is an appropriate pairing.

Divergent reasoning is a characteristic of qualitative research as it involves the free-flowing generation of multiple ideas to solve the research problem. The exploratory approach chosen in this study to solve the problems of poor taxpayer compliance is best supported by this divergent reasoning.

Researchers following a qualitative approach gather multifarious forms of data, gathering information for quite some time before progressing to the next phase of their research (Creswell 2003: 185). As a researcher sets out to add to the existing body of research, it is

their responsibility to grasp the work laid down in the existing literature surrounding the chosen topic (Hahn 2008: 25).

When deciding which data collection tools and analysis techniques to use, certain factors come in to play which may influence the researcher. Factors such as a bias toward particular methods that the researcher is more comfortable with, their commitments to certain methods, and the expectations of those who might form the audience of their findings (Bryman 2007: 16).

Exploratory studies seeking to uncover themes already have a sufficiently wide ambit, and so, a mono-method approach was chosen to reign in potential outcomes and directly address the objectives of this study. This mono-method qualitative paradigm would allow a broad range of topics to be explored with the possibility of focusing in on key areas.

5.4 DATA COLLECTION METHODS AND APPROACH

The method of data collection method which best serves the objectives of the research must be considered. There are enumerable data forms and qualitative data gathering methods which are supported by existing literature (Hahn 2008: 2); interviews, author observations, participant-observations, and archival analysis of field notes, public documents, published literature, photographs, audio recordings and journals. Virtually all of these methods and procedures have been used, either to collect secondary data as part of the literature review, or in the collection of primary data to derive new findings as they relate to areas of understanding surrounding the research topic.

There may be many approaches, but Cooper and Schindler (2001: 295) believe these can be narrowed to two fundamental modes, where researchers “can observe conditions, behaviour, events, people, or processes”, or they “can communicate with people about various topics.” Still, they state that research designs “can be classified by the approach used to gather primary data.” The approaches available including surveys, observations, testing and text analysis are distinguished further as follows (Chadwick, Bahr and Albrecht 1984: 100; Mouton 2001: 105).

Interviews falls within the scope of a survey approach, conducted by the interviewer in a group, telephonically or privately, face-to-face with the respondent. Specific questions may

be asked of all participants in structured interviews or it may be less structured to resemble a dialogue. Questionnaires are also considered a survey approach, which can administered to groups, mailed to respondents and returned, or delivered to respondents by hand. Observation, which may comprise systematic observation in the field, experimental recordings or observation of participants. Testing, including “psychological or psychometric testing.” Finally, textual analysis, discourse analysis and historic or narrative analysis involve the selection and analysis of specific texts.

The approach chosen for this study is the survey approach involving an interview-based technique, more specifically; in-depth interviews.

5.4.1 PERSONAL INTERVIEWS

Cannell and Kahn (quoted in Chadwick *et al.* 1984: 103) define an interview as “a two-person conversation, initiated by the interviewer for specific purpose of obtaining research-relevant information, and focused by him on content specified by research objectives of systematic description, prediction, or explanation.” Face-to-face or personal interviews take this conservatory form of direct dialogue between the interviewer and the interviewee. The conversation is led by the interviewer who gathers information from a respondent. In short, it is a purposeful conversation to gather information (Burgess 1984: 102; Berg 1988: 57).

To best serve the research objective outcomes, in-depth semi-structured interviews were chosen to action the survey approach, allowing for a more dynamic interaction that still promotes relevant data from specified individuals. This decision was made after taking the following advantages, disadvantages and variations of interviews into account in order to best fulfil the research objectives.

5.4.1.1 ADVANTAGES OF INTERVIEWS

This kind of dialogue can be used to generate novel, relevant information from a very natural medium of exchange. Interviews are very direct and practical given the type of information they can extract. An interview requires no other visual or objective perception of the information sought. Questioning is one of the few means of uncovering perceptions, opinions, attitudes, intentions, expectations and beliefs. It can uncover virtually any type of abstract

information and sometimes an interviewee's memory is the only way to investigate past events (Cooper and Schindler 2001: 295).

Brown (2001: 75) lists the advantages of interviewing which include the high return rate, fewer incomplete answers, control over question order, the flexibility, and the fact it is not completely hypothetical such that it may involve reality. Emory and Cooper 1991: 320 highlight how the researcher is able to secure information in far greater depth and detail.

Other authors (Cooper and Schindler 2001: 299-300; Mouton 2001: 86; Babbie and Mouton 2001: 250) have collectively noted additional positives when using interviews. They note that interviewers can make note of the conditions surrounding an interview and use observation to enhance their understanding of the information recorded. In addition, interviewers are afforded more control over interviewing conditions than in other forms of interrogation including opportunities for pre-screening to ensure respondents are appropriate. Furthermore, face-to-face interviews have a good response rate due to the more personable, persuasive nature of the initial request. Finally, they note that the physical presence of the interviewer ensures all questions are answered, it allows for further probing, and it positively affects the accuracy of the data captured.

5.4.1.2 DISADVANTAGES OF INTERVIEWS

Disadvantages must also be noted so as to highlight limitations of such an instrument so they can be observed and overcome where possible. These disadvantages include how face-to-face interviews absorb time and money, results are affected by interviewer bias or alteration of questions, interviewers can lead respondents on to express a sought after answer, and little can be done about the respondent's level of knowledge or quality of response, yet it is still the interviewer's responsibility to motivate the respondent (Cooper and Schindler 2001; Babbie and Mouton 2001).

Cooper and Schindler (2001: 295) mention how the quality and quantity of information depends on the interviewee's willingness to cooperate. Respondents may not have an opinion on the matter if so sought, nor necessarily an in-depth knowledge. Also, they may simply interpret questions and concepts in a way other than intended by the researcher. Brown (2001: 75) also lists the disadvantages in how interviews can be time-consuming, that they

lend themselves to small-scale studies, are not completely anonymous, can contain subconscious bias, and may contain inconsistencies.

With this in mind, it is the researcher's priority to capitalise on the advantages afforded through interviews, as noted before, and be wary of the accompanying limitations moving forward.

5.4.1.3 VARIATIONS OF INTERVIEWS

The survey approach to data collection utilising interviews contains additional choices of method. Face-to-face interviews benefit from the conversational direct researcher-respondent interaction mentioned above. Telephonic interviews are another means to achieve verbal interaction, although visual cues and significations are not possible unless through video-conferencing. Cooper and Schindler (2001: 299) convey how the depth and detail provided through face-to-face interviews "far exceeds the information secured from telephone and self-administered studies via intercepts, mail surveys, or computer" and more can be done by the researcher to secure and ensure quality information from this method than any other. The measures to ensure quality are expanded upon later in this chapter.

The participant's receptivity to the instrument is also of importance. Depending on the nature of inquiry, certain instruments can become less effective at eliciting deep responses. Between personal interviews, mail questionnaires and telephonic interviews, Struwig and Stead (2001: 87) highlight the preferences indicated by respondents for direct interviews over mail questionnaires, with telephonic interviews being the least popular. They also mention a popular but untested belief that respondents provide more accurate information through interviews than through questionnaires or telephone.

Successful personal interviews require the following conditions according to Cooper and Schindler (2001: 300):

- Questions must target information that the respondent actually has;
- respondents must grasp their role providing accurate information; and
- respondents must be appropriately motivated to cooperate. Furthermore,
- interviews must be recorded accurately to be useful.

Once a participant's cooperation with the interviewer has culminated in a successfully concluded interview, the individual having participated is thereafter known as a respondent of the study (Cooper and Schindler 2001: 304).

5.4.1.4 THE CHOICE FOR IN-DEPTH INTERVIEWS

The options detailed above were taken into account and a decision to use face-to-face interviews as the data collection method was made. This choice was not taken lightly, nor chosen out of comfort or familiarity. Rather, the objectives of this study required in-depth responses to be meaningful and the challenging aspects surrounding this method of data collection were not viewed as insurmountable. The researcher was confident in his ability to mitigate these potential difficulties and successfully address the research objectives.

To develop an in-depth understanding of the potential for various tax compliance strategies from around the world to be locally adopted, a face-to-face interview method allowed the interviewer greater flexibility to probe into the views and knowledge of the interviewees on this hypothetical concept. Seeking to encourage the interviewee to freely discuss and openly engage with the topics, the in-depth interview gathered their beliefs and surrounding perspectives in great detail (Stokes and Bergin 2006; Cooper and Schindler 2006). Open questions were chosen to take advantage of the insights that would become available through in-depth interviews. These open questions provoked thought and prompted discussion, uncovering new questions which were carried forward into subsequent interviews.

5.5 THE TARGET POPULATION

The target population is a group of elements for which the researcher wants to generate sample statistics in order to draw generalisable inferences from the results (Groves, Fowler, Couper, Lepkowski, Singer and Tourangeau 2009: 69). In order to be able to generalise the results of a research study with unique study outcomes and procedural treatments, a target group of individuals, in particular settings, at certain times, would have to be identified, followed by the random selection of a sample from the population which is appropriately representative (Johnson and Christensen 2012: 257).

The population for this study were industry experts, academics and practitioners from relevant fields surrounding taxpayer compliance. Examples of these individuals would include

employees from SARS or an individual who served as a chairperson of an accounting association. These different parameters were used to establish a research population to determine their perceptions of various taxpayer compliance strategies and the potential for local implementation.

Each individual's unique type of expertise within the sample leads to different, dynamic, omnidirectional perspectives. As such, the types of expertise, relevant to the themes underpinning the compliance strategies suggested for local implementation, became the defining factor for the research population. Themes of transparency, education, responsive regulation and reintegrative reinforcement as they relate to tax called for a specific selection of individuals who would be representative of the collective expert understanding of professional, academic and industry spheres surrounding tax compliance and the related themes of this research.

The concept of saturation was also taken into account when the categories of individual were being chosen. Saturation is the point where further data collection results in no further insights being developed in a particular category and no new themes emerge such that further information becomes redundant (Glaser and Strauss 2017; Fusch and Ness 2015; Sandelowski 2008). This categorical saturation can only occur when the researcher goes out of their way to ensure saturation is based upon the widest possible scope (Glaser and Strauss 2017: 61). As a result the categories of individual chosen in the sample to represent the population were relevant but diverse, and contained the knowledge and expertise to duly satisfy the saturation criterion from a categorical point of view.

Upon establishing the population, a sampling method is used to draw the sample (Marshall 1996; Mays and Pope 1995).

5.6 SAMPLE STRATEGY

Sampling investigates only a portion of the population, such that a sufficient number of relevant elements are selected from the entire population, to enable certain characteristics or properties from the study sample to be generalised to the broader population (Sekaran and Bougie 2009: 266). Struwig and Stead (2001: 109) stated that "[o]btaining information from a sample is often more practical and accurate than obtaining the same information from an entire universe or population." The sample strategy can have a large impact upon the

study, and can be considered just as important as establishing an appropriate target population.

5.6.1 FACTORS DETERMINING THE SAMPLE

The choice of sample developed as a result of the thematic analysis of the tax compliance literature and prior case studies. As new policies were contemplated for local assimilation, new perspectives were required, and so the selection of interview participants became a more omnidirectional pursuit. To provide sufficient insight into the specific types of policies and compliance strategies being considered, the proposed sample was divided into multiple categories comprising academics in the spheres of taxation and public economics, chartered accountants, teachers, members of accounting bodies and employees at the local revenue authority (SARS).

No one single database contained the entire variety of experts required to ensure the data captured during interviews would be fully comprehensive. Consequently, the types of individuals sought to provide omnidirectional viewpoints had to be identified and contacted through the means most appropriate given their industry or position. Streubert, Speziale and Carpenter (2011: 30) state that when selecting individuals to participate in qualitative research they should be chosen owing to their “first-hand experience with a culture, social process, or phenomenon of interest”. This indicated the study would require individuals who collectively possessed diverse experience in a number of areas.

The types of individuals who were identified as most likely to provide valuable insight into the specific themes of transparency, education, responsive regulation and reintegrative reinforcement were considered based upon literature, past case studies and researcher recommendations who proposed collaborative efforts with certain sectors. In addition, sample representatives were considered to be those with different but related backgrounds or experience. The types of individuals were identified as follows:

- Academics in taxation and economic fields,
- Chartered accountants,
- Teachers in higher education and business schools,
- Previous employees from SARS,
- Members of related associations and accounting or tax organisations,

- Members of outreach programmes associated with taxation,
- Tax practitioners and consultants, and
- Business owners.

The need for specific types of individuals to contribute their insight and knowledge as experts in their field revealed that a type of purposive sampling was a more appropriate choice. Expert sampling is one such type of purposive sampling used when gathering knowledge from those in a relevant field of expertise (Crossman 2018: 1). Although expert sampling would have expediently provided relevant knowledge, the study still sought to randomise the selection of participants for the reasons discussed next.

5.6.2 RANDOM PURPOSEFUL SAMPLING

The smaller sample size that often accompanies qualitative research, especially that which uses interviews as the main data collection tool, does not necessarily preclude the use of a random sampling strategy (Patton 1990: 179). Although specific types of individuals were sought through purposeful sampling, the advice of Creswell (2003: 156), Goddard and Melville (2004: 36) and Lane (2012) was still heeded in randomising the selection of those who met the criteria. This was to avoid bias and to prevent selecting a particular individual from the population based upon familiarity or merely for convenience sake. For many who seek to draw inferences from the results, this randomisation in selection increases the perceived credibility thereof.

The purposive element in purposeful random sampling involves systemisation of the type of information that will be collected from the sample elements, while a randomisation procedure is used when selecting the specific elements being chosen. The randomisation affects selection in such way that each element in the population has an equal probability of being selected.

Randomly selecting individuals in advance significantly adds to the reliability of such outcomes as Patton (1990: 180) explains, the “credibility of systematic and randomly selected case examples is considerably greater than the personal, ad hoc selection of cases to report after the fact—that is, after outcomes are known.” However, Patton (1990: 180) emphasises that purposeful random sampling does not focus on representativeness, rather credibility. A

small, purposeful random sample reduces suspicion over why certain sample elements were selected and it affords more security that the information collected was comprehensive.

Considering the specific purpose of this study, and the depth and quality of data sought in qualitative research, the most appropriate sampling techniques chosen would be a combination of purposeful random sampling in conjunction with criterion sampling. This is a strategy within purposive sampling which would ensure that individuals with an appropriate level of expertise in a field relevant to the study were selected (Palinkas, Horwitz, Green, Wisdom, Duan and Hoagwood 2015).

5.6.3 THE SAMPLING STRATEGY IN ACTION

The individuals selected for the sample were randomly chosen in advance, before there was any knowledge of how the potential responses could appear. Furthermore they were chosen to ensure that their expertise was relevant to at least one of the four themes being discussed, or were included for their overarching perspectives, neutrality or specifically unique relevance to the topic or the associated sub-questions (Struwig and Stead 2001: 123). In this sense, elements of critical case sampling were apparent, but did not significantly affect the overarching purposeful random sampling technique.

Kemper, Stringfield and Teddlie (2003) present seven principles to guide the sampling strategy. Although these principles were considered before and during the selection and execution of the sampling technique, they have been provided here as an exemplar:

- 1) the research questions and objectives undertaken by the study including its conceptual framework should appropriately direct the sampling strategy;
- 2) the sample should allow for a sufficient database to be created relevant to the phenomenon being investigated;
- 3) the sample should allow for clear inferences and credible explanations to be drawn from the data;
- 4) it must be ethical;
- 5) the sampling plan should ensure feasibility;
- 6) the sampling plan should allow for generalisability of conclusions such that the researcher may transfer them to other settings or populations; and
- 7) the sampling scheme should equally optimise efficiency and practicality.

In light of these principles, the objectives have steered the sampling strategy accordingly. Sufficient information was gathered in in-depth interviews. The particular sampling method chosen allowed credible inferences to be drawn from the conclusions presented in the final chapter of this study. Feasibility, efficiency and practicality were adhered to in order to best utilise the time and resources available, and ethics was a priority throughout this endeavour.

Only the sixth principle, namely, the transferability of generalisations onto additional populations, i.e. generalisability, was not met in this instance as purposeful random sampling does not permit statistical generalisations (Patton 1990: 180); however, the value of the inferences that may be drawn from this study remain unaffected.

Finally, the sample may be considered acceptable given the following justifications:

- The fourth objective of the dissertation, which is relevant to the sample, was to use the opinions of selected tax experts to determine the possibility for the local implementation of foreign cooperative-compliance strategies. The types of individuals chosen with expert understanding within related fields of taxation, its education, public economics and even elements of psychology, were able to provide sufficient insight, foresee obstacles to the implementation of these compliance strategies and provide relevant, comprehensive data, while additional participants from associated fields expanded upon missing elements in the spectrum of information.
- The data collection method of semi-structured, face-to-face interviews is congruent with the focus on depth from the data collection rather than sheer quantity. But even with this number of participants, an overlap of ideas and opinions was anticipated. The questions within each theme contained additional sub-questions to extract a sufficient wealth of information from the number of interviews held.
- The volume of data gathered from the sample proved sufficient to corroborate with the existing literature on the subject and confirm recommendations of local researchers.
- The coverage of the sample was satisfactory as interviewees from the greater Durban area, Natal Midlands and Johannesburg, were included to provide suitably diverse backgrounds representative of the population.

- Interview questions and sub-questions provided sufficiently comprehensive coverage, presenting a number of strategies to experts for comment, each with sub-questions, which ensured the depth of response from interviewees was of adequate quality.
- The duration of each of the 15 interviews was typically between 45 to 90 minutes, which altogether provided approximately 15 hours of data. Although respondents were afforded opportunity to come back to earmarked questions as they were open-ended and the interview itself was semi-structured with an additional prompt for further thoughts on anything discussed. Furthermore, where permission was granted by the interviewee, clarity was provided through telephonic calls on areas covered previously in the interviews.

5.7 DATA COLLECTION

5.7.1 PRIMARY AND SECONDARY DATA SOURCES

Primary data is raw data as it has only undergone interpretation by its originator, collected to specifically address the research questions and objectives. There are plenty of recognised primary data sources. These include formal sources such as court decisions, prescribed standards, governmental laws and regulations. Most government data such as census or economic and labour data would also be considered primary. Primary data in audio, visual or transcribed formats can include speeches, memos, letters and interviews (Cooper and Schindler 2001: 260).

These sources may be quantitative or qualitative (Mouton 2001: 71), but typically, quantitative data is expressible in numbers and can therefore be quantified. In contrast, qualitative data cannot be expressed in numbers such as visual data, including pictures, paintings, drawings, photographs, graphs, or audio data such as music and sound tracks or audio-visual data from films and videotapes (Struwig and Stead 2001: 13). Secondary data is data that has been interpreted or processed by another party other than the originator. Secondary data sources would include most reference materials, encyclopaedias, textbooks, handbooks, newscasts, and articles from magazines or newspapers (Cooper and Schindler 2001: 260).

This current study used both primary and secondary data gathering techniques. Secondary sources on taxpayer compliance strategies and related themes surrounding education and

policy were relied upon in the literature review of this study. This secondary data was collected from reference books, scholarly articles and journals, media and newspapers and then thematically analysed these sources to categorise and collate taxpayer compliance-enhancing strategies. Semi-structured interviews conducted in this study are regarded as primary sources as they have been interpreted by the researcher only, who is the originator. These face-to-face interviews form the empirical phase with predetermined themes and questions surrounding specific compliance-enhancing strategies that are to be entertained by the respondents (Berg 1998: 61; Mouton 2001: 99; Struwig and Stead 2001: 98).

5.7.2 PRELIMINARY ACTIVITIES

5.7.2.1 DEVELOPING AND TESTING THE RESEARCH INSTRUMENT

As primary data was collected using interviews within the survey method, this required an unstructured questionnaire containing open-ended questions to be developed as the instrument. Standardised responses typically gathered from questionnaire set-questions (Finlay 2012: 3) were avoided in this exploratory study. An open-ended question-based interview delivers a series of predetermined questions, falling within certain topical areas, usually in a particular order. However, respondents are allowed and expected to digress, permitting the researcher to delve deeply into the answers to the standardised questions (Berg 1998: 61).

Berg (1998: 70) mentions some potential pitfalls that may present themselves when dealing with the interview questions themselves. He explains how long, involved questions may cause the respondent to only answer a portion of the issue, leaving out other areas tackled in the complex enquiry. Although clear explanation is important, excessive elaboration can influence the interviewee. Berg (1998: 61) therefore encourages brief, succinct questions to gather clear responses which are more effectively analysed. Berg (1998: 61) also encourages the sharing of a vocabulary with the interviewees so that associated terms are commonly understood and used by both parties.

Cannell and Kahn (cited in Chadwick *et al.* 1984: 103-104) suggest that four steps are taken in an interview. Firstly, selecting topics or questions and creating a schedule with accompanying procedures or rules. Then conducting the actual interview, evoking the responses or events being classified. After which, recording these responses onto notes, equipment, or electronic

devices. Then creating a numerical code, scale or system that recoded responses will be translated into, including rules for translation. Finally, coding the actual responses.

The above steps were followed together with the advice of Chadwick *et al.* (1984: 116-118) and Mouton (2001: 103) who warned against ambiguity, vagueness and complexity in the interview questions and stressed the importance of phrasing and sequence to avoid these issues. Therefore, before conducting the interview process, the interview schedule was pre-tested to ensure it would allow accurate, relevant data to be collected. This pretesting is detailed later.

5.7.2.2 SEMI-STRUCTURED INTERVIEWS

Interview schedules can outline question order and specific prompts at various stages in the interview. They also provide suggested wording and other guidance without necessarily turning the interviews into structured-interviews, but rather reducing the volume of unpredictable data.

Topic guides can serve as a checklist for the interviewer, listing topics as reminders and also ensuring no designated area is left unexplored. By contrast, these topic guides may give participants a greater degree of control as little beyond the topics themselves are listed. As a result, the interview content will more likely be unpredictable.

Kvale and Brinkman (2009: 191) note that the copious volume of data that can result from interviews needs to be borne in mind during the design stage of the research. Managing this requires that the researcher structures the interview questions to be more easily analysed in a meaningful way. With this in mind, an interview protocol consisting of a list of questions based upon four major compliance themes outlined in the previous chapter formed a guideline for each of the face-to-face interviews. This ensured it was a systematic and focused process (Hunter 2012; Patton 2002; Qu and Dumay 2011).

Questions within the interviews collectively covered the four major themes comprised as follows:

1st Theme: Transparency - in this theme respondents were asked open-ended questions relating to compliance promoting strategies that would enhance transparency, including transparency of government spending as well as reciprocal disclosure of taxpayer income.

2nd Theme: Education and awareness - this section comprised open-ended questions gathering information from respondents about the potential for compliance strategies which would improve taxpayer education and would provide compliance supporting mechanisms. It also investigated whether these education strategies would make government spending-transparency more meaningful to the average taxpayer.

3rd Theme: Responsive regulation - open-ended questions under this theme investigated strategies that improved compliance through progressive escalation of regulatory response from supportive to more punitive measures. The questions investigated whether there is merit in strategies that escalate the response to taxpayer non-compliance dependent upon the taxpayer's conduct, intent and evidence of any deliberate non-compliance.

4th Theme: Reintegrative enforcement – the final theme covered strategies to improve compliance through simple but effective changes to terminology and communication with taxpayers who were believed to be non-compliant or who had already been punitively dealt with.

An open-ended question was also asked at the end to provide respondents with the opportunity to add any further comments which they believed might be relevant (Smith 2010: 128).

5.7.2.3 OPEN-ENDED QUESTIONS

Panneerselvam (2004: 24) provides three types of format for survey questions: Open-ended questions; closed questions; and structured questions. Open-ended questions allow respondents to freely articulate personal, unique answers to the questions (Ruane 2005: 131). Closed and structured questions typically have formats which either provide multiple responses of which the respondent selects one or more, or structured questions with a rating scale or range (Panneerselvam 2004: 24). By contrast, open-ended questions allow for unconventional answers that may not necessarily be understood by the researcher, but even so, can trigger necessary inquiry.

Given the information sought, the study had no meaningful way of utilising the precise but limited responses of closed or structured questions that are generally used in an administered questionnaire and opted for open-ended questions within the interviews. These open-ended

questions were used to get respondents to substantiate their opinions on whether the taxpayer compliance strategy in question could be implemented locally or not. Thereafter follow-up questions by the researcher remained organic and unique to the interview. The open-ended question structure chosen to best meet the exploratory outcomes of this study are based upon the taxpayer compliance-enhancing strategies from other countries that have been suggested for adoption locally to interview participants.

Each of the strategies, which were separately presented, fell under one of four themes where each theme was introduced before the associated strategies. Strategies related to transparency were asked first, then strategies related to education and support, followed by strategies related to responsive regulation, and finally those strategies relating to reintegrative reinforcement were covered.

Each unique strategy was presented to participants in a question with a standard set of sub-questions to ensure important areas are covered. Furthermore, the underlying sub-questions for each taxpayer compliance strategy under question needed to be coherent and add value. For each of the strategies considered for local implementation by the interviewee, sub-questions were asked:

- Do you believe the strategy could improve taxpayer compliance in South Africa?
- What barriers or problems could affect its local implementation?
- What adaptations or simplifications would be necessary to adopt the strategy?
- What additional insights do you have about the strategy? i.e.:
 - Is there already a similar strategy?
 - A better/more cost-effective idea?

5.7.2.4 PRE-TESTING OF THE INTERVIEW SCHEDULE

An initial pre-test sought to identify data collection problems that could manifest and to indicate whether the design chosen was the most appropriate. Any feasibility issues would be identified as well as any other limitations such as time constraints. The insights provided by pre-tests can be used to fine-tune aspects of the topic under investigation, potentially causing the researcher to reconceptualise the problem, redefine the research objectives or refine the research questions (Fitzpatrick and Wallace 2012: 408).

A pre-test was conducted to identify any such potential problems or methodological course corrections. Randomly selected chartered accountants and academics whose details were publically available in Durban, KwaZulu-Natal were contacted with requests to help pre-test the interview questions to see whether the interview questions required modification.

A sample of four participants who met the selection criteria based on their professional or academic qualifications were randomly selected from the list of contacts. Two of these contacts became unavailable and were replaced by alternative random selections from the list of remaining contacts. All four participants were chartered accountants, two of whom had further academic qualifications and were working at institutions providing tertiary education.

After conducting the pre-testing, it was evident that an extremely concise definition and explanation of the policy or strategy being used to improve compliance was necessary. Firstly, explanations were requested, as participants were not entirely familiar with the many taxpayer compliance-enhancing practices from around the globe. Secondly, there were instances where an interviewee argued emphatically on the implementation of an idea only to discover the interviewer was addressing a different concept. Thirdly, time was saved and focus was improved where short explanations were given in the final two pre-test interviews. A question appeared to be ambiguous. One of the taxpayer compliance proposals contained an informal fallacy such that it tackled two issues. One question was erroneously repeated. An interviewee revealed that there was already a mild form of an awareness campaign occurring in South Africa. The major themes of transparency, education, responsive regulation and reintegrative reinforcement remained soundly intact.

To remedy the encountered issues, the following steps were taken. The ambiguous question was split into two separate questions. Certain vague questions were clarified. The taxpayer compliance strategy that tackled two issues was reworded and ultimately split into two separate compliance strategy proposals. Some explanations were updated. The question relating to the awareness campaign currently underway was still included as the concept still generated useful insights from the participants.

There was no need to simplify the topics being discussed or break down definitions as the participants in the pre-test typically had a financial background. Nonetheless, because the interviews would be conducted with some non-financial perspectives, unnecessary

complexities were simplified, explanatory examples of the compliance enhancing strategies and policies as identified in the case studies were also included. A pre-emptive measure was taken to aid transcription and coding, by reordering and rewording certain questions to avoid discussing certain topics and issues prematurely. In addition, a more neutral phrasing was adopted to avoid 'leading questions'.

Ultimately, much care was given to the interview schedule's construction to avoid mistakes that could render the data less relevant or reliable.

5.7.3 COLLECTING PRIMARY DATA

The empirical research conducted in this study used a broad range of participants in different sectors of society. This was to provide the researcher with a broad spectrum of perspectives on the potential for adapting and adopting taxpayer compliance strategies from overseas. Furthermore, the study sought information on any anticipated problems that the interviewee could foresee in adopting each of the strategies. The empirical component of the study is effectively a practical test to evaluate the selection of strategies put forward by other local and international researchers based upon international case studies and literature.

Twenty appropriate representatives from each of the designated fields were listed based on contact information, which was publically available. Consequently, 20 academics in the taxation and economic fields, 20 chartered accountants from different firms, 20 teachers in higher education or from business schools, 20 SARS employees, and 20 members of various related accounting and tax associations or organisations were listed. This provided a total of 100 potential interviewees of suitable standing and expertise. Each individual on this list was numbered and a random number generator was used to select the next individual who would be contacted.

Attempts were made to contact each of these randomly selected individuals with the intention of securing at least 15 interviews in total with no less than 2 participants from each of the above categories. Before conducting the empirical process and collecting primary data for analysis, appropriate preliminary activities were conducted. Potential interviewees were contacted in a manner that they were comfortable with and their cooperation was obtained without any form of undue influence.

Contact attempts began with academics through the online links available via local tertiary institutions. Universities within the greater Durban area made their staff positions known on public websites and so emails or calls were made to contact these academics.

Chartered accountants at certain practising audit firms also made their contact details publically available through advertisement. There was a sufficient and strong response from this section of the sample.

Teachers were contacted at local schools including schools in the Midlands and Underberg areas. Interview arrangements were made by telephonically contacting the school secretary or through requests directed to the schools' information and query email addresses.

The names of chairpersons and pertinent accounting association members were also available on public websites. Some of these details were outdated, meaning ex-chairpersons were contacted erroneously but fortuitously. Their experience and accompanying insight was viewed as valuable by the researcher and interviews were still requested and held.

Employees at SARS, the local revenue authority, were contacted after their public website and helpline collectively yielded multiple responses. Employees also redirected the researcher to other relevant personnel who could potentially participate. As a result, this area of the sample has fair coverage representing the multiple rungs of authority within SARS's management structure.

Each interaction through email or via telephone call was unique. However, when calling, the researcher first verbally confirmed that the person contacted and the listed individual who was randomly selected were one and the same. Then the researcher identified himself and the reason for the call, detailing the name, objective and interview instrument used in the study, along with verbal assurance of the anonymity afforded to participants. In instances where email was used, confirmation of identity was requested, while the name of the study, its objectives and the type of interview instrument being used was given including information on participant anonymity and the confidentiality that would be maintained.

Queries were answered and clarity was provided while this also gave the researcher opportunity to probe and briefly satisfy himself of the individual's position and stature. After this, contacted individuals were given an opportunity to indicate their willingness to

participate in the study. Those who declined were thanked for their time and consideration. Individuals who indicated they would participate were listed and additional means of contact were obtained where possible. Appointments were made with a select few participants, but the majority waited for additional correspondence and confirmation before reserving a date and time for the interview.

This purpose of direct calls and written or verbal assurance of confidentiality was to facilitate cooperation and reduce any resistance felt by these individuals. Preliminary calls and emails allowed the researcher to introduce himself to the individuals, to provide the nature and objectives of the research, and to organise and confirm a date and venue for interview. Email also gave individuals an opportunity to reconsider whether they would participate in the research process. Individuals were duly reminded that their input was valued and appreciated, but they were under no obligation to participate and could withdraw at any stage.

The names and details of academics, practitioners, teachers, revenue service employees and other respondents who indicated their interest to participate were kept in a password-protected document.

5.7.4 CONDUCTING INTERVIEWS

Between 20 September 2018 and 10 November 2018, 15 interviews were conducted at locations from and in between Durban and the Natal Midlands with participants from Durban, throughout KwaZulu-Natal, Cape Town and Johannesburg. The qualitative semi-structured interviews were conducted with the purposeful-random sample selected who collectively represented the viewpoints of tax experts, educators, academics, administrators, practitioners, professionals and associated bodies. More than one representative from each of these fields were interviewed within the 15 participants chosen. The length of each of the 15 interviews was typically between 45 to 90 minutes in duration.

All interviews were conducted in English, avoiding an additional step of translation following the transcribing process, and preventing confusion through semantics or other language barriers. Interviews were guided by the pretested interview schedule that ensured each interview was efficiently conducted and participants were not inconvenienced. This interview schedule is provided in **Appendix 1**.

The majority of interviews were digitally recorded using a Zoom H1 Handy Portable Digital Recorder onto a high quality microSDHC UHS-I card which stored the session recording for the day until it was copied to a separate secure storage device whereafter the microSD card was always formatted before being used in any subsequent interview. An exception to this were the telephonic interviews that were recorded by way of shorthand transcriptions. Also, a small number of the interviews were recorded using handwritten notes because the interviewee was uncomfortable with the interview being recorded in an audio or video format. An exact hard-copy transcription was made of the recorded interviews with the aid of offline speech to text software. Babbie and Mouton (2001: 253) stress the importance of recording an answer exactly as given when using open-ended questions. Attempts to summarize or paraphrase were avoided where possible.

A Letter of Informed Consent as provided in **Appendix 3** was given to interviewees informing them of what the study aimed to achieve, as well as assuring these participants of their upheld right to confidentiality and non-traceability. All participants who were involved in this study completed and signed this Letter of Informed Consent.

The researcher endeavoured to do the following:

- Ensure the participant felt at ease;
- explain the purpose of the research;
- ensure the participant understood the purpose;
- inform participant that:
 - their anonymity was assured,
 - the session was to be recorded,
 - participation in the study was voluntary,
 - any question could be bypassed;
- obtain informed consent;
- address other ethical considerations;
- begin audio recording and initiate the interview;
- direct the participant as required;
- introduce each theme before asking each related question and sub-questions;
- listen actively;
- encourage full responses;

- probe into details of novel responses;
- conclude the interview;
- thank the participant; and
- make arrangements for further contact if necessary.

Where permitted by the participant, follow-up phone calls were made to clarify certain details in the responses initially given by the participant in their face-to-face interview.

In two instances, purely telephonic interviews were conducted. The first was a matter of necessity when the quality of the individual being telephonically interviewed outweighed the forfeited benefits of a face-to-face interview. The second was a matter of preference for the interviewee. The interview process followed the same protocol, although informed consent had to be obtained prior to making such calls.

Regarding anonymity, interviewees were assured that information which might inadvertently identify them as participants would be removed and absent from the transcription and analysis. The researcher and his supervisors were the only individuals privy to this information. To uphold the anonymity of the participants, each was alphabetically assigned a case letter from A to O. Any subsequent reference to a participant was only by way of their allocated letter. Other information such as contact details identifying respondents were stored in a password-protected file on a separate storage device in a secure location. The demographic details of the participants are shown in **Appendix 2**.

After 12 interviews had been conducted, the data which had been gathered as well as whether repeated patterns in the opinions of the interviewees had begun to consistently appear were assessed to see whether the point of saturation had been reached. At this stage it was determined that saturation point had been reached as no new data were being discovered that would allow for further development of the category and no new insights were being derived from additional data (Glaser and Strauss 2017; Baker and Edwards 2012).

Despite this, the researcher chose to conduct three more interviews to confirm this assessment before applying the saturation rule. Consequently, the researcher was confident that the data collected was satisfactory and the criterion for judging when to stop sampling in theoretical saturation of categories and groups was fulfilled. As a result, no further

participants were contacted given that the saturation rule was deemed to be satisfied and further interviews conducted as a precaution confirmed this.

The respondents, representing the various tax experts, educators, academics, administrators, practitioners, professionals and associated bodies, are as follows:

TABLE 5.1 COLLECTIVE EXPERIENCE OF RESPONDENTS ACCORDING TO FIELD

| | RELEVANT YEARS OF EXPERIENCE IN FIELD | | | | |
|--|---------------------------------------|-----------|---------------------|-------------------------------|-----------|
| | ACADEMIC | EDUCATOR | INDUSTRY/ ASSOC. | PRACTITIONER/ PROFESSIONAL | SARS |
| Director | | | 29 | | |
| Tax Consultant | | | | 10 | |
| Teacher | | 36 | | | |
| Lecturer/ Tax Consultant | 15 | | | 5 | |
| Teacher/ Business School Teacher | | 14 | | | |
| Banker/Teacher | | 12 | 8 | | |
| Accounting Assoc./ Lecturer | 12 | | 5 | | |
| SARS/ Tax Consultant | | | | 5 | 11 |
| Business School Teacher/ Specialist Instructor | | 18 | | | |
| Tax Consultant | | | | 25 | |
| Entrepreneur/ Importer | | | 15 | | |
| SARS/Lecturer | 14 | | | | 5 |
| Director | | | 24 | | |
| Ex-Chairperson. Acc. Association/ Practicing Auditor | | | 4 | 15 | |
| Practicing Auditor | | | | 15 | |
| TOTAL YEARS IN FIELD | 41 | 80 | 85 | 60 | 16 |

5.8 DATA ANALYSIS AND INTERPRETATION

Some form of data analysis accompanies all research as the process goes about deriving meaning from observations made during the study (Monette, Sullivan and Dejong 2007: 364). Results of the analysis can be collated into findings so others may draw inferences from the study. Processing and analysing of data is an integral part of the research plan. It covers the technical aspects essential to the study (Khazode 2004: 83).

Preparation of the data in qualitative data analysis entails an organisation of written documentation or visual data to make it suitable for review or requires the transcription of dialogue and observations from interviews into text and run through a word processor for analysis (Creswell and Clark 2010: 206).

5.8.1 QUALITATIVE DATA ANALYSIS

Rubin and Rubin (2005) regard data analysis within in-depth interviews as an ongoing process, from the beginning and throughout the interview process, as it requires absolute immersion in the data before a systematic coding of such information. Intricate thought processes and deeper meanings are uncovered in qualitative research rather than purely statistical summaries that dictate the types of tools that should be used for analysis.

Data gathered from in-depth interviews entails the use of qualitative methods of data analysis. Comparison, examination, weighing, weighting, and combining are all techniques available to appropriately analyse data from in-depth interviews (Rubin and Rubin 2005: 201). These can be used to process information for use in a structured narrative.

The recordings were first transcribed into text (Braun and Clarke 2006: 87; Creswell and Clark 2010: 206). The second step was coding the data (Braun and Clarke 2006: 87). This process organised data according to the described framework, followed by a third step where related themes were found. The themes were then analysed and checked for consistency. Transcription involved a repeated, attentive listening to the recorded audio (Bailey 2008; Evers 2011), and required a significant amount of time to spent transcribing each interview. Consequently, it took between 6 to 7 hours to transcribe any one interview.

A structured narrative was created by organising the insights that were uncovered and expanded upon in interviews. These were categorised into the themes developed and defined over the course of the study.

New, adapted and hybridised strategies to improve taxpayer compliance, as suggested by interviewee experts, were noted. Corroborating evidence from the literature review and additional studies were cited to provide additional insight into the efficacy of the idea.

5.9 RELIABILITY AND VALIDITY

Reliability and validity within qualitative research are areas that some authors believe to be vulnerable (Struwig and Stead 2001: 143). Reliability concerns the measurement instrument's precision and accuracy. It is the degree of consistency from what it measures (Cooper and Schindler 2001; Mouton 2001; Struwig and Stead 2001). Validity deals with whether the instrument actually measures what it is supposed to measure and thus has implicit trustworthiness and credibility (Struwig and Stead 2001: 143). It is the soundness of the instrument.

An instrument may be considered reliable should it give the same result consistently, however this consistency does not mean that those answers were valid (Goddard and Melville 2004: 47). The results may be reliably accurate, but do not have any relevance to what the researcher believes is being represented. Validity and reliability exist independently of one another, and they are discussed separately below.

5.9.1 RELIABILITY

To ensure reliability, the interview schedule was pre-tested to ensure it was developed suitably for use in interviews, making sure that interviewees would not find terms ambiguous and a common vocabulary was shared.

The researcher personally conducted all the interviews, which afforded him the necessary opportunity to monitor responses in order to ensure interviewees answered what was being asked, were clear and understood, and otherwise appropriate. Instances where answers did not have sufficient clarity lead the researcher to politely request further explanation.

Control questions were used in the interview to ascertain the coherency and presence of mind of the respondent and the accuracy of their responses. Respondents were asked to give their

perspective on a particular aspect of taxpayer compliance after which the control question asked for an elucidatory example, substantiating their initial perspective.

Goddard and Melville (2004: 47) note that an instrument's reliability lies in its consistency of results. For the most part, individuals with tangential backgrounds and experience had similar opinions on the potentials of the compliance strategies suggested for local implementation. They also were able to see similar potential problems regarding their implementation. However, the interviewees' ideas on how to adapt or re-engineer the strategy to make it more effective for use in South Africa were quite different. This difference was expected as the individuals all had unique approaches to problem solving and this question required a highly creative response. The clarity provided in multiple one-on-one interviews sufficiently increased the likelihood that reliable inferences could be drawn from the data.

Reliability was further safeguarded by reducing opportunity for measurement error and limiting the sources of that type of error. Care was taken to prevent any direct or inadvertent errors in the execution of the interviews or the data collection process. More specifically, data collection bias was curtailed by having a single individual who was also the researcher conduct all the interviews. This helped to standardise conditions such that each interview unfolded in a manner consistent with the previous interview, and equal treatment was extended to all respondents.

As a result of the above, administered questions answered in the interviews consistently resulted in respondents generating ingenuitive ideas to adapt and adopt new taxpayer compliance strategies locally.

5.9.2 VALIDITY

There are many types of validity, and those that have a bearing on this study are discussed below with the following approaches to test validity as enumerated by Kumar (2002: 63), namely; criterion-related validity, content validity and construct validity.

Criterion-related validity tests whether the instrument can accurately predict an outcome or resultant variable. The present data can be tested against a concurrent criterion, a future criterion or a theory. Content validity uses expert opinions on whether or not a question actually tests what it is supposed to, and is effective where no related instruments exist, but

for findings to be viewed as sound and credible, a prerequisite is to establish construct validity such that the instrument measures what it proposes to measure (Ketchen and Bergh 2006: 399).

Construct validity was upheld by ensuring all interviews were conducted with a high level of consistency throughout each phase and process. Interviews were conducted by the researcher directly with all the research participants. Interview direction and instruction was provided clearly with opportunity for clarification if sought by the interviewee. Questions were constructed as simply as possible such that all participants understood what was being asked, and once again, to this end, queries were addressed immediately in each of the formal interviews. As expanded upon earlier, the researcher ensured all the participants were willing and aware of their right to withdraw at any time. Lastly, the researcher ensured all question were answered unless there was an explicit request by the interviewee to bypass a specific question.

The descriptive validity of this study is concerned with the accuracy of the data and the comprehensiveness of the information presented. Accordingly, the researcher endeavoured to enhance the validity of the measurement instrument. The data were recorded directly and transcribed without alteration to actualise this validity. From this, the researcher had opportunity to extract direct quotations from the interviews. These direct quotations were used to substantiate statements and corroborate the literature. This strengthened the themes that underpin the taxpayer compliance enhancing strategies being investigated for adoption locally, but more specifically, direct quotations increased the descriptive validity of the primary research instrument.

Theoretical validity relates to the common understanding between the interviewer and the respondent over concepts and theory used, and agreement that they refer to the phenomena being described. This was accomplished by a thorough pre-testing of the interview questions in preliminary interviews conducted with four pre-test participants who were all chartered accountants, two of whom were lecturers and had further academic qualifications (Struwig and Stead 2001: 144). This pre-testing also sought to remove ambiguity and convoluted. Their input on the interview questions resulted in adjustments being made to the questions, which were brought forward to the formal interviews with the respondents included in the sample.

The interview questions themselves were based on information collected during the literature review, which ensured that they were appropriately representative of the investigation into the potential for adopting taxpayer compliance strategies from abroad.

Independent sources can confirm or contradict the findings, and this can be evident through the measurement instrument or through multiple data sources. In this study, confirmation was exhibited through the congruence of opinion between different categories of participant. The omnidirectional viewpoints allowed for a diverse critique of strategies contemplated for adoption locally and a resulted in considerable independently determined congruity between ideas as well as identified potential pitfalls. A correlation existed between the data sources and the literature review regarding the taxpayer compliance enhancing strategies' potential for success.

5.10 ETHICAL CONSIDERATIONS

The rights to anonymity and confidentiality were upheld so as to protect and maintain research participant privacy (Heffernan 2005: 109). Confidentiality was assured to all participants in the study. With this, they understood that information that could be used to identify or trace them would not be released or made known to anyone except the researcher and his research supervisors. However anonymity, which in the context of research refers to complete anonymity from all individuals including the researcher himself (Trochim and Donnelly 2001), was not a standard that could be applied practically in this context.

The Faculty Research Committee of the Faculty of Accounting and Informatics provided the ethical clearance to make this study possible. Permission to conduct the research with the participants was obtained from each of them individually, and in accordance with what has been expounded upon here, their details cannot and have not been disclosed. The information, insights and findings collected in interviews were used solely to draw inferences for this study. Details about the participants were used only to assist in the selection of a purposeful random sample.

Ethics were a pervasive consideration that influenced how the data collection strategy and its instrument were actioned. All necessary precautions and safeguards were taken to ensure the participants were happy to participate and remain so.

5.11 SUMMARY

The research methodology chosen to produce the empirical data of this study was detailed in this chapter. The research processes of research planning and data gathering were discussed which included descriptions of the research design, determining sources of data, the target population, sampling method and sample size, data collection approaches and methods, developing and testing the instrument, data analysis and interpretation, reliability and validity as well as ethical considerations. Each process undertaken was outlined, and explained within the context of the phase in which it was conducted in the study. The particulars above were chosen as they best served the research objectives and outcomes that were defined in Chapter 1.

The empirical component of this study was conducted by means of semi-structured, face-to-face, in-depth interviews. A purposeful-random sampling technique was chosen in order to identify 15 academic and professional individuals. These individuals formed an omnidirectional representation of the viewpoints, expertise and knowledge of the fields associated with taxation, its education, administration, and other related professional bodies in South Africa. This was most suitable for the qualitative, exploratory interview research design chosen.

The face-to-face interviews provided opinions that refuted or confirmed whether the suggested compliance strategies had merit. Interviews also revealed the legitimacy of the fundamental direction of the exploratory study initially led by the literature review and archival analysis. In this way, the judgement of the researcher and the final choices made were scrutinised by experts in surrounding fields to enhance confidence in the outcomes of the research objectives.

The semi-structured interviews contained open-ended questions where the validity and reliability of these were assured through preliminary pre-testing as well as the fact that primary data was collected in interviews conducted by the researcher himself. Interviewee confidentiality was maintained during the administration of the interview and such privacy was honoured upon writing the report.

The next chapter presents a descriptive analysis of the empirical data, its interpretation and the reporting of the findings.

The findings are presented under the four separate themes that emerged during the exploratory portion of the study. A total of eight compliance strategy proposals are provided within these themes. Each Compliance Strategy Proposal is introduced with the same background information that was provided to each tax expert in the interviews. These proposals are then discussed individually. Each theme and the associated Compliance Strategy Proposal are supported by respondent quotations taken directly from the interview transcripts. These are then compared against existing literature in the appropriate field where relevant excerpts and citations follow the individual quotations (Creswell 2009). The findings from each proposal are discussed and a summary of each of their key findings is provided.

The result of these interviews have been presented as eight proposals falling within four major themes listed in **Table 6.2** which follows *after* a discussion of the sample characteristics.

6.2 SAMPLE CHARACTERISTICS

The sample characteristics of the 15 respondents who participated in the study are presented in **Table 6.1** below. This is followed by a discussion to expand on the details of their expertise and demographic information.

TABLE 6.1 SAMPLE CHARACTERISTICS OF INTERVIEW RESPONDENTS

| RESPONDENT | RELEVANT EXPERIENCE | QUALIFICATION | GENDER | ETHNICITY |
|------------|---|---------------|--------|-----------|
| A | Director (29yrs) | CA(SA) | M | Black |
| B | Tax Consultant (10yrs) | MBA | M | White |
| C | Teacher (36yrs) | PGCE | F | White |
| D | Lecturer (15yrs)/ Tax Consultant (5yrs) | MAcc | M | White |
| E | Teacher (6 yrs)/ Business School Teacher (8yrs) | MSEd | M | Black |
| F | Banker (8yrs)/Teacher (12yrs) | MEd | F | White |
| G | Acc. Association (5yrs)/ Lecturer (12yrs) | CA(SA) | M | Coloured |
| H | SARS (11yrs)/ Tax Consultant (5yrs) | MAcc(Tax) | F | Indian |
| I | Business School Teacher/ Specialist Instructor (18yrs) | DBA | F | Indian |
| J | Tax Consultant (25yrs) | BCom (Hons) | M | White |
| K | Entrepreneur/Importer (15yrs) | PGDip (Tax) | F | Black |
| L | SARS (5 years)/Lecturer (14yrs) | MBA | F | Black |
| M | Director (24yrs) | CA(SA) | M | White |

| | | | | |
|---|---|--------|---|-------|
| N | Ex-Chairperson of Acc. Association (4yrs)/ Practicing Auditor (15yrs) | CA(SA) | M | White |
| O | Practicing Auditor (15yrs) | CA(SA) | M | White |

6.2.1 RELEVANT EXPERIENCE

The respondents had varying years of experience in taxation or fields relevant to the themes of this study such as education. Respondent experience ranged between 5 and 36 years. Two of the respondents were members of accounting associations for between 4 and 5 years, and one held the position of chairperson. Seven of the fifteen respondents were involved in secondary or tertiary education and each held between 8 and 36 years of experience. Three of the fifteen respondents have between 5 and 25 years of experience in tax consultancy, and they have dealt with SARS extensively as a result. Two of the fifteen had experience in an audit practice, possessing 15 years of experience each, also dealing with international clients. Finally, four of the fifteen respondents were those with finance and industry experience who had between 8 and 29 years of experience, one of whom dealt with import taxes for 15 years. The additional years of experience that did not fall within the study themes or proposals were not listed; neither were short stints of experience of 2 years or less, despite falling within relevant fields.

This indicated that the respondents selected had extensive exposure to taxation or the associated themes of this study, and that the respondents therefore had sufficient, relevant experience to provide valuable insights (Struwig and Stead 2001; Streubert *et al.* 2011).

6.2.2 QUALIFICATIONS

Each respondent possessed a suitable qualification. As a minimum, a degree in taxation or education was considered acceptable provided there was also sufficient relevant experience discussed above. All respondents however, had either furthered their degrees with postgraduate, masters or doctoral qualifications or attained the professional qualification of CA(SA). Three of the fifteen respondents held post-graduate or honours degree equivalents. Six of the fifteen have a master's degree. One of the fifteen respondents held a Doctor of Business Administration. Five of the fifteen respondents were Chartered Accountants.

From this, it can be noted that the respondents possessed qualifications fitting of their experience and expert status within the themes for which they provided insight.

6.2.3 GENDER

Respondents were asked to indicate whether they identified with male, female or non-binary gender categories. As none identified under non-binary categories, no further differentiation was called for other than male and female. Of the fifteen respondents, nine were male and six were female. Of the categories, gender distribution was slightly skewed with more males in commercial fields and only females in secondary education fields.

Given the purposeful random sampling technique used, no inferences were intended to be drawn from such information, but it could indicate that secondary education in business-type subjects is a female-dominated profession.

6.2.4 ETHNICITY

Four of the fifteen respondents were black, one was coloured, two were indian and eight were white. This sample was not intended to be representative of the demographics of the South African population, but rather it is the randomised result of the purposeful random sampling technique. However, this indicates that the most prevalent race groups in South Africa were included in the study.

6.3 FINDINGS OF THE STUDY

Each of the eight compliance strategy proposals have been categorised within one of four major themes. This categorisation of proposals is presented below in **Table 6.2**:

TABLE 6.2 THEMES AND PROPOSALS

| COMPLIANCE THEME | COMPLIANCE STRATEGY PROPOSAL |
|----------------------------------|--|
| TRANSPARENCY | 1.1 Personal Taxpayer Receipt |
| | 1.2 Publication of Compliance Statistics |
| EDUCATION AND AWARENESS | 2.1 Tax Enculturation in School |
| | 2.2 Tax Aptitude in School |
| | 2.3 Taxpayers' Week |
| RESPONSIVE REGULATION | 3.1 Responsive Service Charter |
| | 3.2 Compliance Rewards System |
| REINTEGRATIVE ENFORCEMENT | 4.1 Reintegrative Shaming |

The compliance strategies listed above are individually introduced and discussed under their respective compliance theme, beginning with transparency.

6.3.1 THEME 1:

TRANSPARENCY

The following thematic introduction was presented to interviewees:

A common feeling among taxpayers is that there is a lack of transparency over government spending (Oberholzer and Stack 2014: 237). Transparency and accountability could increase taxpayer trust (Afonso 2015: 1). It could also reduce the effects of “fiscal illusion” where taxpayers typically assume the running costs of government and service provision are lower than they actually are (Nkundabanyanga *et al.* 2017: 931).

In this regard, Respondent M provides an example of the effects of fiscal illusion on student perceptions of education delivery:

“I’m telling you now, we’ve seen serious student strikes. [Students] are frustrated, right? They are bound to be! If they don’t [understand] what it (education) costs, or why it isn’t free, then they will feel it is being withheld for no reason. Students perceive [university] as an extension of government, so institutions like that take the hit on their behalf. The irony is we’d have to teach them before they really grasped what it all cost - they are not fully aware of the costs – and potentially [their] parents, too. You mention, [fiscal] illusion, well that’s one of them.”

Respondent M’s comments resonate with Afonso (2014a: 220) and Nkundabanyanga *et al.* (2017: 931) who state that fiscal illusion leads citizens to believe government services don’t cost as much as they do in reality.

By contrast, some respondents expressed that certain taxes function better owing to their obscurity, as voiced by C:

“It’s not really in the government’s interest to reveal too much, I don’t think. I feel that if [government] revealed just how much tax was being extracted, I mean every penny, people would be even more upset about tax rates and be even less compliant. The obscuring of taxes, in VAT and in what - everything, Pay As You Earn, you name it, all these types of tax disguise what’s really being taken. Taxpayers are more accepting of these less obvious taxes; the tax’s cost is less blatant.”

This is confirmed by fiscal illusion theorists who have explained that making taxes less transparent results in them being more acceptable to the public (Afonso 2015: 3). However, the outcome is that the decisions and perceptions motivating which services will be provided are less rational (Sausgruber and Tyran 2005: 68).

Respondent B explained that transparency must be pursued despite fears of what may be uncovered:

“We can’t reject the idea of transparency just because we are afraid of what might be revealed. Come on now, pushing for transparency won’t mean we’re suddenly so aware of hidden taxes that we reject them! What it might do is give us a chance to see what’s being spent, and on what - then take it from there. With knowledge about what we are getting, or even not getting, when we pay taxes. That can be used to build the trust provided there’s no fundamental problems with how the money is taken or treated. That beats sticking our head in the sand.”

6.3.1.1 PROPOSAL 1.1 – PERSONAL TAXPAYER RECEIPT

The following information was provided to interviewees:

Personal taxpayer receipts typically show the individual taxpayer how their tax revenue will be divided and spent by government to provide services in return (Afonso 2015: 3). They sometimes require the taxpayer to input their own calculated tax burden before providing a breakdown of what services that amount of tax revenue will be used for by the government. If the personal receipt attempts to include VAT or sales tax transparency in its breakdown, this can be estimated based on the taxpayer’s income. The personal taxpayer receipt’s breakdown of services is meant to remind the taxpayer that their taxes result in real benefits and gives taxpayers an understanding of the real cost of government (Afonso 2014b: 5). If citizens understand the taxpayer-service provider relationship and taxation mechanisms clearly link payments to the consumption of services, their willingness to pay for services increases (Jimenez 2014: 930). Since this can be more easily observed at local and state levels than at national levels, this provides some justification to suggest service provision information that is more localised.

The proposed strategy is to provide a very basic, personal taxpayer receipt offering a breakdown of the services which the individual taxpayer's tax will be spent on such as education and healthcare. The value of the service breakdown provided to the taxpayer could be based upon their specific contribution, or something simple such as their gross income. It could also be based upon the average taxpayer in their local area, or from a selection of comparable model profiles which the taxpayer is most similar to. What is important is that the net value of the services they have paid for is reasonably approximated and itemised into categories the taxpayer is likely to find relevant.

Respondent G touched on the concept of a fair exchange of taxes for services, stating:

"If a taxpayer is aware of just how much is collected, [SARS] had better also say what's being given! So yeah, this [personal taxpayer] receipt is one way to show taxpayers what's in it for them. It'd be awareness, really. Awareness of what's being paid for and received. This hopefully would make them happier about the amount [of tax paid] and improve their willingness to comply."

The above quotation encapsulates the broader view of the respondents and was also similar to the findings of Cummings *et al.* (2006: 7) that when public services are desired by taxpayers, such taxpayers will perceive paying taxes to be a fair fiscal exchange. These perceptions of fairness will ultimately improve compliance (Cummings *et al.* 2009: 449).

Respondent B highlighted a compliance factor, saying:

"This could reinforce that link; the association the taxpayer needs between what they pay and what they get – and in the most personal way possible really, if it is a personal receipt. Something in the palm of their hand, if possible."

This improved compliance which results from taxpayer confidence that they are receiving goods and services in return is known as the impact of fiscal exchange (Bodea and LeBas 2014; Kangave *et al.* 2018; Torgler 2003a).

Some respondents asked when this personal receipt would be provided, and were in turn asked to make their own suggestions. One comprehensive suggestion came from Respondent C:

“Ideally they are submitting online, so when they submit on the SARS website there could be motivation beforehand. A hero’s welcome: ‘Well done, you! You decided to do the right thing and pay your taxes.’ Then once they have paid they can receive the receipt. This [receipt] could be based upon what taxes [the individual taxpayer] actually paid seeing as the taxpayer would have just provided all the necessary details a moment ago as they e-filed. Once they log out then that information is no longer available obviously – privacy is still key.”

This remark is not far removed from findings related to a rewards system being investigated in New Zealand where respondents explained that the programming required to execute a positive response or reward would be possible as a small part in the overall taxation system (Rillstone 2015: 61). Given that South Africa has been considered to possess a relatively sophisticated taxation framework this should be possible (Valderrama *et al.* 2017: 1).

Another respondent, K, emphasised that the personal taxpayer receipt should not be for eFiling taxpayers only, and that the taxpayers who needed it most were likely not in a position to e-file:

“There a bit more here than meets the eye. It might promote transparency, but really, it’s also an educational tool, and at the very least, it is a bandage to cover up for the fact that so many are unable to understand budgets and understand what’s being given in return for the taxes they do pay – even if it’s VAT instead of income tax. These people aren’t sitting on computers happily filing [tax returns] every year, but they still need this kind of information in a meaningful way for them. So more than that, you need to consider a cost effective option to keep them informed.”

Respondent L provided more direction and expressed a general sentiment that the receipt should be personal even if it is not personalised:

“This receipt needs to be thought of as ‘for the taxpayer,’ like, not based on their income in a complicated way, but, I mean, received in a personal way. Then it’s not junk-mail. You could try something like a mailed receipt, but that could be slow. Maybe an emailed receipt, if that’s possible for certain people. Maybe employees getting their pay cheques could also see a slip (taxpayer receipt) based on their PAYE, you know? As they earned, they paid over a bunch, so make that mean something to them that way.”

The suggestion to email such receipts given above is pertinent as Mascagni *et al.* (2017: 23) have shown that low-cost delivery methods, which include such emails and even SMS, prove themselves to be very effective when compared to posted letters.

Respondent D, among others, suggested the taxpayer receipt be more relevant to taxpayers as a community:

“Why does the tax receipt have to be so personal if it’s more of an estimation anyway? How about something everyone can see? Imagine, a banner, something obvious, a billboard in your area saying this amount of taxes from the community was spent, but on this new bridge or school. It actually would improve morale. Charities do it all the time – they make donors feel better by reminding them that their donation did so much. Taxpayers need that, and it only costs as much as that form of advertising would.”

This response speaks of non-pecuniary benefits which are also important in tax compliance decisions (Luttmer and Singhal 2014: 149). It is also similar to some of the responses that have been explored within the theme of Education and Awareness. This idea of presenting the taxpayer receipt on a larger platform such as a billboard was mentioned by other respondents, but these respondents who mentioned it generally felt it should be used in addition to a more personal receipt received by each taxpayer.

Respondent H did have a useful suggestion for when to utilise the taxpayer receipt billboard:

“I suppose mailing a taxpayer slip (receipt) is an option, but relevant signage in more rural areas might be more realistic and cost-effective. Positive spending can be celebrated in those areas that way and mail and other measures can be used in more central locations.”

This idea does truly echo the conversations that flowed under the theme of Education and Awareness, but has been mentioned here for continuity.

M was aware of an international taxpayer receipt success story:

“Britain has done this. A while back. I believe it worked for them. I’m not sure how they got everyone to pay attention to it. It’d be a new idea to ‘check your tax receipt,’ but yes, they have one. Also, and maybe correct me if I’m wrong, but I thought it helps

people realise they're on the same page, you know – asking for the same things (from government) at the end of the day.”

The British version of taxpayer receipts have been called “tax summaries” intended to increase government transparency to encourage accountability, improve citizen knowledge, reveal the costs of government (Barnes *et al.* 2015; Barnes *et al.* 2018). Studies (Afonso 2014a; 2015) revealed taxpayer receipts do increase knowledge of government, but do not significantly affect prior political persuasions. UK taxpayers were encouraged to read the taxpayer receipt, but this was made far easier by a direct mailing of the receipt to citizens.

Certain respondents also highlighted the shortcomings of the current measures which inform taxpayers of the services received (B):

“I’m fortunate in that I can make sense of a budget, but even then, these [national] budgets aren’t relevant to the citizens who contribute the tax [revenue] which makes those figures a reality. Once they see benefits expressed in ‘millions’ and ‘billions’ they lose their meaning. I care about what’s spent on services and such, but even if it’s a service I care about, that enormous number ends up meaning nothing at anything larger than a municipal level. Taxpayers need the [personal taxpayer receipt] to be relevant to them. Think local!”

Another respondent added (E):

“Oh isn’t it hilarious! The budget was made useful for virtually everyone except the population who funds it! Yes, there’s info on what’s spent on public health and education, but if you are living in squalor you might never know what little benefit you have received, or worse, you’d assume that nothing was ever spent on your area. That doesn’t help [tax] morale.”

Respondent A noted the twofold nature of the problem:

“Information can become irrelevant through no fault of its own, but rather, the recipient just can’t receive it. Lack of education is definitely a problem if the information is overly complex, and a wave of it can also be overwhelming.”

These responses describe information overload, a phenomenon which can occur when the information itself is excessive or irrelevant, or when the receiver has an inability to manage or understand the information (Bawden and Robinson 2009; Farhoomand and Drury 2002).

Respondent B had this to say about taxpayers being aware of what services are offered by government and making appropriate decisions for change:

“A more informed taxpayer makes more informed decisions about what services they want. That same person can then lobby effectively if they want a change. If I value agriculture then I might motivate for money directed there, but first I’d need to know what’s already being spent. In a way it just brings the national budget to you in another form, but more than that, it gives enough information to start asking for what matters in a way that’s based on something.”

This respondent is therefore suggesting that this would combat the inflated demand for services beyond what is socially optimal experienced under fiscal illusion (Afonso 2015: 3). Also, taxpayers could make more effective choices and even lobby for change if necessary in a more informed way.

KEY FINDINGS – PERSONAL TAXPAYER RECEIPT

- From all the responses, it was clear that the taxpayer receipt in a simplified form was preferable to avoid information overload.
- The personal nature of the receipt was preferable to affirm their individual contribution.
- Most respondents agreed that the taxpayer receipt would serve as a tax morale booster if the link between taxes and services received was made obvious.
- It was also an informative tool to help citizens redefine their needs.
- It could rationalise taxpayer expectations of government spending.
- Many felt it should be relevant to their area or province and received in a personal way such as by mail or as part of a pay cheque to be more meaningful.
- It did not need to be a personalised receipt for each individual taxpayer or specifically based on their personal income to be effective, but would only need to approximate the value of what that individual contributed through their taxes.

- If a more specific receipt was to be created, the easiest and most motivating means would be to present a receipt to eFiling taxpayers on-screen immediately after they completed their return online, based on their submission.
- A few respondents suggested a public billboard display of how tax revenue in the community was being used to benefit those in the local area as a SARS advertisement, a morale booster and a non-pecuniary reward.

6.3.1.2 PROPOSAL 1.2 – PUBLICATION OF COMPLIANCE STATISTICS

The following information was provided to interviewees:

The USA publicises the results of independently conducted surveys revealing taxpayer attitudes. Their Taxpayer Compliance Measurement Programme audits taxpayer returns and publishes these results (Strauss and Hyun 2001: 45). This release of this information has a variety of uses which give the IRS the opportunity to respond to the most recent information and allows the United States Government Accountability Office to make new tax system proposals. It also gives policy makers the opportunity to address specific issues and it allows researchers and other independent organisations to provide commentary and potential solutions. State and local governments have provided online, real-time information about tax revenue being spent (Afonso 2015: 1).

The proposed strategy is to publish anonymous but detailed taxpayer compliance statistics and information. These statistics can be provided by an independent polling company or compiled from the results of the audits conducted at random by SARS.

Respondent A believed that taxpayers deserved to know the degree of non-compliance and if necessary call for appropriate action:

“I suppose it’s only fair, in the end. We should know what government spends, they should know what we pay. But also, we should know whether we pay – all of us. This information is already in the hands of SARS, so the additional exposure is for everyone else - For your fellow taxpayer, for organisations, and whoever else is affected. A taxpayer deserves to know the extent to which others are free-riding off the system. If they aren’t paying up [their tax], but still benefiting from services, they are free-riding. Citizens should understand the magnitude of this and call for action themselves. If it

reaches a point where free-riders and tax evaders are appropriately frowned upon, then that is where peer pressure can play a positive role.”

Conversely, another respondent felt that if the compliance statistics revealed pervasively poor tax compliance it might lower tax morale (L):

“In the event that horrendously low compliance is revealed, then that might not be a good thing... We are social creatures and we do learn from our brethren. If we learn that nobody is complying, we ask, ‘Why should we?’ Bad statistics could lower morale and exacerbate the issue. Then again, you can’t omit some portion of the truth, but the truth might be startling.”

The concern expressed here is based on “conformist transmission” that causes individuals to conform to the most widely adopted behaviours in a group (Henrich *et al.* 1999: 346). For this to occur the majority of the population would have to decide not to comply which would require a significant change from the current status quo.

Another respondent, H, raised a point about how resistance to publicising these compliance statistics might be short-sighted:

“There might be a fear, this sense that if taxpayers knew how good or bad things were, then there’d be instant outrage or it would exacerbate compliance problems. Well, there’ll be a little outrage... But to fear that is short-sighted. When the dust settles you can go beyond that, and if you can explain the nature of the problem the taxpayer attitude can shift. I mean, there is less anger when you understand the issue.”

Some additional ideas mentioned were to consider a two-way street approach to transparency (N):

“Well transparency should run both ways, shouldn’t it? It’s not a one way mirror. Reciprocal transparency. If the government is covering up, then citizens are likely to do the same. But if there is something more mutual, then that’s going to encourage both to open up.”

This point is supported by studies revealing how perceived corruption of government and weak trust can have an adverse effect on tax morale (Torgler *et al.* 2008: 334). E-government

initiatives can foster collaborative transparency, but involves online communication technology to allow for this exchange (Bertot *et al.* 2012; Bertot *et al.* 2014).

This point over mutual transparency was emphasised by other respondents, namely D, who coined an interesting turn of phrase:

“We are aware of the old phrase ‘quid pro quo’, where you get something for giving something, or fair payment of some kind... So then you’ll understand ‘transparency pro quo!’ We evolve from a mutual exchange with taxes and services, so how about a mutual exchange of information. ‘Transparency pro quo’ is ‘I’ll disclose if you disclose.’”

Respondent J added how mutual transparency relates to the implicit contract between the taxpayer and the authority:

“If we develop that deeper (implicit, psychological) taxpayer-government contract, it should include a clause for honesty; tit for tat. I can only see the relationship develop in a legitimate way from shared transparency. Then, beyond developing trust, there’s just solid evidence out in the open: I’m paying up my fair share and I can see the money trail for what government spent it on.”

The above response (J) also covers the concept of an expenditure budget which is found in literature and foreign practice. Publishing an expenditure budget is another way to allow taxpayers to see all tax expenditures and the apportionment certain sectors and services receive (Afonso 2015: 4). It gives taxpayers an opportunity to scrutinise expenditure and seek justification from government. An expenditure budget is not far removed from the concept of a personal taxpayer receipt and serves many similar functions.

Many respondents described how these results should be used to understand and target problem areas, as voiced by F:

“Compliance statistics can be a diagnostic tool. Ask: ‘Where is there heightened resistance or evasion? Where is the problem prevalent?’ Then go to work there. For example, there was incredible resistance to eTolls (electronic road toll system) in Gauteng. If we are honest that these sorts of things are failing, then we can start getting a workable solution going sooner.”

Respondent C spoke of the merit of publication and how anger without understanding is detrimental:

“It’d be good in that compliance problems aren’t swept under the rug. You would want the issues to be out in the open. There is a tendency to assume we know how bad the situation is, but that’s just ignorance disguised as disgust. It is negative perception, and we remain unaware of the specific issues. Also, anger doesn’t help our perspectives or our ability to understand.”

Certain emotions affect citizen engagement and have a mediating role when becoming an informed citizen. Anger and disgust has been shown to impede learning and suppress total information seeking, whereas some emotions like anxiety can cause individuals to seek sufficient information (Clifford and Jerit 2018; Valentino, Hutchings, Banks and Davis 2008).

Interviewee M provided the next step once anger has dissipated:

“Once there is dissatisfaction, there needs to be action. But there can’t be appropriate action without information. This publication of compliance [statistics] would really help that and maybe allow responses to be more useful and dilute all the blind criticism.”

In support of this, another respondent, G, said:

“When there is a hole in revenue and we blame poor compliance, that’s not enough. We have to take things further. To do so, we need the kind of detailed information that’ll be able to fix the problem at the source. When you diagnose the pressing issues, you can begin to solve the problem, not just condemn the symptoms.”

Another respondent explained why publication of statistics would be beneficial as a wider range of individuals could provide solutions (E):

“Good! Disclose the story. There are capable individuals and organisations who want to help. People who have studied further who have solutions. People from vastly differing fields which somehow hold the answer. But these individuals and organisations need the data. Audited reliable, relevant data. Surely SARS could use the help? And if they are generating audit data anyway, then... This is another use for it.”

There is support for this in that information about tax evasion committed by taxpayers which has been processed from actual audit data can be considered to be strong and reliable, however it is rarely available (Luttmer and Singhal 2014: 154).

While G had this to say about audited compliance data:

“It’s strange that they aren’t already killing two birds with one stone. This information can be repurposed, perhaps even just to the right hands, and can be of great benefit. If anonymity can be maintained, of course.”

The above respondent’s idea that this audited compliance information should be made available, but only in the right hands was mentioned to other interviewees and found support.

Respondent C suggested that the publication of these statistics should be accompanied by a communication to prevent antagonism:

“You obviously don’t want the publication to seem like an attack on the taxpayers – It shouldn’t seem to be that. And it is just as important that compliant ones know that as it is those who haven’t been – You just don’t want to imply everyone’s a crook (criminal).”

This response brings forward elements within another theme of Reintegrative Enforcement discussed later. Attaching a negative label to a person or group can cause those being labelled to react negatively or even adopt the negatively associated role more fervently (Murphy and Harris 2007; Williams and Franic 2016).

Some respondents suggested that if such information is made available to the general public, it should be accompanied by footnotes and comments to explain how SARS intends to collaborate and work with taxpayers to close the tax gap, as well as provide possible causes for some individuals in certain segments to fail to comply and ultimately initiate a dialogue rather than display any poor results as an uncontested failure.

Respondent O emphasised that these published statistics could be presented in a document that initiates such a dialogue:

“Okay then, so now’s a chance to show the world everybody is in this together! I think those stats need to be part of a document which begins a conversation. Why is the [tax]

gap there? Why are people avoiding taxes? What are you (the taxpayer) doing wrong and what are we (the revenue authority) doing wrong? These conversations need to happen. There doesn't always have to be a detective doing fieldwork, or an anonymous questionnaire like you have in research; a lot of the answers are on the tips of our tongues."

This opinion represents the views of many respondents who, in similar terms, described a dialogue, engagement or talk to simply gather ideas and perspectives and begin voicing them.

KEY FINDINGS – PUBLICATION OF COMPLIANCE STATISTICS

- There was strong support to place taxpayer compliance information in expert hands such that researchers and organisations can develop effective solutions.
- Many described that the publication of specific non-compliance 'symptoms' would help diagnose the actual cause of the problem.
- There was some reservation over whether publishing particularly poor compliance results might provoke additional non-compliance from others.
- Should these statistics be presented to the general public, an effective plan to manage non-compliance should be presented simultaneously to prevent a disheartening of the compliant citizenry.
- Great care should be taken to use reintegrative language to prevent such information from appearing as an attack or criticism of taxpayers in general.
- Some felt this should be presented as part of a collaborative initiative where taxpayer transparency and government transparency are a mutual exchange in a form of transparency reciprocity.
- Respondents suggested the compliance statistics be presented as part of opening up an honest dialogue between taxpayers and SARS.

6.3.2 THEME 2:

EDUCATION AND AWARENESS

The following thematic introduction was presented to interviewees:

The next set of proposals involve effective education of students and active taxpayers about taxation. Oberholzer and Stack (2014: 238) supports the education of various population groups about the importance of taxes, recommending that the South African government would need to reevaluate its communication strategy and its effectiveness in communicating issues, promoting understanding and stressing the importance of taxes. This sense of duty and the importance of paying taxes can be taught separately to the actual process of submitting a return. Education has the potential to create an empowered taxpayer as it equips citizens with the knowledge and awareness to demand accountability, the tools to work with the tax authority, and even the ability to challenge incompetent tax preparers (Nwana and Richards 2010: 64).

Respondent B highlights the general consensus surrounding the need for education:

“We seriously stand to benefit so much from introducing tax education in a bigger way. We’re chasing our tails with workshops and the like. To get around that I know schools could get on board - that’s long-term. Surely the ability to file taxes in a civilised society is a life skill? It should be next on our to-do list: Read, write and submit tax - Wouldn’t that be something!”

This agrees with the public opinion index in the SARS Annual Report (SARS 2018b: 72) which provides the general opinion that, “Amongst individuals, there is a need for better education around tax deductions, tax returns and tax calculations.”

6.3.2.1 PROPOSAL 2.1 – TAX ENCULTURATION IN SCHOOL

The following information was provided to interviewees:

Education includes the attitudes, values, beliefs, norms and behaviours adopted in a culture. Similarly, enculturation is the process where people acquire the values of their surrounding culture and the appropriate norms within it. This forms the complex social framework preparing citizens for what will be expected of them from various agencies and institutions

(Oberholzer and Nel 2006: 108). SARS is an agency that expects taxpayers to respectfully pay what is due in terms of the law (SARS 2018d: 2). Researchers have likened SARS to 'directors', responsible for the stewardship of their 'companies' or taxpayers, such that SARS views those who fail to comply with tax legislation as not being 'good corporate citizens' (Jansen van Rensburg 2012: 9). This comparison is not unlike maintaining good citizenship, or citizens with a developed sense of their civic duty. This will require certain attitudes and behaviours to be instilled before taxpayers can sufficiently deliver what is required of them. Understanding taxes can be regarded as a life skill (Oberholzer and Nel 2006: 106).

Japan begins developing taxpayer values in younger generations at school (Bahari and Ling 2009: 39). Values and attitudes would best be instilled at a young age (Boadu 2013: 139). This would familiarise learners with taxation and makes learners conscious of taxes throughout their lifetime. However, South African students are only exposed to Economics and Management Science (EMS) once they enter the senior phase of their schooling (Department of Basic Education 2011). EMS briefly introduces students to the role of taxes and associated government services in Grade 7, followed by the National Budget process and accounting in grade 8, further economics and business related topics in Grade 9. Accounting, Economics and Business studies become separate subjects

The proposed strategy is to introduce values which encourage compliance from future taxpayers and cultivate appropriate attitudes toward taxation as early as possible in young learners' schooling careers. Changes to the curriculum could include prescribed story books explaining the role of parents as taxpayers, providing examples of good taxpaying citizens and civil servants, field trips to conservation areas, firefighting and police stations or other facilities under the context that taxes have made these services possible.

One respondent began with the essence of what this proposal is attempting to achieve (N):

"I like that we're differentiating tax values from tax ability. The values would make a real difference to taxes as we perceive them and how we exercise our ability to submit."

The general response was favourable, with H stating:

"Well this would be quite a progressive approach. And extremely forward thinking. You'd think you won't see the benefits until they are out in the real world, but if they

understand the symbiotic relationship between citizen and government, and the way services are provided through taxes from hard-working citizens, then these children will behave differently.”

Respondent F spoke about tax enculturation of all generations and how this could create new societal norms:

“Teach the children, but also the parents! I think that promoting compliance values at school will do both in the long run. We have to think ahead – taxes aren’t going away, and it’s a shame if there’ll be more generations who aren’t primed for them. Once children and their homes are all on the same wavelength, then you start creating a new mindset for the next generation where non-compliance is just taboo.”

Respondent F touches on norms and purposefully developing the population’s sense of right and wrong. Introducing and familiarising schools and families with moral norms creates general consensus about the acts considered to be criminal (Harris 2017: 61). Punishment becomes unnecessary once the majority of the population comes to believe such a crime is unconscionable.

Many of the positive responses appeared to describe similar benefits to those that come from promoting citizenship values (J):

“Japan got it right; tax education in school. Those kids aren’t doing actual taxes straight away - they are learning values. They are being made fit for society. Imbued with values and an education that generation upon generation of South African taxpayers have missed out on.”

This respondent had much to add (B):

“I am quite passionate about the idea, sure... Because I think the idea can reach critical mass. ‘Nothing is more powerful than an idea whose time has come.’ Well can you imagine if we have put enough children through a moral and principled education system? They will reject corruption. They won’t participate and might even be brave enough to call others out on it when they see it.”

Citizenship can be embedded in education to allow citizens to become efficient members of their community and to discourage corruption (Boadu 2013: 137). These citizenship values

have even been instilled in education systems at early stages of student development without having to wait until senior high school before being introduced as respondent F concurs:

“Our personalities are formed by the time we are five years old. I think we better cultivate some values as soon as possible, don’t you? Go for it. The idea is fine. There needs to be room in the curriculum for tax compliance values and all that. We should make room or adjust the syllabus with more emphasis on how taxes are the lifeblood of society as we know it.”

Teachers have agreed the importance of citizenship education at the primary school level for some time (Ajayi 2007; Law 2004).

Apart from good values and citizenship education, respondents spoke about tax consciousness in more general terms (J):

“I didn’t know what taxes were until I started studies out of school. Somehow I even ignored what VAT (sales tax) was my entire youth, what the radio was talking about near October (Tax Season). I filtered it out like a foreign language. After university, I’m all caught up, but isn’t that alarming? So I agree, introduce taxes in whichever way, early, then it won’t fly over people’s heads for half their lives. If we are made to be conscious of the word (tax) from a young age, [then] it will live with us and we won’t tune out to its relevancy.”

Respondent G had this to add about the role models children naturally seek:

“This is a good angle. Children often emulate their parents, so yes, we need to remind children that their parents are diligent taxpayers... regardless of whether they are or not. Behaviourally, there is often a strong drive for a child to be like a particular parent. Young children learn from good examples, but they can learn from ideals. It would be good to paint a picture in their minds of an ideal citizen.”

One respondent, D, spoke of the potential of books for early readers and shed some light on relevance:

“We remember story time at school, and I have read a thousand stories to my children. I don’t see why we can’t replace certain books with those that cover taxes and [civic] duty in an exciting way. Is it really such a leap? Not at all. Plus, some of those stories

will really stick with [the children]. If we can make dinosaurs relevant to children, then we can make the need to sustain society through taxes relevant, too."

Further responses related to the nature and content of the syllabus and how to make it relevant were summarised in this view (F):

"Okay, to bring in values in a structured way - this will require a re-curriculation of some kind, or something inserted into the current syllabus. They will need to be taught values, shown who loses out when taxes aren't paid; maybe the link between taxes and government service. Practical stuff. How roads are paid for by taxes, how everything is maintained. Their safety, their health. It would include field trips or something to make it meaningful, especially if it is for much younger children. Yes - there's very little that's tangible about taxes to them at that point, but trips and activities can make it obvious to kids."

A response from K spoke of national pride:

"Hopefully you're familiar with the concept that taxpayers who are proud of their country pay up. It's something I've spoken about to colleagues. National pride is like a compliance driver. It can almost be subconscious, but it drives [taxpayers] to be compliant. I think that's relevant here. It doesn't have to only be about taxes, you can teach kids about society. About how taxes allow society to develop, and that if they love their country, they'll have to [pay their taxes]."

To this end, there is evidence to suggest that instilling a sense of national pride would also promote compliance through improved tax morale. Patriotism and national pride have been associated with higher tax morale (Gangl *et al.* 2016: 869).

This idea of national pride was discussed with another respondent (H):

"I do see the value in creating a sense of duty. I understand that pride in one's country could boost compliance, so instilling something like that would help. You would want to instil values like these earlier? Well, they go hand in hand. Duty, pride – they're complimentary."

The specific subject of Life Orientation (LO) was identified as another suitable programme to cover tax compliance values and morals in the form of citizenship (M):

“It also fits into [the school subject of] Life Orientation. Not the whole SARS part, but the drive to be good and pay and comply, all that, can be put in there. It goes beyond tax compliance though. This is about being a good person. You see, [learners] might not get that when you don’t pay, you’re stealing, because it’s not as obvious as, say, robbing a bank. Students might not make the moral connection. You have to help them understand the seriousness of dodging taxes. But again, it’s not just a tax issue, it’s a moral issue, it’s about being a good citizen. You could develop this in a lot of subjects, subtly and at the same time to reinforce the moral, complying side of it.”

Respondent C added how LO and EMS could both be used to exercise this proposal:

“In my school we had religion as a subject, but now Life Orientation (LO) is there to teach principles. I say, teach the values in LO and the practical side of tax in EMS. These two could both be partially adjusted to create some sort of constant thread of tax awareness in the syllabus. Then I still hope they stay in school and do Accounting or Economics, but at least something was brought in early on.”

Other respondents typically described the importance of including tax values and practical tax education as conveyed here (D):

“Instilling values, yes. Most of our values up ‘til now are brought in subliminally. You can definitely develop that portion of it in a structured way. If we are going to be talking about the ability to file [taxes] as a separate component, then this [proposal] has merit in its own right - but I wouldn’t recommend stopping there. This should immediately be followed by something practical regarding actual submission of returns and so on.”

This sentiment is covered in the next proposal.

KEY FINDINGS – TAX ENCULTURATION IN SCHOOL

- Most respondents were in favour of promoting tax compliance values and teaching children about the link between taxes and services.
- Many felt that tax values had more potential to be taught to younger learners than teaching tax skills.
- Some respondents saw this proposal as part of a larger education initiative involving citizenship education and/or boosting national pride.

- Those familiar with the subject EMS felt it had the most potential to be adjusted to include a greater portion of taxation education and instil compliance values.
- The necessity of re-education was emphasised by a number of respondents which would require the cooperation of the Department of Basic Education.
- The majority described this idea as a long-term plan to improve compliance.
- Parents and other role-models were viewed as important to the process.
- Many responses mentioned or emphasised the need for this proposal to be followed by a more practical tax education component.

6.3.2.2 PROPOSAL 2.2 – TAX APTITUDE IN SCHOOL

The following information was provided to interviewees:

Even countries with developed economies and communication infrastructures have met significant challenges when utilising online tax education. Schools can be utilised to provide tax education and information to the public (Nwana and Richards 2010: 63). The taxation system could benefit from the implementation of tax education at a school level, especially through collaboration between SARS and the Department of Basic Education (Oberholzer and Nel 2006: 105). Sarker (2003: 31) believes a less developed economy would benefit from tax education at a high school level. However, if dropout rates from Grade 10 upwards are factored in to the current matric pass rates, then as few as 37.3% of South African citizens will complete their high school education (Anderson 2018; Spaul 2013; Real matric pass rate ‘probably closer to 40%’ 2019). If less than half of the learners in Grade 10 in 2015 completed Matric, of which even fewer elected financial subjects, then the focus of tax education efforts needs to be revisited.

The proposed strategy is to introduce technical aspects of taxation into the school curriculum sooner to develop the confidence of future taxpayers through familiarisation. The basics of filing tax returns can be introduced as part of the Economics and Management Sciences covered between grade 7 and 9. This will better equip a larger portion of future taxpayers given that many leave school early. The submission process may change or learners may simply forget, but the associative confidence of having completed a tax return before will remain.

Respondent E mentioned there was taxation in the EMS syllabus, albeit not with a direct focus on equipping future taxpayers to immediately be able to submit taxes.

“EMS does cover some taxation, I don’t think they (students) will exactly be able to hop onto the SARS website straight away and start eFiling, but it’s a fair start. We can just take it a little further. The actual arithmetic behind paying taxes is manageable at that grade 8 – 9 level, so the tax filing process just needs to be incorporated. Even a simple set of worksheets could cover [the tax filing process].”

Not all respondents were aware how few students complete high school. One respondent expressed their surprise (D):

“Well, I must admit, if less than half make it to matric then that’s quite shocking. I would have suggested teaching tax at a later stage, but that might leave out half of [South Africa’s students]! This really is a catch 22 though... I would have preferred to see more developed [learners] take on the technical parts of tax, but, hey, that’s not really fair on the others who drop out.”

Respondent A pointed out that exposure to technical aspects of taxation in the current education system is limited:

“Okay, we know not every [pupil] will make it to matric, but on top [of that], not every student will take accounting or economics [as final subjects]. Even then, these subjects still don’t go into the kind of detail [taxpayers] need to be able to submit a difficult, comprehensive return.”

Respondent D was supportive but still had concerns about the time-gap between students learning tax and their first actual submission as young adults:

“Obviously some practice is better than none at all. I’m just concerned about the gap between grade 9’s Economics [and Management Science] and when they actually submit their first return.”

Another respondent had the same timeframe concerns and added (M):

“I think it is going to be difficult. You see, the younger you start talking about tax, the longer they’ll have to forget about it because they still won’t be filing [taxes] until they get out into the real working world.”

But Respondent G pointed out that the greater concern is to not be taught to file taxes soon enough, given the dropout rate:

“If the majority of students leave school before [completing] matric, then we can’t just negate them; they are likely to be part of the working world all the sooner! We don’t know why they are dropping out – apart from the negative, perhaps it’s to start their own business, maybe a family business. We can’t assume these individuals won’t be productive contributors to society. Besides, if they aren’t competent [enough] to submit [their taxes] then that’s one more barrier to their contribution to tax revenue. It’s relevant to them and we can’t do them the disservice of not properly preparing them.”

Respondent C spoke of how confidence developed early on would be beneficial in the end, even if taxpaying is not practiced regularly thereafter.

“I suppose it just needs to be familiarised; enough that when the time comes for submission [of their taxes], [citizens] know they can do it. Even if they only did it once for a test in Grade 9, they can still remember that and have some confidence. And even if they don’t practice submitting again for years, the fact they could when they were younger is a psychological boost. So what are we saying? Confidence. And the values. Those two things are going to help.”

Respondent E suggested utilising maths in a more practical way to familiarise younger students with calculating taxes:

“The mathematics in tax is relatively simple; if you look at the calculations to get to taxable income, it is basically a worksheet of strange percentages, subtractions and so on. I think that a lot of the story-based problems they do earlier in their maths education could be flipped to come from a tax perspective. It just makes it more natural, right? We had those old sums with long-winded stories built into them, so instead of calculating when a train will arrive, how about we give someone over 65 a rebate? We

need to see small sections in the syllabus pop up regularly that familiarise kids with paying a percentage of VAT or subtracting deductions and rebates. And would it be relevant? As a future citizen, it would be the most relevant math exercise they'd ever done!"

The factor concerning the relevance of tax education mentioned by Respondent E above was echoed by others such as Respondent D:

"There is a bit of a dilemma in that they won't be calculating actual taxes for quite some time, but that doesn't affect relevance, that's just time. Taxes are always going to be relevant. Let's not be short-sighted about this; our future (future taxpayers) needs to be comfortable with something expected of them for the rest of their life."

The perspective above also speaks of tax as a duty and a skillset that will always be required of them throughout their life. As researchers have said, tax education will equip future taxpayers with the knowledge and tools to work with the tax authority (Nwanna and Richards 2010: 64).

VAT was also discussed and some respondents felt it was one of the more relevant taxes to cover outside of personal income tax. Respondent L even raised a point about how, as potential entrepreneurs, student should be familiarised with VAT in a more detailed way:

"A lot of the kids might leave school early, that's true... and South Africa pushes many to become entrepreneurs. Maybe the idea is consider bringing in VAT in a bigger way - sooner, like you say. If nothing else it could show we have faith that they will participate in the economy in a meaningful way. As part of some kind of entrepreneurial introduction to the real world it is another real tool they might need, especially if they are going to hit the ground running should they drop out."

KEY FINDINGS – TAX APTITUDE IN SCHOOL

- Many respondents supported this idea and wanted to be sure this component of education would also be present when tax enculturation was being discussed.
- The fact that most pupils will leave school before completing matric significantly affected the support for the earlier implementation described in this proposal.

- Respondents felt that being able to identify and calculate taxes was a skillset that every citizen should have.
- Tax aptitude needed to be covered periodically from a young age, introduced as modules and assignments throughout their primary and senior schooling to develop this skillset.
- Mathematics was considered a suitable conduit to familiarise younger students with the taxes through word problems.
- Many felt that EMS was an appropriate subject to deliver the practical aspects of tax.
- Respondents felt the benefits of increased confidence that comes with learning how to file taxes in school outweighed the possibility that students might not remember exactly how to file in the future.

6.3.2.3 PROPOSAL 2.3 – TAXPAYERS’ WEEK

The following information was provided to interviewees:

With the changing social and communicative landscape, researchers recommended that the South African government regularly revise their communication strategies to more effectively communicate with its citizens over tax issues (Oberholzer and Stack 2014: 238). Threats of enforcement must ultimately be backed up by actual enforcement, which may prove very costly, but by contrast, social interventions are a much more affordable alternative (Havnevik 1993: 211; Luttmer and Singhal 2014: 164). The UK Tax Office has seen returns in the ratio of 19:1 on the expenses incurred from its awareness-raising advertising campaigns (Williams and Franic 2016: 94). The returns on the expenses incurred for detection and compliance enforcement were only 4.5:1. This is a strong justification for these campaigns but more can be done.

The Kenya Revenue Authority [KRA] specifically chose to hold a Taxpayers’ Week throughout Kenya to coincide with the Kenyatta Day, which honours national heroes (Luttmer and Singhal 2014: 150). Throughout that week, Kenya’s running theme translated to “Pay your taxes and set your country free.” The head of the KRA at that time, Michael Waweru (2004), explained this to mean that taxpayers would be “Paying a glowing tribute” to those who freed Kenya from colonialism, decreasing donor dependence and strengthening economic independence. The Kenyan Taxpayers’ Week was also punctuated with a recognition of Distinguished

Taxpayers. The deliberate association of paying taxes with honouring national heroes was intended to elicit intrinsically motivated compliance, while the slogan promoted a new social attitude toward taxes (Luttmer and Singhal 2014: 150). South African taxpayers might be positively influenced by a similar Taxpayers' Week.

The proposed strategy is to host a Taxpayers' Week during the SARS Tax Season which would ideally coincide with a national holiday associated with independence, freedom or progress. Freedom Day and Heritage Day are potentially relevant celebrations, although Freedom Day does not fall within Tax Season and the tax filing deadlines. This Week could include heightened publicity, radio interviews with committed corporates and taxpayers, radio callers asking questions, announcing Recognised Taxpayers and other forms of positive reinforcement.

Some respondents felt that the promotion of a sense of duty to pay tax needed to occur more in general, notwithstanding any specific Tax Week. Respondent H had this to say:

"There's no reason you couldn't still include tax reminders during relevant holidays outside of that Tax[payers'] Week. I mean, the Week sounds great, but it's too little too late if we don't get compliance awareness going in a more regular way and somehow generate a consistent drive to pay taxes."

Respondent I also offered a similar sentiment:

"There's not as much light shed on compliance values as there is on scandal and tax rate hikes. Given the consistency with which there is negative media surrounding politics and the government, and SARS as an extension of that government, we actually need more good news – we need information throughout the year about what taxes really achieve and why we should pay."

There was support for the Taxpayers' Week from all respondents, with varying ideas about where it should be placed in the year. Respondent F expressed why centring it around a specific day would be beneficial.

"You wouldn't necessarily have to angle the Week around a specific day, but I can see it would give it all more momentum. There is plenty of positive energy around public holidays and the right celebration could trigger the right feelings."

Respondent A expressed that co-ordinating a tax compliance campaign with a public holiday that honours something else important would not be a disservice as both would be genuine causes.

“Advertisers have no problems taking something sacred and using it to flog their product, so why not promote something genuinely beneficial like a sense of duty toward paying [taxes] on a day which acknowledges something else beautiful? I wouldn’t completely hijack the public holiday and make it solely about taxes, but Kenya did it tastefully, without detracting from their [Kenyatta] Day, so it is more than alright to do something similar.”

Respondent B touched on a compliance-influencing factor that has been identified in literature as patriotism:

“Go for it. Use a day that brings out pride. What do they say? ‘Be a patriot’. Having some pride in your country and possibly associating that with paying taxes is a nice formula. Also, then maybe it’s not about the government or service delivery or anything negative. It’s just about who you are and where you’re from.”

This comment by Respondent B has roots in literature where taxpayers that are more patriotic are generally more positive about paying taxes and, to an even greater extent, view evasion as unpatriotic (MacGregor and Wilkinson 2012).

Respondent N stated how most important days in the calendar year can be linked to taxation in order to effectively develop positive associations with taxation:

*“I think any public holiday could include something from SARS, some compliance communication – if they really wanted to consistently associate taxes with good things. It’s easy really; if SARS said, ‘**Look after your children beyond Youth Day; pay your taxes and ensure they receive the education they need.**’ Or even on Human Rights Day, ‘**Did you know your taxes maintain the infrastructure that realises your basic human rights?**– and so on and so forth, ‘cause they do! Maybe these reminders and adverts just need to be part of every major calendar day to really make a difference - that’ll add to the Tax Week when it comes around later in the year.”*

Respondent B mentioned the effect of the slogan “Pay your taxes and set your country free” used in the Kenyan Taxpayers’ Week:

“Well, I don’t know if we can top that phrase they used in Kenya! But I can see it would have some serious appeal. Freedom is the appeal. Kenya didn’t want to rely on donors, right? I think we could also use an angle of greater economic independence. Something like that. There are major pitfalls when it comes to relying on financial aid. I am certain if the link was made between success as a nation and developing financial independence through taxes then you would get through to more taxpayers.”

Respondent B has mentioned a number of points that find their place in academic writing. There are associated problems with relying too heavily on foreign financial aid. Ghana had depended increasingly on the international community for financial support while trying to revamp its public sector which affected the success of their reforms (Conteh and Ohemeng 2009; Ohemeng, 2005). Ultimately, financial aid was not sufficient to support the organisational structures that were otherwise beyond Ghana’s means to develop and maintain, while the internal generation of tax revenue could not meet the shortfall. (Ohemeng 2010: 126).

A relevant emphasis on taxes within the context of specific public holidays is possible, even when using the above respondent’s examples. For example, enforcing human rights necessitates the power to tax and spend and so creates popular acceptance of the mechanisms to tax and spend (Holmes and Sunstein 2000: 175). Some of the public holidays are more relevant to taxes than they appear, and may be conducive to their acceptance. There may also be a certain timeframe affecting the relevancy of certain holidays as mentioned by respondent E:

“Obviously Freedom Day would be more like Kenya’s example, aligning it with national heroes and freedom. But I feel that Freedom Day’s actual date might not be close enough to the eFiling deadline to have the kind of impact it should. So I suppose, if we choose something within Tax Season, Heritage Day is a good bet. I’m not sure if it would be as relevant, but it would be closer.”

Respondent L had this to say about centring the Taxpayer’s Week around Heritage Day:

“So yes, why not Heritage Day? It’s topically relevant if we choose to see it that way – or if we want to frame it that way, which is what really matters in a campaign. Heritage Day reflects the make-up of South Africa. All the cultures, and the people who contribute that culture... and contribute in other ways – their taxes! So yes, there’s a way there. It’s relevant, it’s close enough – it’s spot on.”

Support for this view that Heritage Day could be a relevant anchor for the Taxpayers’ Week can be found. Lowry (1995: 21) states heritage day is “...when South Africans celebrate the diverse cultural heritage that makes up a ‘rainbow nation’. It is the day to celebrate the contribution of all South Africans to the building of South Africa.” Although this definition describes cultural contributions, Respondent L’s observation implies that only a suitable link needs to be created.

Respondent J spoke about using radio broadcasts in this Week to generate positive attitudes and capitalise on the influence of peers and personalities:

“Radio coverage is a very effective tool. Take a leaf or two from the books of successful awareness campaigns and all that jazz. But it has to be more than a little reminder. Someone relatable should be explaining why taxes are essential, fellow taxpayers calling in. Or better still, a personality or sportsman speaking passionately about it, about how they never could have achieved what they did without the infrastructure we have – paid for by taxpayers who care.”

This recommendation to use famous personalities has been put into practice overseas. Bangladesh uses a number of singers, actors, sportsmen and women during their “National Income Tax Day” to make the principles and values espoused on that day all the more effective and convincing (OECD and FIIAPP 2015: 27-28). Although this might be somewhat similar to marketing or advertising, such a means to sway taxpayers to comply would be equally effective as individuals are influenced by their peers (Coleman and Freeman 1997: 311).

Also using radio, respondent L described how tax-paying could be presented as a pro-social behaviour:

“Think of charity drives, they’re about ‘socially conscious spending.’ Maybe some coverage of the development of something new, a new hospital or public school.

Remind taxpayers that they have effectively funded such services – make them feel good about themselves. There is so much that could be being done to engineer a sense of self-reward.”

Respondent L’s view that advertising the positive outcomes of paying taxes in a way similar to that of charities is beneficial has a basis in research. Advertising the emotional benefits of pro-social behaviour may maintain the givers generosity in the long-term and even encourage individuals to give more (Anik, Akin, Norton and Dunn 2009: 17).

Respondent E added another use for the radio, advertising a once-off amnesty period to give positive momentum to the Taxpayers’ Week:

“There’s a chance here to bring non-compliant taxpayers to the table in a big way. An amnesty period would be a great way to kick this thing off. Plus with the added coverage you could specify the rules of the process. I know some people will wait for another [amnesty period] to declare the other half of what they owe, but perhaps, a once-off opportunity for the very first official Taxpayers’ Week would be necessary. You can’t rule out these periods after all - they can bring in a lot of the revenue that government’s after, and this is good energy to boost the Week itself.”

Like the above view, researchers have made recommendations to advertise the benefits and requirements of the amnesty periods over the radio (Van Vuuren 2016: 74). Although respondents have indicated that irregular tax planning can take place to abuse amnesty periods (B):

“Not sure if I can recommend introducing amnesty into the mix here. There is the possibility taxpayers can start behaving tactically to take advantage of amnesty periods. They need to be few and far between, if at all... I have seen them used effectively with foreign income declarations and stuff, but that was a one-time deal. In that respect you need to weigh this all up - you don’t want to create a common practice of giving amnesty every other year.”

Just as Respondent B above states, other researchers have highlighted that poor compliance behaviour can result as a consequence of the taxpayer’s anticipation of another amnesty

period (Junpath *et al.* 2016: 105). This suggests that a once off amnesty period to initiate the Taxpayers' Week would be preferable if an amnesty period were to be incorporated.

Respondent I offered a social media perspective on how to create positive associations with tax-paying when government service successes are presented:

"Even on my Facebook I recently saw something - what was it now - the [EThekweni] Municipality... They announced they'd finished that new Interchange near the airport. They even stated the amount spent; something like R1-billion. For the most part there were positive responses. Given what we're talking about here, imagine if they'd, firstly, associated it with one of the positive outcomes of paying taxes, and secondly, thanked the taxpayers who, in effect, 'made it happen'. There's your advert and your improved relations and you've buttered the public up a bit, too!"

Respondent N spoke of creating a new cultural norm to influence individuals who in turn influence one another further:

"People follow other people; it's human nature. We like group dynamics and we borrow from group behaviour. So if you want individuals to be more compliant, that's great, but first you have to create the culture. Guide what is seen as normal or acceptable – then you start influencing the individuals. Radio is a magnificent starting point, but also TV and social media. Put out things that support the culture and then let people adopt it and influence one another. It'd most likely have to be for a sustained period to make a real difference. I am sure you can get something going in that [Taxpayers'] Week, but then it has to keep rolling with new input."

Respondent N's view that a compliance culture could be developed and impressed upon the general public with a view to creating a new atmosphere has roots in literature. Individuals are influenced social and cultural norms as well as by their peers (Coleman and Freeman 1997: 311). Developing an atmosphere that encourages compliance can create a new norm which will sustain it effects for longer if individuals collectively with their peers are influenced together.

Respondent J suggested that while promoting compliance, a campaign should discourage negative behaviours simultaneously:

“There’s a different pitch on the same idea. While we obviously want to develop a compliance drive in taxpayers, we can also develop some sort of social aversion to evasion, and evaders. Obviously, you can’t create a stigma against them; people might behave worse if they are made to feel like criminals, but awareness that evasion is harming the country is a powerful tool. Not everybody realises they are actually tax evaders the moment they do or omit certain things. So, the campaign itself, the Week, it should be as much about promoting compliance as it is about reducing evasion. Both angles achieve something similar, but each will be more or less effective depending on the individual who hears it. Cover both your bases.”

This suggestion bears a resemblance to certain varieties of public awareness campaigns that have drawn the attention of taxpayers, specifically to shift attitudes surrounding tax evasion (Luttmer and Singhal 2014: 150). In this regard, Italy conveyed that in order to manage the European debt crisis better, there would have to be a widespread curtailment of tax evasion (Povoledo 2011: 1). A campaign can be made to be more effective and relevant by presenting the problem as it relates to a real crisis.

Respondent B began to describe a powerful compliance driving strategy involving public recognition and public shaming during the Taxpayers’ Week:

“The Week could applaud good taxpayers, that’s right. It could embarrass non-compliant taxpayers, too! But I think in keeping with the spirit of the Week, something more positive like recognising good taxpayers might be more appropriate. It could be almost a competition, but I’m not sure if a cash prize is the best way to go about that, since paying taxes is what you are supposed to be doing anyway. But some sort of award within the whole Taxpayers’ Week is a good idea. Recognition as an upstanding taxpayer might bring in its own rewards, you know? Being recognised as trustworthy and above-board.”

These suggested practices and their predicted effects are in accord with literature. Non-monetary factors have been recognised as important by many tax authorities in affecting taxpayers’ decisions whether to comply (Luttmer and Singhal 2014: 149). These include both negative and positive non-monetary factors such as shaming non-compliant taxpayers and recognising compliant taxpayers, although the latter may result in private monetary benefits

as a result of positive publicity (Luttmer and Singhal 2014: 149-151). This concept is similar to **Proposal 3.2 – Compliance Rewards System**, which is discussed within the theme of Responsive Regulation after the key findings of the Taxpayers’ Week proposal as listed below.

KEY FINDINGS – TAXPAYERS’ WEEK

- All respondent felt that a Taxpayers’ Week should be held to create additional awareness and give the compliance campaign more energy and momentum.
- All respondents also felt that this week should not operate in isolation and must include additional compliance drivers throughout the year to be truly effective.
- There was strong support to use a particular public holiday to bring the week to a climatic head where Heritage Day and Freedom Day were popular options.
- Radio, television and social media coverage of this Week was seen as absolutely essential.
- While the majority were not opposed to advertising an amnesty period over this week to allow taxpayers to declare outstanding amounts without fear of criminal prosecution, fines or penalties, many had reservations about creating an amnesty precedent that could create ‘tactical’ compliance behaviour. A once-off amnesty period to initiate the very first Taxpayers’ Week was the reasonable alternative.
- The psychological link between successful government spending projects and the fact citizens’ taxes made the project possible should be emphasised using real and recent examples.
- Awards and non-monetary rewards should be given to Recognised Taxpayers in various categories that are attainable and relevant, given to each individual income bracket but offering equal rewards, as well as different types of businesses.

6.3.3 THEME 3:

RESPONSIVE REGULATION

The following information was provided to interviewees:

The use of force to secure compliance has high economic and social costs (Fjeldstad and Therkildsen 2008; Luttmer and Singhal 2014). The associated costs and administrative burden are also high relative to what is collected through force (Havnevik 1993: 211). The social cost also harms the relationship between taxpayer and authority (Kangave *et al.* 2018: 7). Threats that are backed up by enforcement is a costly way to manage non-compliance (Luttmer and Singhal 2014: 164). The alternative approach to avoid an antagonistic change in the relationship between taxpayer and authority is an appropriate range of responses including education and assistance prior to considering force (Bentley 2016: 296).

SARS has adopted the same Compliance Model as the ATO which aims to use responsive regulation to manage the risk of non-compliance, escalating the response depending on the intention and actions of the taxpayer. However, SARS will still need to incorporate new strategies into this model before it truly demonstrates this approach. SARS (2009b) acknowledges that human behaviour is chiefly driven by the desire for reward whilst seeking to avoid punishment. This model and its responsive regulatory approach has room for education, enforcement, service and even reward mechanisms, all of which are important and acknowledged in this study.

6.3.3.1 PROPOSAL 3.1 – RESPONSIVE SERVICE CHARTER

The following information was provided to interviewees:

The SARS Service Charter is a prescriptive set of principles promoting cooperation between SARS and the taxpayer as well as prescribing service delivery targets taxpayers may expect and obligations both parties must honour. The long-awaited update to the Charter contained new service targets (SARS 2018d). The Australian Taxpayers' Charter is not only a set of rules or targets, but also, an approach to standards of service embedded in the culture of the ATO (James *et al.* 2004: 8). It uses responsive regulation, which responds to the taxpayer's attitude and receptivity in the way that best elicits cooperative compliance from the taxpayer (Braithwaite 2011: 475).

Over and above taxpayer conduct, responses escalate depending on the intention and attitude of the taxpayer as part of a risk-based approach to enforcement (James *et al.* 2004: 15). Submissions are made convenient and easy for taxpayers who wish to comply, education and assistance is provided for those who try to comply but fail, knowledge of the consequences are effectively communicated which allows the risk of detection to deter those contemplating deliberate non-compliance, and tough enforcement measures are exacted for those who have deliberately failed to comply. This continuum of responses directs more resources toward educating, assisting and reinforcing positive compliance attitudes and is less likely to decline into an antagonistic relationship (Bentley 2016: 296).

SARS (2016a: 21) is aware that there is a continuum of taxpayer compliance responses that range from willing compliance and unwitting noncompliance to begrudging compliance and deliberate noncompliance. However, SARS (2016a: 22) only provides proportional punishments relating to the nature and degree of non-compliance, while the tax education offered by SARS is a general provision, not a response to instances of unintentional non-compliance. As such, SARS does not appear to utilise responsive regulation.

When the ATO adopted a new Compliance Model based on responsive regulation to deal with tax system complexity, The Australian Taxpayer's Rights Charter was then developed to ensure that the ATO was procedurally fair in practice (Waller 2007: 67-68). From this point it became more than a taxpayer-focused service model, however, creating a service-oriented culture is considered important to ensure that a charter is viewed as an organisational opportunity (Thomassen *et al.* 2014: 573).

Following a similar trajectory, the SARS Service Charter could develop a responsive, risk-based approach towards taxpayers based on their behaviour. The new SARS charter should engage with taxpayers such that it encourages and nurtures "willing participation" as recommended by Bentley (2016: 295). A fundamental difference in the Australian Taxpayer's Rights Charter, which facilitates responsive regulation, is the inclusion of key engagement approaches to the taxpayer's right of "fair and reasonable" treatment (ATO 2018):

- Engaging with taxpayers based on circumstances and previous compliance behaviour
- Supporting those who want to properly participate in the tax systems
- Treating taxpayers as honest unless they act otherwise

- Differentiating between mistakes and deliberate non-compliance
- Reviewing discrepancies before punishing
- Taking the taxpayer's reasoning and explanations into account when determining corrective action.

The proposed strategy is to revise the SARS Service Charter into a Responsive Service Charter that incorporates elements of a responsive regulation framework to foster compliance. As before, it would maintain a strong service climate for all taxpayers, but now it would include specific approaches to uphold the taxpayer's right to "fair and reasonable" treatment. This would be primarily achieved through the initiation of a dialogue or review to determine a non-compliant taxpayer's intention and attitude and would include treating taxpayers as honest until proven otherwise, as well as considering the taxpayer's past conduct and explanations when determining corrective action. Based on this dialogue, responses can be escalated to address non-compliance at distinct levels: education and assistance for taxpayers who need help submitting; deterrence of non-compliance by conveying the risk of detection and publication of penalties; and demonstration of legitimate power by meeting non-compliance with strong punitive action as a last resort.

Respondent H began by pointing out that protecting the taxpayers right to "fair and reasonable" treatment by initiating a dialogue is a more significant change than it appears:

"I'd have to say, this would constitute quite a dramatic shift in [SARS's] approach. We may already have a Service Charter, but this inclusion bringing in dialogue would alter the whole nature of the thing. This would need to be implemented carefully and SARS would have to be at the top of their game with service, but then taxpayers would respond well to the change in SARS operating style."

Respondent H's view that this represents a shift in the nature of the system, which taxpayers would respond well to, finds support in literature. Compliance behaviour is influenced by the nature of the tax system (Cummings *et al.* 2006: 24). Although the likelihood that taxpayers will respond positively would certainly depend on its implementation, which respondent J also mentions:

"Look, this thing [isn't] getting off the ground unless SARS takes a long, hard look at itself. The service-orientated culture needs to be well, well developed to withstand the

extra strain of operating more dynamically – of handling the additional communication even.”

This suggestion to strengthen the service climate first before implementing the additional strain of a more responsive Charter is supported by researchers. Service charters are more likely to fail if they are not part of a customer focused strategy within a broad programme to deliver improved quality of service (Torres 2006; Ohemeng 2010; Thomassen *et al.* 2014).

Respondent C hypothesised the administrative difficulties that could befall the proposed Responsive Service Charter:

“Obviously, a brilliant, brilliant idea. But very hard to execute. In the form you’ve stated, I can see some stumbling areas... First, SARS will have the additional burden of trying to contact the taxpayer so he or she can state their defence. Then, every single crook who gets caught will plead ignorance at first, burdening SARS with more dialogue. I just see a lot of administrative burden that they might battle to handle.”

Respondent L revealed that the process could remain responsive without being time-consuming provided a relatively comprehensive checklist of operations is developed.

“Well, it’s not so complicated. You don’t have to have a long, laborious chat with each taxpayer to remain responsive. A prescribed chain of responses would cover most situations: Non-compliant taxpayers are contacted. If they can’t be contacted then they get the penalty by default – simple. Then if they can be contacted and they have excuses, we ask for supporting evidence. If there is no evidence backing their excuses, then we look at their history and conduct to determine a suitable corrective action. If they have no history or are a new taxpayer, we are lenient. If they are seasoned taxpayers we are a little [stricter], but we also don’t want to create bad relations, right? So we work with it. We develop the Charter with time. But there you go, that’s a procedural starting point to bring in “fairness”. Problem solved – you’re welcome.”

As Respondent L above points out the need to refine the Charter after its implementation, so does Respondent F, who felt strongly about allowing it to develop in its own time:

“What are we exactly afraid of here? Every half-decent set of rules is the result of a process of refining and redefining, and then refining and redefining that! Sure, at first,

it'll be a headache, and there are going to be teething problems – that's natural. But that's no reason to bail on (abandon) an essential component of a just and fair tax system."

The process of reviewing and refining codes and regulations as expressed above is an important element recognised in literature. Ethical codes should be reviewed constantly and revised upon the advice of stakeholders and feedback from public servants (Leisewitz 2007; Unger 2014).

Respondent B expressed concern over the Charter potentially being excessively open to interpretation by SARS administration:

"I'm just a bit concerned about the permissible responses being too broad and as a result the taxpayer is sort of at the mercy of the SARS administration. If the actual operator is having a bad day, they could take it out on a taxpayer. Or even just the application of what's considered "fair", might be too subjective to be left to individual choice. The guidelines would have to be pretty precise to prevent widely varying responses and punishments."

This criticism of ethical codes in their application is similar to that identified in literature. Codes are often faulted for presenting open-ended value statements that can be abused to justify any action (Heintzman 2008: 582). Public servants can read into such broad values and justify any course of action, or argue for the application of a preferred rule, which gives no weight to the obligation embedded in the code.

However, respondent K provided a view that the direction provided by the Charter could be sufficient to ensure the appropriate response was not open to interpretation:

"The right course of action should be made abundantly clear in the Charter to the employees, and this should be embedded in their training. We can't have two different SARS employees dishing out completely different remedies for the same infraction, no? So I propose that the Charter be very specific, but easy to consult. Almost like a guidebook – pristinely clear."

As Respondent K has suggested, literature has shown that codes could also be made to be more effective by improving their content and presenting their values in a concise way, ensuring there is utmost clarity (Lere and Gaumnitz 2007: 7).

Other respondents had ideas about how the 'responsive' elements of the Charter would be executed (F):

"So taxpayers would be given 'benefit of the doubt' initially. At least until the nature of the default is revealed. That sounds fair to me. If they have a poor history with bad conduct in the past, then they forfeit their right to 'benefit of the doubt.' But a first time offender should be treated with a smidgen of leniency, and in turn is less likely to feel victimised. The repeat offenders can get a more harsh sanction."

With the above opinion noted, there is not any concrete evidence that harsher sanctions for repeat offenders is effective in deterring their behaviour. The repeated practice of punishing repeat-offenders with increased severity is not consistent with the literature which has only found occasional grounds to justify a more severe punishment for such offenders (Chu, Hu and Huang 2000: 127). The optimal-deterrence framework does not prescribe unqualified applications of the common practice of punishing repeat offenders more severely, nor does it provide unconditional justification for this. This notion was voiced by a respondent I:

"I appreciate that the responses would be a little more adaptive than they have been up 'til now. You don't know the taxpayer's situation, but now you can enquire - and you don't know what's best for the taxpayer or what would encourage their compliance, but now you can get an idea. There is a possibility they just don't respond well to certain types of punishment. Perhaps severe punishments are completely counter-productive. Rinsing and repeating the cycle isn't going to help them. Maybe they just want to be asked nicely. I'm probably the same - I just want you to ask nicely and I'll play along."

Respondent M stressed the need for training before and during the rollout of any new Charter:

"I suggest the [SARS] staff are thoroughly trained beforehand and properly introduced to this whole concept. You see, you're basically reintroducing a whole new charter, because this is a far cry from the current SARS [Service] Charter, isn't it? There hasn't been an obligation to 'accommodate the taxpayer's mindset'. You're trying to change

the whole approach to encourage compliance, so a brand new intro[duction] and a guided implementation process is best.”

This view to reintroduce SARS staff to the Responsive Service Charter finds support in literature. Employee involvement in the implementation process helps to reinforce their commitment to the charter and is therefore essential (Fabien 2005; Torres 2005). This is possible given the successful implementation of a new client-centred approach in Bangladesh (OECD and FIIAP 2015: 28). Bangladesh’s new approach included attempts to improve attitudes of tax employees and officials through discussions, visits from international consultants, brainstorming sessions and training.

Respondent E made some suggestions which could be considered closely related to conflict resolution theory:

“The Charter should be used to prevent bad relations, or just prevent a situation from getting worse! Giving taxpayers notice and time to correct an error or omission before it deteriorates into a fist-fight. Like when they deal with an argument at work, there’s a process.”

Principles from dispute resolution theory can be adapted to make a compliance framework more effective (Bentley 1996a; 1996b; 2016). These would include basic principles such as preventing unnecessary conflict through notification, consultation and feedback, as well as responding with sequential procedures beginning with that of the lowest cost, while developing the actual skill and resources to implement these measures and ultimately improve upon them (Bentley 2016: 313).

Respondent D was well aware of the SARS Service Charter and certain charters from around the globe and so provided some very sound advice based on relevant examples:

“I followed the [SARS Service] Charter because I believe these things can help. There was some delay, but the update came out. It was the same document as before really, which isn’t a bad thing, I mean, it spells out what’s expected of SARS and yourself [the taxpayer], but it has room to grow. I know Australia did a good job with their [Taxpayer’s Rights] Charter, but I also know Ghana had difficulty with its [Citizen’s Charter] because it had a weaker public sector with finance and capacity issues. So with

this in mind, I'd obviously warn you that South Africa is not quite so sturdy – not quite like Australia anyway. So if you are going to try push for this, you are right in keeping it simple... and just including the wording you suggested in the [Responsive Service] Charter for now: 'Treating taxpayers as innocent until proven guilty', um... reminders instead of fines, leniency on first-time offences. These are okay - these aren't bold, bold reforms that call for other reforms. We can get there, but pace yourself."

This informative view highlighted many salient points. Ghana indeed had encountered difficulties in financing the public sector organisations that would support their Citizens' Charter (Ohemeng 2010: 126). South Africa would not want to initiate a project for which it lacked the capacity to follow through on, hence a simplification is a valid suggestion.

Respondent F approached the topic from a customer-service perspective:

"There are a number of psychological spheres being ignored throughout the administration of the [current tax] system in South Africa. If instant punishment is doled out for issues created from, say, misunderstandings, misinterpretations or even mistakes on the part of the authority, then what is that saying about the nature of the relationship? The transition to a service climate or a customer focused approach isn't complete until customer relations are consistently considered. You'd say, 'Well, there are non-compliant taxpayers who make this approach impossible.' And I'd say, rubbish! The law is still there, force is still there, but take your taxpaying customer seriously and treat them with respect."

While sanctions to support the tax administration will always be present, the extent to which they are employed as well as the degree of impetuosity behind their use is debatable (James and Alley 2002: 28). The IRS, the ATO and researchers have all considered approaches that view the taxpayer as a customer to varying degrees (Bird 1993; James and Alley 2002; Whait 2014). Such an approach can greatly enhance taxpayer satisfaction, but also allow for the possibility to escalate a non-compliance issue if the situation requires it.

Respondent J expressed the frustrations that can occur without adequate communication:

"I won't get into details, but some years back SARS thought a [taxpayer] had two employers, which requires the taxpayer to file their taxes anyway, even if they are

below [the income] threshold. The notice came late and they got another fine for late payment of the first fine. Consequently, they came to [our practice] and we managed to get everything reversed except for the late payment fines. So now this taxpayer, who was naïve at first, developed a bad attitude to the whole thing and the institution. Was it all worth it for SARS's blunder and a fine which was reversed anyway? No clarity was sought, just – bang – here's your penalty. It can't be in SARS's interest to sour the relationship without at least asking for a response first. It's about making an effort to be harmonious. All it required from SARS was a little communication with the taxpayer who had never filed before and was a 'first time offender' in their eyes, despite it actually being their error."

This opinion finds a degree of resonance within the Tax Administration Report of the Davis Tax Committee (2017). According to the Report, South Africa applies a “pay-now-argue-later” principle requiring the full amount of a disputed tax liability to be paid before the outcome is known (Davis Tax Committee 2017: 69). It also stressed that at least an impartial review must be held before any tax amount still in dispute need be paid. Many other jurisdictions require only a portion of the tax to be paid in order to discourage frivolous objections from being lodged. This is still adverse to taxpayers albeit to a lesser extent.

Respondent B pointed out the other systematic changes that would have to occur to accommodate the Responsive Service Charter:

"I am not entirely sure just how much else will have to change to achieve this. Introducing a charter is one thing, and we have achieved that on advice from the OECD, right? But responsive regulation is a pervasive approach. The actual framework and model adopted by SARS would almost certainly have to change with it. I hope such change could be staggered over time."

Respondent B above raised a significant point about how the current system components will have to be adapted to integrate with the new Responsive Service Charter. This has been highlighted in literature where in order to introduce a process of such a significant cultural change, further systematic integration will still be required (Bentley 2016: 295).

Respondent B continues:

“SARS often insists they are confident and competent, which is all well and good, but there might need to be additional testing to see if they can handle this shift of gears, particularly their IT infrastructure – their personnel as well. It’s important ‘cause if you fail to deliver these services properly and repeatedly dash expectations you will upset taxpayers and mess with their desire to comply.”

This wary opinion about capacity and IT capacity is justified considering the research on the topic. A new and improved Charter will require a sufficient labour force and an IT system with the capacity to service the new operations (Kashyap 2001; Sarel and Marmorstein 2001). The investigation into whether South Africa’s taxation infrastructure had the capability to adopt these new proposals was promising, but as the respondent above suggested, further testing would be necessary. Respondent B’s warning should be noted as taxpayers consider a failure to deliver expected services a violation of the psychological contract between a taxpayer and the authority which will negatively affects their willingness to cooperate (Alm *et al.* 2012: 144).

Respondent M provided detailed suggestions on how the Charter could appear to be lenient but still remain effective:

“Okay, here’s the idea; have you ever heard of ‘Big Brother is watching you?’ Well, everybody responds differently once they have a sense of being monitored, and taxpayers are deterred from cheating when they believe they are more likely to get caught, right? So, if a taxpayer is found to have made an error or omission or something, I reckon they should be flagged and receive some sort of electronic or mailed notice from SARS saying:

‘Please note that your eFiling submission was incomplete or inaccurate. SARS believes all taxpayers understand their essential and moral duty to pay tax and that you have made this error unintentionally. Please follow these links and fill in the Submission Review to correct it.’

Then [the taxpayer] would indicate the reasons why [they did not comply]; and maybe it was an honest mistake or maybe you didn’t know it was taxable, so [the taxpayer would] indicate as much on the [Submission] Review and SARS responds again: ‘Thank you for confirming the omission. You have also indicated you were unaware this

amount was taxable...’ or ‘...you have indicated this was an unintentional error on your part.’

Then SARS could tell you, ‘Although this was an unintentional mistake, we would like to help and have provided the following educational links to assist your submissions correctly in future. Please note we will be monitoring your submission in the following tax year to ensure you have no further difficulties.’

Then SARS would keep that taxpayer flagged and specifically choose them for an audit in the following year as a matter of review. Monitoring and review is common in business, so this is ‘Big Brother watching you’. Now, I think that’s a solid idea. SARS would not be framing the [non-compliant] person as a criminal, which is important to keep things cordial, but they still remind [the taxpayer] of their moral duty to pay, plus they provide a way forward which appears as non-invasive help; overcoming ‘difficulties’, which also doubles as direct monitoring.”

This suggestion of a Submission Review by Respondent M was mentioned in further discussions with other respondents who were supportive of the idea. Researchers also have provided support for certain aspects of the suggestion. Respondent M’s suggestion above involves increasing the taxpayer’s perception of the risk of detection as well as other educational and supportive mechanisms used in conjunction with one another. This is preferable as detection-risk and penalties in isolation are not effective in promoting compliance (Williams and Franic 2016: 101). Furthermore, this suggestion includes, notification, feedback and reconciliation of interests which are all effective mechanisms in dispute resolution theory (Bentley 2016: 314). While the additional observation and surveillance paired with appropriate knowledge and communication could improve compliance as experienced by the ATO (Whait 2014: 154).

As Respondent M has said, it is important not to label the taxpayer in a negative way which is shown to enhance future compliance as shown in the application of accommodative enforcement where stigmatisation of the taxpayer is counter-productive to compliance (Murphy and Harris 2007: 901; Murphy 2008: 127). The communication proposed above is also infused with appeals to intrinsic morals and a sense of duty, which have been

acknowledged in improving tax morale (Luttmer and Singhal 2014; MacGregor and Wilkinson 2012).

KEY FINDINGS – RESPONSIVE SERVICE CHARTER

- Respondents expressed that this would be an ambitious venture.
- There were reservations about the revenue authority’s capability to manage the increased complexities of applying the principles of leniency and added communication.
- Staff training, discussions, visits from international consultants, brainstorming sessions were all recommended for SARS staff to improve capacity and ease any reservations about the process.
- Proposed responsive service procedures which were supported included:
 - Engaging with taxpayers based on circumstances and previous compliance behaviour,
 - supporting those who want to properly participate in the tax systems,
 - treating taxpayers as honest unless they act otherwise,
 - differentiating between mistakes and deliberate non-compliance,
 - reviewing discrepancies before punishing, and
 - taking the taxpayer’s reasoning and explanations into account when determining corrective action.
- Respondent examples demonstrating the “responsive” aspects of the Responsive Service Charter included:
 - Leniency on first-time offenders with no taxpaying history,
 - disguising the monitoring of non-compliant taxpayers as “assistance”,
 - guaranteed audits in future years on taxpayers who have tried but failed to comply instead of monetary fines,
 - guaranteed fines and audits in future years on deliberately non-compliant taxpayers,
 - providing educational links and information to taxpayers who have made submission errors,
 - monetary penalties and fines for non-compliant taxpayers who have been proven guilty of deliberate evasion, and

- basic dispute resolution theory principles such as notification, consultation and feedback can be incorporated.

6.3.3.2 PROPOSAL 3.2 – COMPLIANCE REWARDS SYSTEM

There is a psychological contract between taxpayers and the authority which is upheld by perceptions of fair treatment and respect, but also through incentives (Feld and Frey 2007). The incentive can be negative such as sanctions for non-compliance, but also positive incentives which reward compliance. However, punitive measures can elicit hatred and encourage the punished individual to seek revenge (Kirchler 2007: 127). It is just as pivotal that regulators identify important problems and solve them as they recognise strengths and enhance them (Sparrow 2000; Braithwaite *et al.* 2007). Over and above punitive measures and sanctions, taxpayers can be motivated to strive for excellence. An alternative to the purely sanction-based escalation of responses when managing compliance is to include a deeper, more rewarding support-based continuum of responses (Braithwaite 2014: 289). The aim of these supportive responses is to expand strengths until they grow to conquer risks. Acknowledging appropriate tax behaviour with rewards has been shown to enhance voluntary tax compliance (Bornman and Stack 2015: 791).

The proposed strategy is to incorporate a rewards system which acknowledges compliant taxpayers and corporate entities in non-monetary ways. These may result in private pecuniary benefits for the latter. The intention is to acknowledge and reward a number of taxpayers comprised of different taxpayer types, including those within different tax brackets. Proposal suggestions include a lottery-style rewards system which is available to all registered taxpayers, specific rewards for taxpayers who have filed timeously, accurately, etc., or any other suitable rewards mechanism.

“I think it’s a wonderful idea; finally something positive out in the open. There are so many psychological elements that tax policy could take advantage of and this idea is just the kind of good energy that any tax collector (authority) desperately needs.”

Respondent O explains that positive reinforcement could help a developing country to develop its compliance culture:

“Young economies might not have the kind of tax culture that more established ones have. I would assume that in a country with a strong developed infrastructure, the

citizens would be aware of a strong taxpaying culture. But maybe in a developing country, in a new economy, it might need additional incentive, and some sort of positive reinforcement. I think it's a nice change of pace from always chastising non-compliance to something more celebratory."

The above view is supported by tax-compliance literature. Strategies recognising compliance publically and acknowledging high-paying taxpayers are being adopted with increasing frequency in developing countries (Luttmer and Singhal 2014: 150).

Respondent A explained that a rewards system would be a welcome change that could boost the taxpayer's self-perception:

"It could really help the taxpayer develop a sense of worth. I mean, it would be nice to get the nod from the government once in a while, wouldn't it? It's not often that taxpayers can feel appreciated by SARS itself. I'd be really impressed because, at the moment, it would be so out of character with the sterile [tax] environment I work with. I feel like most authorities are faceless. Wouldn't this be a breath of fresh air?"

In line with the views of Respondent A, surveys have shown that taxpayers felt a rewards scheme acknowledged their competence in dealing with their tax affairs and even made the taxpayer feel more appreciation from government for their compliance (Bornman and Stack 2015: 802-803). This therefore could be a positive step to develop taxpayers' understanding of their importance and worth in the taxpaying process. This could simultaneously improve SARS's image.

Respondent K expressed some reservation about the execution of the rewards system:

"I think the rewards concept has merit, but we have to go about very carefully. You don't want to be rewarding people for doing what they're supposed to be doing in the first place. You could be affecting their natural desire to do what's right. Eventually their own sense of duty won't kick in and a moral sense of accomplishment won't be enough of a reward. So, you need to be reinforcing that sense of accomplishment, not giving them a kick-back or commission. It's not a job."

This is a very valid argument that has been addressed by researchers. Provided the initial tax payment and the subsequent reward are differentiated from one another, then the

probability increases that the taxpayer will consider it a sign of acknowledgement instead of viewing it as a tax reduction or payoff (Feld and Frey 2007; Kornhauser 2007). Intrinsic motivation is enhanced when the reward is considered a token of appreciation from the authority rather than some form of tax rebate. But even with this distinction, there is still a risk that a monetary reward will have an adverse effect on the motivations of the taxpayers, but this risk can be dramatically reduced by introducing non-monetary rewards instead (Kamenica 2012; Lacetera and Macis 2010).

Other respondents also had concerns over the nature of the reward (G):

“It’s like you are diminishing the value of the prize if it’s a cash-prize. It stops being special and starts to become a transaction. Furthermore, if the pay-out effectively results in less tax, like a tax-cut, then the motivation can become completely malign – because now, if you evade tax, you’ll get the whole pay-out!”

This view of Respondent G reveals a truth about what incentives begin to resemble if they are taken to the extreme. Taxpayers can begin to feel they are entitled to financial rewards if they resemble ordinary transactions such as discounts which may in turn reduce their internal motivations to fully comply (Kornhauser 2007: 639).

The motivational mechanism used by the reward should be carefully examined. A motivation red-flag was highlighted succinctly by another respondent (D):

“If the reward begins to resemble what you stand to gain by not complying, then that’s not a healthy motivation at all.”

With the above opinions taken into account, there was clear support for a non-monetary reward to be used. This has been viewed as the more effective option by researchers (Feld and Frey 2007; Kornhauser 2007).

Respondents mentioned which types of taxpayer could be eligible, in what culminates in a very inclusive list (H):

“I’m not sure what’d be feasible, but I’ll just put some thoughts out. I’m thinking rewards within each income bracket. Maybe even those who are below threshold but still have registered for tax? That’s an incentive to register, too, isn’t it?”

The rewards system could include business entities as well as religious organisations (O):

“Not only individuals, surely VAT vendors and business. All types - even churches who earn some kind of income that’s not related to their charity (non-profit) activities.”

Some interviewees described the criteria and sub-categories to be observed before taxpayers could receive rewards for their compliance (J):

“There’s quite a few areas that need to be checked; what taxpayers earn, what they declare, what they deduct, what they donate and define as income, what they pay in the end, what’s an expense, what’s what.”

This list from Respondent J does reveal there are multiple areas which need to be observed to determine whether the taxpayer has been compliant. Some of these can be found in literature surrounding rewards in the context of taxation. These have included the taxpayer declaring their income in full, no overstatement of deductions, submitting their tax returns timeously, and finally paying the correct amount due (Feld, Frey and Torgler 2006: 15).

Respondent C believed this could create an additional burden on SARS’s administration:

“The part that bothers me – and I think I have mentioned this before in other areas - is that this could get a little administratively cumbersome. If SARS are going to hunt through returns, it had better be in the online eFiling environment - otherwise the process could take a very long time. Then again, you don’t want to leave out those who submit manually, but I suppose there could be time frames set to see them still receive rewards too.”

The potential for an administrative burden is not spoken about widely in literature especially where online tax submission is the norm. In countries with a sufficiently developed taxation infrastructure, this should not be a major concern (Rillstone 2015: 108).

Whenever the idea of automating the rewards system arose in discussion with respondents, there was no reservation. One respondent (E) provided this view:

“I think it would be easy enough to automate the process. Parameters could be set and programmed into SARS’s eFiling system to trigger the reward. Depending on what the reward might be, they could also be executable automatically.”

Respondent C went on to provide a recommendation regarding the initial implementation of the rewards system, which was mentioned in similar ways by other respondents:

“I think a bright idea might be to roll it out by making it related to [taxpayers’] audited results. Reward taxpayers who have come out of their audit squeaky clean. Then it’s also a bit of a lottery whether they’ll be chosen, I know, but this way, the admin burden is already covered since it would be part of the tax audits that already occur. Then in this space we can begin to refine and implement the idea on a larger scale.”

As Respondent C has recommended, many of the experiments conducted regarding the rewards system in a tax environment have focused on rewarding taxpayers who have been found to be honest and compliant through a tax audit. In these cases, compliance has improved in these experiments (Bazart and Pickhardt 2011; Kastlunger *et al.* 2011; Torgler 2003b).

Respondents considered making the rewards more relevant to the taxpayers by differentiating the kinds of non-monetary rewards that are given to higher and lower income taxpayers (J):

“Okay so let’s think out the box here, if we know cash is a bad idea, then I reckon we can have the rewards running along two tiers; one tier to reward rich corporates or high paying taxpayers, and another for less well-off taxpayers. Maybe the nature of the reward, while never financial, could provide relief in the form of vouchers for goods and services, or to provide access to opportunities that poorer individuals would never get otherwise. As for corporates and the richest of the rich, well, they can get the more lofty awards.”

The suggestions in this response is not unlike real world examples and recommendations by researchers, which include making public services cheaper or free such as free parking and facilities, giving discounted access to cultural activities, providing social opportunities with important public figures, giving taxpayers awards and certificates, or entries into a specific lottery, as well as access to VIP status in certain settings (Feld and Frey 2007; Feld *et al.* 2006; Kornhauser 2007). The use of tiers to make the rewards more meaningful to the taxpayer is not spoken of as widely.

As popularly suggested amongst many of the respondents, the rewards could be recognised on a public scale (L):

“I’m sure it goes without saying that some might quite enjoy the good publicity! Especially business, or any well-known personality who relies on being perceived as honest to make a living.”

It has been established that non-pecuniary benefits can positively influence tax compliance decisions (Luttmer and Singhal 2014: 149). Public recognition was mentioned earlier in this chapter during the discussion of **Proposal 2.3 – Taxpayers’ Week**. Announcing these public rewards within the Taxpayers’ Week could increase the value of the non-pecuniary benefits which could include recognition and improved status for the recipients

Some respondents such as Respondent I mentioned that these rewards would need to be funded and expressed concern as to how this would occur:

“If we are in a revenue shortfall, it might be a bit much [for] us to start passing out rewards instead of providing services with the revenue we actually manage to collect. I’m expecting that there will be some fair way of paying for the rewards or providing them without dipping into tax revenue directly. And if the rewards are cash then that’s going to upset the other taxpayers who still want what they paid for in the first place.”

Respondent A provided some direction in funding these rewards and gave a surprising but valid suggestion:

“It depends, doesn’t it? If the rewards can still be down to earth and if the numbers of people getting these sorts of rewards aren’t outrageous, then that’s fine. It just shouldn’t get to the point where the taxpayers who don’t get a reward feel like they are paying for somebody else’s meal-ticket. Maybe the non-compliant taxpayers can foot the bill!”

The latter suggestion that non-compliant taxpayers pay for the rewards given to compliant taxpayers may have been made in jest, but forms of this idea have been mentioned in literature. There are proposals to increase the fines for failing to comply in order to cover the costs of the rewards given for compliance (Falkinger and Walther 1991 cited in Rillstone 2015: 24). Alternatively, the costs could be covered if an increase in net revenue occurs as a result

of the additional incentive created by the reward (Feld *et al.* 2006: 16). This would mean that the rewards programme was cost effective.

The above information was brought up for discussion in the remaining interviews and found support with all such respondents.

While discussing earlier themes, Respondent M provided an insight into human nature:

“We need some way to reinforce compliance when the boss (revenue authority) isn’t looking (monitoring) any more. I guess once there has been any degree of monitoring, or an audit comes to a close, or something like that, and finally the authorities are off our backs, we can assume that the coast is clear and slip into our old ways, you know? I think some other motivation is required after then.”

This particular insight into post-audit compliance was revisited in the context of rewards (M):

“I didn’t think I’d said anything that bears repeating! But yes, if you reckon - a reward could be the incentive to keep everything above board when all the fuss has died down and no one else will be watching our every move.”

This behavioural response after audits was supported by other respondents, as voiced by F:

“We have this idea that lightning doesn’t strike in the same place twice. It’s not statistical or proven, but after an inspection we’re all the more likely to relax and assume danger’s passed.”

This is relevant in the context of tax compliance and audits. Many experiments provide evidence that immediately after a taxpayer is audited, the level of compliance decreases in consecutive periods (Guala and Mittone 2005; Kastlunger *et al.* 2009). Evidence from experiments reveal that if a reward is introduced, experimental subjects are more compliant in the period following the audit than if no rewards are given (Kastlunger *et al.* 2009; Rillstone 2015).

Respondent K along with many other respondents recommended widespread advertising of the rewards system:

“Obviously the biggest thing is you advertise the fact there will be rewards. If [taxpayers] are aware of what they stand to gain, then that affects their compliance. I

don't think it should just be a surprise out of the blue! Also, I think the way the whole thing is funded should also be explained. I like the idea of paying for the reward with the money raised through penalties - this just really drives the point home so well. This also might prevent taxpayers from being upset; they'd know that tax revenue isn't being used to fund the rewards."

The above response also mentions funding taxpayer rewards with the money collected from fining non-compliant taxpayers as discussed earlier, but this point highlights that the fact it is funded through collected fines and penalties should be made known. This idea was quite popular among other respondents. Many felt that funding the rewards using ordinary tax revenue was somehow inappropriate and other taxpayers would likely feel the same (M):

"Where would the poetic justice be in that? If we pay for the rewards with tax (revenue) then the compliant are rewarding the compliant. I prefer the concept of karma, thank you very much! What goes around comes around - You dodge your taxes? Then you can pay for the rewards the decent, upstanding taxpayers get. But [...], yes, tell taxpayers that you are paying for rewards this way. I don't know how to explain it other than it makes sense to our human values.

But M also added:

"Just one other thing; we want to create genuine motivations for paying taxes, and I can appreciate that once rewards are involved, then it's starts becoming about more than just a sense of duty to your country. I get how we don't want to make it all about the rewards, but I don't think this system is going to destroy the innermost desire to do the right thing. It's just a cherry on the top for those who want to be model citizens, and something playful amidst the intensity of tax enforcement."

This opinion above covers an interesting concept identified by Luttmer and Singhal (2014: 156) where the extrinsic incentives of tax enforcement can potentially crowd out intrinsic motivation to pay taxes. As discussed earlier, cash incentives can create other expectations from taxpayers, but literature mentioned earlier has revealed rewards enhance compliance more than can be expected to dilute intrinsic motivation, particularly if they are not cash rewards (Kamenica 2012; Lacetera and Macis 2010).

KEY FINDINGS – COMPLIANCE REWARDS SYSTEM

- Respondents felt this was a healthy element to add to regulatory system.
- Monetary rewards were deemed inappropriate for a moral and civic duty.
- This approach would create motivations that appealed to different types of personalities.
- Many felt this approach could be added onto the existing framework with the lightest administrative burden.
- Some respondents agreed or mentioned that this approach needed to be linked to public awareness campaigns or even Proposal 2.3 – Taxpayers’ Week.
- Most respondents thought this would be a positive public relations exercise.
- Rewards should be for a number of compliance areas and taxpayer income brackets.
- The rewards should be relevant to the category they relate to, for example, lower income earners would receive rewards that assisted them in overcoming day-to-day challenges while rewards for higher income earners could include more intangible benefits.
- The initial rewards system would best form part of SARS’s taxpayer audit to make use of the verified audit work already conducted.
- Rewards should be given in conjunction with successful taxpayer audits to promote compliance in subsequent periods.
- The rewards system should be advertised over social media, TV and radio to benefit from its effects on taxpayer behaviour.
- Funding the rewards for compliance by increasing penalties for non-compliance was considered a favourable method by most respondents.

6.3.4 THEME 4:

REINTEGRATIVE ENFORCEMENT

The following information was provided to interviewees:

The most widely used enforcement approach is the deterrence model that primarily relies on penalty and force to ensure compliance which ultimately alienate offenders (Murphy 2008: 113). This approach frames taxpayers negatively as adversaries to compliance which makes them more likely to adopt this adversarial mindset themselves (Williams and Franic 2016: 100). The risk that a revenue authority might fall into heavy-handed, penalty driven compliance policy has increased with the introduction of self-assessment systems (James and Alley 2002: 38). Force can generate resistance, affecting the taxpayer-authority relationship and tarnishing the government's reputation (Kangave *et al.* 2018: 7). Authorities who behave unreasonably or are dismissive of citizen concerns when enforcing regulations can increase resistance to compliance and weaken their respect for authority and the law (Murphy 2008: 115).

The alternative is an accommodative approach to regulatory enforcement which is not a homogeneous, uniform concept, but instead a composite range of strategies (Hutter 1989: 153). Reintegrative enforcement here broadly encapsulates concepts of accommodative enforcement, procedural justice and restorative justice which also draws upon reintegrative shaming. These areas are extremely important considerations when seeking to improve compliance and develop a collaborative relationship between taxpayers and the revenue authority (Murphy 2017: 55; Grabosky and Braithwaite 1986: 207). However, such approaches find their place pervasively throughout new investigations, researcher recommendations and the proposals contained in this study. However, research in these areas have produced varying results, highly dependent upon contextual factors, with noted limitations and much controversy in their fields (Kangave *et al.* 2018: 18; Murphy 2017: 50).

The way in which non-compliant taxpayers can be rehabilitated after a sanction has not been thoroughly investigated in literature and this proposal may serve to prompt further investigation in future research.

6.3.4.1 PROPOSAL 4.1 – REINTEGRATIVE SHAMING

SARS and the National Prosecuting Authority (NPA) have initiated a name and shame campaign which began with 10 high profile taxpayers (Sokutu 2018: 1). This is perfectly congruent with the Tax Administration Act Tax No. 28 of 2011 as it is a criminal offence not to submit a tax return within the allotted time for all tax types which taxpayer is registered for. Consequently, these convicted taxpayers now have a criminal record. This is also congruent with international practice as over half of the states within the USA utilise or have utilised some form of "name and shame" program, which publically list tax debtors on state websites (Luttmer and Singhal 2014: 149). The purpose of shaming is to deter an individual from committing an offence. Deterrence through shaming becomes effective once individuals are aware of the potential consequences of non-compliance (Azman 2010: 1252).

Accommodative styles of regulatory enforcement present a model which acknowledges that individuals are motivated to comply by a belief in legitimate authority, but also by self-interest which preserves their tendency to comply. Apart from being law-abiding 'rational actors', individuals are also self-serving 'social actors' (Braithwaite 2017: 118). When good tax behaviour is recognised through rewards, there is a positive effect on voluntary tax compliance (Bornman and Stack 2015: 791). However, shaming a taxpayer for non-compliance can produce a negative effect if the taxpayer is not successfully reintegrated (Murphy 2008: 127). It is important that enforcement practices do not cause those facing the enforcement measures to become alienated (Murphy 2008: 128).

The proposed strategy is to incorporate principles of accommodative enforcement, procedural justice, restorative justice and reintegrative shaming into the current shaming practices being utilised by SARS. These could be introduced in whichever way that would best prevent further alienation of a non-compliant taxpayer and lessen any stigmatising effects which may cause the taxpayer to build resentment toward the revenue authority only to become even more defiant.

Many respondents including Respondent M agreed that shaming should include mechanisms of reintegration and that without reintegration it would simply be another form of deterrence and not accommodative enforcement:

“I don’t doubt its potency, but if we don’t include the opportunity to make things right after punishing, then it’s just another form of deterrence. We’ve just added to the penalty; now it’s a big fine plus some public shaming. If government is happy with simply adding one more weapon to their deterrence arsenal, then that’s fine, but if it is looking to build a relationship, if it’s looking for the collaboration and everything that comes with accommodative ways [of enforcement] then it can’t just be more forms of punishment stacked, one upon the other.”

This observation seems true given the definitions of deterrence-based enforcement as opposed to reintegrative disapproval, where shaming in and of itself is deterrence-based (Braithwaite 1989; Harris and Maruna 2005). While shaming may not have been brought into the South African tax system specifically as a restorative tool but rather as a punitive one, without rehabilitative mechanisms, shaming can be counterproductive to greater long-term compliance (Murphy 2008: 127).

Respondent C added that without the rehabilitative phase, this disapproval was akin to a public humiliation:

“Is the situation getting desperate or what? Other countries might be doing something like [shaming], but if it doesn’t include steps to bring the [offending taxpayer] back to his senses, then it doesn’t sound like we are learning from the best. Shaming is as old as punishment itself, it’s Medieval unless there is the reintegration we’re talking about here – otherwise it’s just a public flailing.”

Respondent G explained that international best practice must be observed, not common practice:

“It’s a powerful idea – nobody likes to be exposed, but who are we learning from here? This idea isn’t new, so who are we modelling our... shaming-system from? We need the best example, not just ‘Hey, everybody’s doing it!’ I understand and appreciate that it works, and we should look into it, but let’s also find out who is doing it well - They’re the ones to learn from.”

Respondent A began by highlighting limitations of non-reintegrative systems of shaming:

“I have my reservations about shaming, I think there are some limitations in the long-run. Maybe these can be overcome. On its own, shaming appears to be about embarrassing you into compliance, right? - If we are blunt. So if we don't bring in the rehabilitation and inclusiveness and some way to make amends, then it's just a bit of an outdated idea. We don't want to inadvertently make people feel banished, we want them to participate in the world properly again, don't we?”

The criticisms made above of stigmatic shaming are not unlike the positions held in modern philosophical and ethical literature. Some see shaming punishments as a threat to human dignity, using an unreliable, impotent form of mob justice (Nussbaum 2009: 234-235). Ethical and psychological perspectives of modern forms of shaming believed it orphaned segments of society, failing to protect the offender or the community, which it also undermined (Condry 2007; Massaro 1997). Stigmatisation can damage the offender's bonds with other law-abiding citizens as it primarily focusses on their errant status rather than rectification of the negative aftermath (Harris 2017: 60). The intention of developing reintegrative aspects within any shaming campaign or approach is to prevent or overcome these negative effects.

There was much acknowledgment from respondents to avoid certain terminology that could be demeaning to the individual or exacerbate the sense they have encountered an adversary (H):

“The way this [shaming] is exercised in the future, whichever way we make [taxpayers] feel, it can't be belittling – surely we are above that. The language used in the communication of their [non-compliance] needs to be firm, but I think labels should be avoided here – 'cause otherwise it's just an 'us versus them' mentality coming from both sides. So, if shaming is to stay on the menu, we can't rub salt into the wound before, during and after.”

This opinion is supported by shaming theory literature. Avoiding the use of negative labels and preventing a “cops and robbers” perception of the approach will produce better, more co-operative outcomes (Williams and Franic 2016: 101).

Respondent O echoed the views above but also added some very keen insights about the effects of the taxpayer's self-perception:

"Are you familiar with the phrase, "Hate the sin, not the sinner"? Well, it's not quite as dramatic as that! But what I mean to say is, you can denounce the non-compliant taxpayer's actions, but shouldn't berate the actual person. In this way at least you haven't harmed their intrinsic view of themselves. If you attack their character and they disagree, which they will, then they will react with anger, but what is worse, if you attack their character and they agree, then they will view themselves as a delinquent and possibly behave even more like one!"

This view includes many facets that have also been investigated in academic research (Harris 2017). Reintegration can occur as a result of respectful shaming which differentiates the offender from their offence. It is also important that the offender does not adopt a negative master status trait as their dominant self-perception or core social identity (Harris 2017: 60).

The importance of not adopting a negative self-perception is echoed by the following comment from Respondent M:

"Why is it so important to differentiate bad behaviour from a bad sense of identity? Well let's think about it... If you are thoroughly entrenched in the idea that you are a good-for-nothing criminal, then one more theft or another crime won't make you feel shame. It's the same here with tax [compliance] – If they view themselves as pathetic or bad, then nothing bad that they do will trigger a sense of remorse."

This concerns what is called an ethical-identity conception of shame (Williams 1993; Harris 2011). The concept is that shame occurs when the individual perceives that their behaviour is inconsistent with their own personal ethical identity and values. It is therefore important to create a differentiation as without this, the realisation they have done the wrong thing has less meaning and won't be seen as a contrast against their ethical-identity.

Respondent M then stressed that the entire shaming process must be regulated to prevent unwanted abuse or negative aftereffects:

"It could get out of hand if it isn't regulated. I expect there should be official communication and some sort of proper protocol to be followed. Then, on top of that,

deviation from this should have repercussions. Otherwise, we are going to have [enforcers] getting... overenthusiastic, taking matters into their own hands. Once you go too far, it's a stuff-up – there are long-term negative consequences from a psychological perspective and in terms of compliance.”

Respondent F explained how a realisation of the gravity of the wrongdoing is important in order to take matters further:

“Shaming can be quite effective, but in isolation this idea is obviously insufficient to ensure they won't continue dodging taxes. We're talking about shaming these taxpayers publicly but I want to see more than retribution. What can really help here? Surely something important is that the message is received by whoever's done wrong, you know? They need to get how serious it was. I'm guessing the shaming is all for nothing if they don't have some sort of realisation. Not just a realisation of how much trouble they are in! I hope that this can be taken a step further to some sort of positive outcome.”

Taking Respondent F's comment above into consideration, Respondent I added some sound suggestions about the environment in which the offender will be most receptive:

“You can't drum a new mindset into them without some sort of support system. To grasp that it's not okay to do whatever they did, they might need an environment that is conducive to the whole thing – conducive to learning. Like how a support group is non-judgemental, well, the whole space needs to be supportive.”

After mentioning a non-judgemental atmosphere, Respondent F proceeded to discuss the value of forgiveness, even in a non-compliance situation:

“I suppose forgiveness isn't all that relevant to how the government sees deviance... but we are human beings and a sense of forgiveness, or being forgiven, is surely beneficial psychologically. I don't think you can achieve that feeling of peace without doing something to earn it. Since SARS isn't likely to have its feeling hurt, we are more concerned with tax-dodger, they might need to seek redemption... for their own good!”

There is literature supporting the introduction of a process of forgiveness into enforcement encounters. Reintegration occurs provided such encounters can conclude with forgiveness or

with the offender no longer recognised as a deviant (Harris 2017: 60). It is actually a defining principle within restorative justice to create an obligation to make reparations that address the wrongdoing (Zehr 1990). Traditional justice principles emphasise consistent, proportional punishment, but restorative justice tries to empower respondents to make amends and achieve reconciliation. This is defined broadly enough to include the restitution of the party that was wronged as well as the recovery of the offender and their social standing (Harris 2017: 62).

Respondent B added why separating the individual from the offence is important and effective:

“It makes it easier for the evader to admit that what they did was defunct if he or she isn’t forced into saying they are a defunct sort of person. I’m saying, for example, if there is a man on the stand being tried in court, it’s easier to admit a lapse in judgement than it is to say ‘Hey, I’m an out and out crook’. Then they can go about realigning their morals.”

These particular suggestions from Respondents F and I to improve shaming campaigns do find a backing in literature (Harris 2017). Reintegrative styles of shaming will still communicate that the offence was unacceptable, but the added advantage over punitive and stigmatic styles is there is acknowledgment of the individual affirming that they are separate from their offence. This can be conducive to help the individual acknowledge their guilt, denounce the offence and express remorse. The fact he or she will not be outcast and that their deviant status could be revoked is an added incentive (Harris 2017: 60).

Respondent D identified that feeling sorry was as an indication of reform. D later confirmed that this was best defined as remorse:

“So what’s the litmus test? If we have shown them disapproval, made them feel shame and now taken steps to reintegrate them and remind them they are still a valuable part of society, what’s the litmus test that they are reformed? I’d say it’s feeling sorry – that they feel sorry for what they’ve done. It’s hard to measure these things though.”

Respondent L pointed out that the goal of reintegrative shaming should be to elicit remorse and reinstate internal moral directives:

“Does this whole thing resemble embarrassment or does it do something more constructive than that? There’s all these guilty feelings, but I think we need to appeal to their moral compass – or update it! You see, the whole point isn’t punishment, and the point isn’t lifelong-guilt, let’s make it about genuinely understanding enough to feel sorry for what was done. If you re-establish their values, you actually give them something to cry about – not literally. In the end, are we sorry we did it, or sorry we got caught? That’s a big difference.”

The view above points to a differentiation acknowledged in literature. Some researchers have highlighted that, beyond shaming, restorative justice is about remorse (Harris 2017; Morris 2002; Taylor 2002). Remorse is felt if the offender understands the true ramifications of their actions. Some scholars argue that shame is a destructive emotion as it impinges on their self-worth, preventing individuals from responding in positive ways (Bedford and Hwang 2003; Tangney and Dearing 2002). The alternative presented above is one of the earliest arguments for reintegrative shaming; that it should be used to appeal to the offender’s moral sensibilities (Braithwaite 1989; Karstedt, Loader and Strang 2011).

Respondent G points out that a publicised shaming campaign reaches its peak as a deterrent immediately but does not offer solutions with lasting effects. This respondent uses the term “reinstitutionalise” to describe the reintegrative process.

“The deterrent effect kicks in provided people are aware there is shaming campaign, so that is fulfilled with media coverage. This covers the borderline cases; taxpayers who can be swayed by their fear of being singled out and shamed will hopefully be compliant thanks to that fear. That’s the easy part. But after that, shaming produces no additional benefits really... and at this point you begin to run the risk that [the offender] thinks lowly of themselves, resents being shamed and contemplates retaliation if they are not reinstitutionalised.”

Once individuals are aware that public shaming is the consequence of non-compliance, it becomes a deterrent (Azman 2010: 1252). After this point, it must be enforced, which can be costly in itself, but there are unforeseen costs if the offender is not tended to correctly as a negative self-perception prevents positive responses from the offender in the future (Tangney and Dearing 2002).

Respondent G added some other interesting points about repressed guilt and shame:

“Of course I’m not psychiatrist, but I do know something about the problems that occur when we fail to acknowledge our own hurt or guilt to anything like that. We can become cold if we don’t meet those emotions and get them out. I’m pretty sure we just end up more cold if we don’t address them. Like a criminal who never takes accountability for their actions; it’s just a very bad sign that they are going to resent the punitive process, become a hardened criminal and probably do it again! Have you ever watched those shows where the criminal meets their victim? Sometimes there are tears and remorse and it’s really quite liberating for the criminal. I believe it could be just as important that a non-compliant taxpayer face up to SARS and engage with them – acknowledge what’s gone wrong.”

Here there is much to suggest that unacknowledged shame may manifest behaviourally as an absence of shame, perhaps owing to the fact it is unresolved. Also, unresolved shame can generate destructive emotions, as evidence suggests it is associated with anger and defiance (Harris 2017: 71). However, acknowledged shame will elicit empathy and remorse, which can in turn, facilitate reparation. If enforcement encounters are to have positive outcomes, then these factors must be taken very seriously in the development of reintegrative punishments.

Lastly, there have been other mentions by respondents about making taxpayers aware they are still under the watchful eye of the revenue authority. Here is one such mention by Respondent A in the context of reintegrative enforcement:

“We should follow up on these taxpayers. The penalty could even be less severe if they understood that the likelihood they will be audited in future years was increased. And I think they should be subscribed to additional reminders, like, more communications from SARS – positive reinforcement, but also more reminders. These’ll help them grasp that SARS is still diligent, maybe more so than before. The standard exposure and compliance awareness wasn’t working, so... so, I think efforts could be redoubled.”

Respondent A has touched upon an idea of merit according to literature. Basic reminders that are presented in a simple form which also provides taxpayers with information can reduce the propensity to evade tax (Del Carpio 2014; Hallsworth, List, Metcalfe and Vlaev 2017).

KEY FINDINGS – REINTEGRATIVE SHAMING

- All respondents felt that shaming campaigns should contain reintegrative mechanisms to rehabilitate the offender.
- Many respondents mentioned that the most successful shaming model should be adopted by observing international best practice, not common practice.
- There was support for creating a neutral space for the offender to realise, admit and process their wrongdoing.
- Rehabilitation could take place within the SARS regional centres in dedicated offices.
- Some respondents identified that reintegrative shaming methods which elicited remorse would be even more effective and that remorse was a more reliable indicator of reform in the offender.
- There was popular support from respondents to initiate reintegration through:
 - avoiding stigmatising labels,
 - differentiating the taxpayer from their noncompliant actions,
 - continued communication containing positive reinforcement,
 - prescribing educational media or courses as part of their rehabilitation,
 - creating avenues to revoke their deviant status, and
 - associating compliant behaviour with pride, patriotism and civic duty.
- Additional correspondence with past offenders was suggested to continue to promote positive attitudes, but also to serve as a subconscious reminder that SARS remains vigilant against non-compliance.

As mentioned, methods to rehabilitate non-compliant taxpayers after a sanction has not been thoroughly investigated in literature and is an area noted in the next chapter for future research.

6.4 SUMMARY

In this chapter, the findings of this study were presented. It included the descriptions of the compliance themes that were provided to the respondents who were interviewed as well as each of the accompanying compliance strategy proposals. The key findings of each compliance strategy proposal, which became evident during the process of analysis of the interviews, were listed. Support, criticism and suggestions for the proposals were presented

through relevant quotations from the interview respondents that were compared against local and international literature.

Respondents confirmed the four major themes, namely:

- Transparency,
- Education and Awareness,
- Responsive Regulation, and
- Reintegrative Enforcement.

Respondents supported all eight compliance strategy proposals subject to their recommended adaptations:

- Personal Taxpayer Receipt,
- Publication of Compliance Statistics,
- Tax Enculturation in School,
- Tax Aptitude in School,
- Taxpayers' Week,
- Responsive Service Charter,
- Compliance Rewards System, and
- Reintegrative Shaming.

The following chapter concludes the study.

CHAPTER 7

CONCLUSION AND RECOMMENDATIONS

“We shall not cease from exploration, and the end of all our exploring will be to arrive where we started and know the place for the first time.”

T. S. Eliot, essayist, publisher and literary critic

7.1 INTRODUCTION

The previous chapter presented the findings of this study. This chapter begins with an overview of the study and reports the outcomes of the research objectives. A highlighted summary of the key findings for each compliance strategy proposal is presented followed by a discussion of their short-term and long-term implementation timeframes. The limitations of the study are provided as well as possible avenues for future research. Lastly, the value of this study is discussed before providing concluding remarks.

7.2 OVERVIEW OF THE STUDY

The study began with a historic investigation into the taxpayer-authority relationship, which began as an oppressive one, forcing the local population into the labour market (Hailey 1938). This poor psychological association was never directly addressed, but after the new dispensation of democracy, legislation attempted to manage the financial incongruities. Nonetheless, poor compliance, tax evasion, aggressive tax planning and other contributors have seen the tax gap increase (Gcabo and Robinson 2007; Steyn 2014; Venter *et al.* 2010). With legislative options exhausted, this study sought out alternative policies and strategies that could be utilised in South Africa to improve the taxpayer-authority relationship and compliance levels.

Having adopted a research method that involved ascertaining the opinions of various experts, the ability of the South African taxation framework to adopt these policies and strategies in simplified and adjusted forms was considered. The opinions and recommendations on the implementation of these compliance strategies by experts in taxation, education and other fields of finance and academia have been presented.

7.3 OUTCOMES OF THE RESEARCH OBJECTIVES

This study set out to investigate the need for assimilation and implementation of compliance-enhancing taxation policies from foreign jurisdictions into the South African tax system.

The research objectives of the study were as follows:

- Investigate the historic and current taxpayer-authority relationship in South Africa and the factors influencing taxpayer compliance (this was addressed in Chapter 2),
- Signify the capability of South Africa's taxation infrastructure to facilitate the implementation of new relationship-based taxpayer compliance policy by highlighting system developments and initiatives (this was addressed in Chapter 3),
- Explore and highlight affordable, non-legislative cooperative-compliance taxation policy and strategies employed overseas (this was addressed in Chapter 4), and
- Investigate the practicable possibility for the implementation of highlighted foreign cooperative-compliance strategies locally using the opinions of tax experts (this was addressed in Chapter 6).

The outcomes of the research objectives are discussed separately below.

7.3.1 RESEARCH OBJECTIVE 1 - *Investigate the historic and current taxpayer-authority relationship in South Africa and the factors influencing taxpayer compliance:*

The historic investigation into the South African taxpayer-authority relationship helped identify unresolved trust-related compliance issues stemming from the colonial and apartheid taxation impositions, which were never directly addressed. Current developments shed light on how well meaning legislative attempts to balance equity have, in turn, lead to aggressive tax planning. Local research recommendations provided insight into the types of educational and trust-enhancing compliance strategies that could remedy this. A review of other influential factors revealed unexplored compliance-enhancing opportunities.

The investigation revealed that the taxpayer-government relationship traced through South African history began poorly in the 1900s where policy was oppressively developed to force labour into the market unnaturally (Hailey 1938) under colonial rule and the apartheid government up until the new dispensation of democracy in 1994. The payment of tax was

psychologically associated with submission to an oppressive authority (Burton 2008: 85). Although there have not been direct strategies to restore the poor psychological taxpayer-authority relationship specifically, other legislative changes and strategies have been attempted to make amends.

Legislative attempts have been made to address the financial incongruity still experienced as a result of past policy (Creamer 2010: 1). However, the rebates, exclusions, exemptions and allowances have also pushed nearly half of the registered taxpayers under the tax threshold (National Treasury 2017: 45). This has meant that current policy has disproportionately shifted the burden onto the remaining taxpayers (Myers 2012: 65). Aggressive tax planning, non-compliance, and other tax avoidance and evasion issues have surfaced, but a host of compliance enhancing factors were discovered. Trust in authority, education of taxpayers, responsiveness of regulatory systems and reintegration of deviants called for new and ingenuitive compliance strategies to be investigated. The potential strategies were viewed and selected within the context of the South Africa's unique taxpayer-authority relationship and therefore remain relevant to these needs.

7.3.2 RESEARCH OBJECTIVE 2 - *Signify the capability of South Africa's taxation infrastructure to facilitate the implementation of new relationship-based taxpayer compliance policy by highlighting system developments and initiatives:*

Assessing the infrastructural capability of SARS by highlighting the South African tax system's development and compliance initiatives revealed their success in following global trends and international best practice. Just as this objective prevented the duplication of ideas, it also revealed what was missing from the current relationship. Research appraisals of the South African tax system helped set the scope and calibre of compliance strategies contemplated for adoption and prevent unrealistic or overly sophisticated strategies from being considered.

This capability assessment began by observing SARS's ability to follow global trends. In this regard, SARS has taken active steps to bring themselves in line with the recommendations of the OECD (Jansen van Rensburg 2012: 5). SARS has participated internationally, multilaterally, regionally and bilaterally in many activities, working with various parties within the OECD, deepening cooperation with BRICS countries, and participating in the international customs

agenda. Then, as a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, SARS engages with the premier international body for ensuring the implementation of the internationally agreed standards and the exchange of tax information (SARS 2018b: 5-6).

Compared to other developing countries, South Africa has adopted best-practice concerning taxpayer privacy, tax official training, procedural information exchange regulations and taxpayer rights (Valderrama *et al.* 2017: 45). Concerning the latter, SARS was able to act upon the advice of the OECD (1990) and developed the SARS Service Charter. Although this did reinforce the protection of taxpayer rights, it was mostly a prescription of service targets and obligations. Nonetheless, the current Service Charter focused SARS's service-client approach and lead to improvements in service delivery and service culture which provided evidence of greater competency (Bornman and Stack 2015: 792; SARS 2012a: 4). This provided the grounds to suggest the inclusion of the co-operative and responsive elements embedded in the Taxpayer's Rights Charter used by the ATO.

Policy proposals that used online platforms for submission, communication or awareness were considered a possibility after noting the successful adoption of online eFiling and communications (South African Government News Agency 2012: 1). SARS does utilise reminder letters and other communication tools to enhance compliance, albeit the importance of specific reintegrative language is not emphasised. There is an increase in media presence over the SARS Tax Season but there are more public awareness opportunities to be taken advantage of in this way.

From an education standpoint, SARS has made similar attempts to utilise technology as some developed economies, which have been met with the same telecommunications infrastructure challenges (Koster 2013). Outreach programmes have been initiated into rural areas that even include deaf and blind taxpayers, while there are also informative lectures held in major cities to educate adult taxpayers. Nonetheless, many researchers recommend more initiatives here, including tax education in schools (Oberholzer 2005, Oberholzer and Nel 2006, Oberholzer and Stack 2014).

Evidence of the ability to co-ordinate new campaigns was based upon successful tax amnesty campaigns and general tax awareness campaigns (Gcabo and Robinson 2007; SARS 2018l).

Perceptions of SARS's ability to generate sufficient campaign awareness was also factored in, although this could have been better (Junpath 2014: 91). SARS acted on recommendations by the OECD (2013) to compose a compliance-risk management strategy. SARS also adopted a behavioural compliance model much like the ATO Compliance Model that was developed by the Cash Economy Task Force (1998).

Other global trends adopted included the division of taxpayers into more easily serviceable holistic segments (SARS 2009b). The activity based management, risk management and measurement approaches to performance are all indicators of SARS's commitment and accountability. The successful execution of these processes shows SARS is a capable entity with the infrastructural capacity to consider introducing new, compliance-enhancing policies and strategies that have been successful in other countries.

Research has indicated that South Africa is considered to have a fairly sophisticated tax framework as well as an extensive tax treaty network making it one of the most advanced economies in southern developing regions (Valderrama *et al.* 2017: 1). Acknowledging this capability, the scope of compliance strategies contemplated for adoption widened.

Interviewees provided their views as to whether SARS would be able to adopt specific taxpayer compliance policies and strategies from abroad. In all cases, the respondents believed SARS was capable of adopting the compliance strategies suggested by the study in varying forms subject to simplification or adaptation.

7.3.3 RESEARCH OBJECTIVE 3 - *Explore and highlight affordable, non-legislative cooperative-compliance taxation policy and strategies employed overseas:*

Exploring affordably implementable cooperative-compliance taxation policy and strategies from overseas identified that which was most likely to address the compliance issues revealed in the historic review of objective 1, and the missing elements discovered during the assessment of the South African taxation infrastructure, within the bounds of affordability, avoiding unnecessary reinvention noted during objective 2. Guided by relevant research recommendations, the overarching themes became apparent.

The exploration of each theme and their associated compliance proposals are summarised below:

Transparency was identified as an important component in building trust which was essential to the developing the implicit contract between taxpayer and authority. As a result, strategies involving transparency were investigated and a popular theme became apparent. Many strategies required costly legislative changes and so moved beyond the scope of this study; however, certain strategies such as the publication of anonymous compliance statistics only required a repurposing of anonymous tax audit information that had already been generated by the revenue authority. Another transparency strategy that appeared to hold many potential benefits was the development of a personal taxpayer receipt which combatted fiscal illusion, increased tax morale, developed taxpayers' sense of tax-service reciprocity and assisted taxpayers in making informed decisions leading to rationale government policy outcomes (Afonso 2014b; 2015). This strategy in a simplified form was taken forward along with options to develop more sophisticated aspects within it.

Policies involving education were investigated based upon multiple research recommendations. Successful strategies involving tax education in schools were noted including in Australia and the USA, but a very successful tax education programme developed in Japan appeared to incorporate the development of tax values in much younger students. Thus, the education theme developed into two strategies of tax enculturation in school and developing tax aptitude in school. An additional strategy was identified during the investigation of Japan, which promoted taxpayer awareness and provided education during a 'Know-Your-Taxes Week' (Sarker 2003: 21). Since this idea was also popular worldwide in developing and developed economies alike, various recommendations were incorporated into a Taxpayers' Week compliance strategy (OECD and FIIAPP 2015).

The theme of Responsive Regulation was first identified when education was revealed as a compliance-enhancing tool utilised within Responsive Regulation frameworks. Secondly, The SARS Service Charter, despite setting out service delivery targets and reinforcing the rights and obligations of both SARS and taxpayers, was still found lacking compared to foreign charters that incorporated responsive regulation. The Australian Taxpayer's Rights Charter was developed to ensure the ATO's responsive regulation compliance model was procedurally fair in practice (Waller 2007: 67-68). It facilitated responsive regulation by emphasising the taxpayer's right to being treated "fairly and reasonably" and by making fair and equitable decisions appropriate for the situation (ATO 2018: 4). The human behavioural compliance

model adopted by SARS utilises certain responsive regulatory aspects like that of the ATO, and so a more comprehensive and pervasive inclusion of the responsive regulation approach within the charter is a possibility that was explored as the Responsive Service Charter proposal. After this, other responsive regulatory mechanisms that further agreed with the current compliance model was proposed, namely, the Compliance Rewards System. These rewards were intended to enhance the current compliance model, prevent post-audit non-compliance and improve tax morale within all categories of taxpayer.

The final theme of Reintegrative Reinforcement was uncovered when investigating compliance enhancing strategies, but its importance became more apparent when little research could be found on rehabilitating non-compliant taxpayers who had not responded cooperatively to responsive regulation or other means of enhancing compliance. One seminal aspect of Reintegrative Enforcement was the concept of Reintegrative Shaming. SARS and the NPA had recently begun a campaign of publically shaming individuals who were non-compliant (Sokutu 2018), but did not appear to utilise many of the reintegrative measures that can avoid the negative consequences of stigmatic shaming such as provoking future non-compliance.

7.3.4 RESEARCH OBJECTIVE 4 - *Investigate the practicable possibility for the implementation of highlighted foreign cooperative-compliance strategies locally using the opinions of tax experts:*

The viewpoints of experts regarding the practicable implementation of highlighted compliance strategies and policies from overseas into South Africa determined that all the proposed compliance strategies were needed, valuable, realistic possibilities for cost-effective implementation, subject to each of their specified adaptations to overcome the identified hindrances and harmonise best with the current framework, thus completing the final research objective.

The themes of Transparency, Education, Responsive Regulation and Reintegrative Reinforcement and their associated taxpayer compliance strategy proposals were taken forward into interviews where respondents concurred that these were major areas in which improvements could be made through the policies and strategies proposed.

Each of the associated compliance strategies were introduced whereafter a proposal was discussed and ultimately rejected or accepted subject to recommended adaptations. The following were acknowledged as needed compliance strategies (subject to the recommended adaptations of tax experts):

- Personal Taxpayer Receipt,
- Publication of Compliance Statistics,
- Tax Enculturation in School,
- Tax Aptitude in School,
- Taxpayers' Week,
- Responsive Service Charter,
- Compliance Rewards System, and
- Reintegrative Shaming.

As such, the concept of introducing modified cooperative-compliance strategies and policies based on those utilised overseas was well received by all participants, with minor exceptions over the specific adaptations required to implement certain strategies.

7.4 SUMMARY OF FINDINGS

The results of the interviews provided multiple insights into the potential of the proposed compliance strategies and policies that were discussed and listed in the previous chapter. These findings have been summarised here below, with emphasis on the most important areas that were noted during interviews.

7.4.1 PERSONAL TAXPAYER RECEIPT

All respondents supported a simplified personal taxpayer receipt, which would provide taxpayers with a breakdown of the services for which their taxes would be used. Information need not be based on each taxpayer's personal income to be effective, but by using income averages or estimates, they could be approximated to represent the value of services the taxpayer contributed to through their taxes. To be more meaningful, the personal taxpayer receipt should be relevant to taxpayers in their region. A more specified receipt could be provided to an e-filer immediately based on the information given in their completed submission. Most respondents felt the receipt would be received best in a personal way, such as an email, letter, or part of a payslip where possible, however, in more rural areas, a public

taxpayers' receipt-billboard displaying how a community's tax revenue benefited the local area would be effective. Respondents agreed it could enhance tax morale, provide a non-pecuniary reward, improve SARS's public image and serve as an informative tool to help citizens comprehend and rationalise their service and spending expectations from government.

7.4.2 PUBLICATION OF COMPLIANCE STATISTICS

The strongest support was to place detailed taxpayer compliance information in expert hands so researchers and organisations could diagnose issues and develop compliance solutions. Respondents felt statistics provided to the general public should be accompanied by effective compliance management plans to prevent demoralisation of compliant citizens, and supportive language to prevent the information appearing as a criticism. Many felt strongly that this should accompany a collaborative mutual exchange of information through reciprocity of transparency from both parties, but in the short-term, it could be used to initiate an honest dialogue between taxpayers and SARS.

7.4.3 TAX ENCULTURATION IN SCHOOL

All respondents were in favour of teaching tax compliance values in school from a young age. Respondents felt paying taxes could be positively associated with receiving services, good citizenship, strong role-models and national pride. Respondents in education felt the subjects of mathematics could be used to familiarise learners with tax while EMS could be re-curriculated to develop tax values. This would require the cooperation of the Department of Basic Education and, as such, represents a long-term plan to improve compliance. Respondents expressed that this could create positive momentum for the practical development of tax skills and aptitude in following years.

7.4.4 TAX APTITUDE IN SCHOOL

All respondents supported the development of tax aptitude in learners, namely the ability to identify, calculate and understand the effects of taxes as a fundamental skillset for citizens. Implementation of this proposal earlier in the learners' school careers was not unanimously supported, however, support grew dramatically after highlighting statistics that most South African pupils will leave school before completing matric. Most respondents agreed that the

increased confidence accompanying exposure to taxes in school outweighed the possibility they might not file for quite some time. Mathematics was considered a suitable subject to familiarise younger students with calculatory aspects, whereafter EMS would best deliver the practical aspects of tax between grade 7 and 9, periodically through modules and assignments. This would require the cooperation of the Department of Basic Education as part of a long-term compliance plan.

7.4.5 TAXPAYERS' WEEK

All respondents felt that a Taxpayers' Week should be held using radio, television and social media coverage to motivate compliance as part of a broader compliance campaign over SARS's Tax Season. Strongly supported suggestions were to allow it to coincide with a significant public holiday to positively associate paying taxes with national pride; to associate recent successful government spending projects with the compliant taxpayers who made it possible; and to host a non-monetary rewards ceremony, publically acknowledging Recognised Taxpayers by offering equitable rewards for all taxpayer types and income brackets. The mixed feelings and reservation over linking this Week to an Amnesty Period were abated by suggesting a once-off amnesty period applicable only to the Tax Week's first year of operation so as to discourage tactical non-compliance behaviour.

7.4.6 RESPONSIVE SERVICE CHARTER

Respondents supported the introduction of stipulated service procedures into the SARS Service Charter which supported taxpayers' rights to fair and reasonable treatment. 'Fair and reasonable' treatment would mean engaging taxpayers based on their circumstances and previous behaviour, differentiating mistakes from non-compliance, treating taxpayers as honest until proven otherwise, reviewing discrepancies before penalising, and factoring in taxpayer explanations. Concerns about the revenue authority capability to manage the complexities of procedural fairness and increased communication were abated through suggestions of staff training, discussions, visits from international consultants and brainstorming sessions to improve capacity and ease staff reservations. Respondents' examples of responsive service procedures included dispute resolution theory concepts such as notification, consultation and feedback, leniency on first-time offenders with no taxpaying history, providing educational links and local workshop information to taxpayers who have

made submission errors, avoiding stigmatising labels, continued monitoring of non-compliant taxpayers through direct assistance, and guaranteed future audits for taxpayers who are identified as higher risk or were deliberately non-compliant. Respondents expressed that this would be an ambitious venture as part of a long-term compliance strategy.

7.4.7 COMPLIANCE REWARDS SYSTEM

All respondents supported the proposal to introduce a Compliance Rewards System which acknowledged registered and compliant taxpayers with non-monetary rewards, however, monetary rewards were considered inappropriate for a moral and civic duty. Significant compliance rewards should be for taxpayers in specific compliance areas and taxpayer income brackets, tailored to be relevant and meaningful to the level of income of the taxpayer. Less significant rewards handed to larger numbers of taxpayers could be the provision of discounted public services and opportunities. To incentivise taxpayer compliance and improve public relations, the Rewards System should be advertised through social media, TV, radio, compliance campaigns and even the Taxpayers' Week or given in conjunction with successful taxpayer audits to promote compliance in periods subsequent to such an audit where taxpayers are less deterred by detection risk. Ideally, the rewards would be funded by increased revenue arising from the Rewards System or alternatively, be paid for by the penalties collected for non-compliance. Many felt this approach could be added onto the existing framework with the lightest administrative burden by making use of automated processes through eFiling or the verified audit work already conducted by SARS during taxpayer audits.

7.4.8 REINTEGRATIVE SHAMING

All respondents supported reintegrative shaming and felt that shaming campaigns should contain reintegrative mechanisms to rehabilitate the offender using a model based on international best practice. There was support for creating a neutral space such as a rehabilitative office within SARS's regional centres for the offender to realise, admit, and process their wrongdoing, ideally expressing remorse, a more reliable indicator of reform. There was popular support from respondents to initiate reintegration by differentiating the taxpayer from their noncompliant actions and avoiding typecast labels. Further rehabilitation would come from educational media and prescribed courses to reassociate compliant

behaviour with national pride and civic duty, and, ultimately, avenues would be created to revoke their deviant status in the long-term. Additional positively reinforcing correspondence with past offenders would also serve as a reminder that SARS was still vigilant to non-compliance.

7.5 TIMEFRAMES FOR IMPLEMENTATION

Although each of the taxpayer compliance strategies have been provided under specific themes, it became clear from the interview responses as well as the supporting literature that certain strategies would require more time to implement than others would. As a result, the recommendations have been divided into short-term and long-term recommendations for implementation. Short-term recommendations include compliance strategy proposals that can potentially be implemented within 5 years or less, while those that would require more extensive preparation and change have been listed under long-term recommendations.

It should be understood that if more than one of these proposals are attempted at once it could affect the resources available to suitably develop and drive them. As such, this study suggests that no more than one short term and one long-term taxpayer compliance strategy be implemented together at any one time. This will prevent the substandard compliance policy implementation that has befallen other developing countries, as discussed in the previous chapter.

7.5.1 SHORT-TERM STRATEGY IMPLEMENTATION

The following proposals are considered to have short-term timeframes for implementation as the researcher and respondents have discussed and determined that if acted upon with focus and singular purpose, the fully developed form of these proposals will not take more than 5 years.

The Personal Taxpayer Receipt (Proposal 1.1) would require the use of more resources to provide individuals with such a receipt, but still is considered a short-term plan that will present budget information in a more understandable and relevant way in the hands of taxpayers. The Taxpayers Receipt Billboard in rural areas would use similar information but in a local context, and require resources allocated to the placement of such billboards much like any promotional campaign. Once the information to be provided is selected and a suitable

method of presentation is selected, the actual delivery of such information becomes the only logistical impediment, and as such, the methods suggested earlier would fall within the short-term, 5-year timespan.

The Publication of Compliance Statistics (Proposal 1.2) could be implemented within a relatively short span of time as SARS does generate this information as a by-product of their taxpayer audits. The major concern is the preservation of anonymity, and so these statistics would need to be processed such that no private taxpayer details are presented but other useful data is still available to help organisations and associations develop relevant, reliable diagnostic information to solve compliance problems. If such results are to be presented to the public, the additional plans on how compliance problems will be dealt with will need to be formulated beforehand to preserve taxpayer morale and develop the public's perceptions of detection-risk. Both these avenues are still expected to fall within the short-term spectrum of 5 years.

The Taxpayers' Week (Proposal 2.3) could in fact be the very first of the proposals to be provided as SARS already invests revenue, time and effort in this area every year which could be refocused in an effective way without incurring significant additional costs. Framing this Week around a particular public holiday is not a challenging task, but the organisation of a proper, co-ordinated week-long event will require planning from the beginning of the year, securing media coverage and radio airtime, as well as the booking of certain venues and personalities. While these preparations would be ongoing, these plans are executable within a year.

The Compliance Rewards System (Proposal 3.2) represents both a short and long-term application where earlier incarnations of this proposal may simply form part of the Taxpayers' Week (Proposal 2.3) by adding an acknowledgment of Recognised Taxpayers who may be selected using basic criteria until a more detailed selection process is developed in future years. Ultimately, the Compliance Rewards System will need to be integrated into the SARS eFiling system for added efficiency when providing more general rewards, which may take some time. Alternatively, the information generated from Taxpayer Audits can be used to sort rewards in various categories, which would only require the available audit and compliance

data to be resorted. This proposal's time-frame for implementation really depends on the scale to which it is developed and as such is a flexible tool to promote compliance.

7.5.2 LONG-TERM STRATEGY IMPLEMENTATION

The following proposals are considered to have long-term implementation timeframes after discussion with respondents. This is owing to the fact that although each of these proposals has elements which can be introduced quickly, the final suggested forms of these compliance strategies will likely take well over 5 years to implement.

Tax Enculturation in School (Proposal 2.1) will require a concerted effort to adjust the current curriculum to include taxation by working with the Department of Basic Education and even experts in behaviourism to determine the most effective and positively reinforcing mechanisms to develop young learners' understanding and respect for taxes. The curriculum itself would need to be developed, piloted and phased in at successive levels, which would likely take a considerably long time in excess of 5 years, but the proposal would likely be easier to implement than Tax Aptitude in School (Proposal 2.2) as the development of values and attitudes requires less of a technical and structured underpinning to build upon.

Tax Aptitude in School (Proposal 2.2) also requires considerable time and effort to be developed, piloted and introduced into the schooling curriculum. Assessing the most effective way to introduce each aspect of taxation to learners within the EMS programme at an accelerated rate would require careful consideration. It is possible that modularised assignments could be added into the current curriculum as a starting point with a lighter burden, but this is still expected to take well over 5 years, along with consistent revision on a yearly basis in line with the latest taxation legislation.

The Responsive Service Charter (Proposal 3.1) can be introduced with varying depths and, in a similar way to the Compliance Rewards System proposal; the timeframe for its implementation is dependent upon such depth. Nonetheless, it is not a short-term proposal, as even the simplest applications will require some degree of staff training and an update of the SARS Service Charter. The SARS Service Charter's update in July 2018 took many years to actualise and an optimistic estimate of minor changes is still in excess of 5 years. Once reintegrative reinforcement is introduced into the Charter in the form of procedural guidance to reinforce the taxpayer's rights to fair and reasonable treatment, the staff who will observe

and act upon these procedures will require training and capacity development where necessary which would take an additional year or so. Again, this is subject to the depth of which procedural fairness is codified in the new Charter.

Reintegrative Shaming (Proposal 4.1) also represents a long-term proposal as the psychological rehabilitation of taxpayers who have failed to be compliant despite the current deterrence strategies utilised by SARS is no small feat. There have been instances where rehabilitative courts have been more stigmatising than conventional courts and so this programme should be implemented with the utmost care. Although there are simpler reintegrative aspects which can be integrated into the current shaming mechanisms being utilised, such as the avoidance of stigmatising labels, even this would require staff training and an adjustment to basic procedural protocol used during communication. At its height, this proposal would include rehabilitative offices within SARS's regional centres to reorientate offending taxpayers and provide them with the steps to clear their deviant status, which would require additional financial input and time.

7.6 LIMITATIONS OF THIS STUDY

The study investigated the potential and desirability of introducing compliance enhancing policies and strategies used in foreign jurisdictions into the South African taxation system. Consequently, the results of this research may not be generalisable as they are recommendations unique to a developing economy with a fairly sophisticated tax framework for specifically adapted and simplified taxpayer compliance policies.

The sample, selected through purposeful random sampling, ensured the participants' expertise was relevant to the study, but resulted in limitations in terms of diversity of gender and race. Furthermore, purposeful random sampling increases relevance but does not permit statistical generalisations. The population of the research sample was limited in terms of the geographical location, primarily focused in the province of KwaZulu-Natal, with respondents based in Durban, the Natal Midlands and Johannesburg.

The volume, variety and hypothetical nature of the compliance strategy proposals meant they were not able to undergo a feasibility study, but were considered based upon the opinions of taxation experts and those in associated fields. The ability of the South African schooling system to adopt the compliance proposals related to taxation education was not explored in

depth beyond the opinions of teachers and academics within secondary and tertiary education. A thorough investigation of psychological and human behavioural aspects could not be undertaken within the ambit of this study.

As might be expected in exploratory studies, the literature investigated before commencing the data collection process could not have foreseen or sought to encompass the entire spectrum of responses the interviewees provided. Certain responses contained theoretical underpinnings that were not entirely within the scope of this study. Nonetheless, literature related to the views of the respondents was briefly discussed and cited in support.

The four major compliance themes were predominantly developed in the course of the literature review while further discussion during the interviews served to validate and refine them; therefore, qualitative data analysis software such as NVivo was not utilised to define these themes.

Nonetheless, it is believed these results and recommendations will prove to be a useful starting point to direct the selection of new compliance policies and improve upon those currently in place.

7.7 RECOMMENDATIONS FOR FUTURE RESEARCH

Qualitative research often raises other questions and sets out new paths of investigation. Consequently, the following areas are recommended for further inquiry:

- Additional policies and strategies that have the potential to be brought into South Africa to improve taxpayer morale and compliance.
- Developing a more specific plan to implement any one of the compliance policies and strategies outlined in this study.
- The rehabilitation of non-compliant taxpayers who have been identified and penalised is an area lacking in research and should be investigated further.

7.8 VALUE OF THE STUDY

This study has contributed to research in the field of collaborative-compliance taxation policy in South Africa covering historical and general factors that affect taxpayer morale and compliance.

The research adds to the knowledge on cooperative, collaborative and relationship-building taxpayer compliance policies and strategies. Given that exploratory studies of this nature have not been conducted in South Africa up to this point, more specifically in and around the Durban region, the findings of this study add value by assisting tax authorities and policy makers in investigating and selecting new compliance policy and strategies for implementation in South Africa while also being aware of the potential difficulties they can expect to face.

The findings can inform SARS and policymakers on what new compliance strategies are needed in South Africa and the ways they could be implemented to improve tax compliance and avoid complications. The study also provides broader guidance for the government to acknowledge the pervasive themes that surround and enhance taxpayer compliance. These broader themes highlight the importance of Transparency as a tool to diagnose compliance problems and allow citizens to make rational service requests, Education and Awareness to prepare young learners and current taxpayers to contribute as good citizens, new avenues to develop Responsive Regulation to create a cooperative relationship within the current compliance framework, and Reintegrative Reinforcement to provide an opportunity to rehabilitate non-compliant taxpayers who have been publically shamed, fined and given criminal records.

This study also sheds light on taxpayer perspectives and attitudes toward the current tax system based on the views of experts who are in turn also taxpayers. It also postulates the potential reactions and other behavioural expectations that taxpayers might have in response to new compliance strategies and policies. In this sense, it contributes to literature in the fields of tax morale, taxpayer compliance and taxation policy and the importance of developing compliance strategies and policies to improve taxpayer compliance. This study further contributes to the knowledge of taxpayer compliance policy by providing evidence of successful compliance strategies utilised overseas.

7.9 CONCLUDING REMARKS

The review of the cooperative compliance taxation policies of developed economies led to considerable insights as various ingenuitive policies that promoted and improved the relationship between taxpayers and revenue authorities were identified.

The research concludes with support for the overarching concept of introducing cooperative-compliance strategies and policies modelled from those successfully utilised overseas. However, the respective systems, frameworks and infrastructures that these strategies and policies originate from need to be similar to the system of which they are destined to become a part. The strategies contemplated for this study were considered to be realistic as they did not require major legislative changes, they fell within the bounds of researcher recommendations, and they were generally similar to other policies and strategies already in place. Simplifications and adaptations to these strategies based upon the advice of experts versed in the needs and capabilities of the system into which they are to be implemented was a necessary step to garner support for each proposed strategy.

Having taken the above into account, the introduction of a personal taxpayer receipt and the publication of compliance statistics are supported proposals to improve compliance through mutual transparency. Long-term educational proposals to introduce tax enculturation and develop tax aptitude in school were encouraged along with a focused taxpayers' week to create compliance awareness in the short-term. Steps to incorporate responsive regulation into the SARS service charter by prescribing procedures and protocols to regulate how the taxpayers right to fair and reasonable treatment is upheld in practice was supported, as was a system to reward compliant taxpayers. Lastly, the introduction of reintegrative reinforcement into the non-compliant taxpayer shaming campaigns is supported through avenues that rehabilitate the taxpayer and potentially restore their previously compliant status.

In closing, Kangave *et al.* (2018: 19) note that "it is one thing to conduct research and quite another for the research to be acted on. Governments and development partners need to follow up on the studies that they support to ensure that the suggested reforms are implemented if improvements on the ground are to be realised." This research would like to emphasise this same point and challenge policy makers and government to act on a rapidly growing body of knowledge, which contains benefits that are difficult to ignore.

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APPENDICES

APPENDIX 1:

INTERVIEW PROTOCOL

Thank you for agreeing to participate in this interview. I am carrying out a number of interviews to gather expert opinions on whether specific taxpayer compliance strategies currently in use in other countries could be adopted and adapted to improve taxpayer compliance in South Africa. We will cover a number of questions related to each compliance strategy, which should take between 45 to 90 minutes to cover. I will also provide a concise explanation of the compliance strategy itself before asking any questions about it, but feel free to ask for more clarity as this will make your input more relevant. As a starting point for each strategy, we may answer the following:

- Do you believe the strategy could improve taxpayer compliance in South Africa?
- What barriers or problems could affect its local implementation?
- What adaptations or simplifications would be necessary to adopt the strategy?
- What additional insights do you have about the strategy? i.e:
 - Is there already a similar strategy?
 - A better/more cost-effective idea?

If you are not opposed to the idea, I would like to record the interview, so the flow of dialogue is not interrupted by myself taking notes. The records of what was said, whether written or recorded will be kept anonymous and treated according to the *Protection of Personal Information Act 2013*, the Durban University of Technology Research Ethics policy, and the Generally Accepted Research Ethics Guidelines. Any quotes used will not be attributable to you as anonymity is maintained. My contact information will be provided after concluding the interview. If you require any clarity on the interview process, please ask.

Are there any facts or circumstances that you believe should be made known before I ask to begin the interview?

Are you comfortable to proceed with this interview?

DEMOGRAPHICS:

1. Could you please tell us about yourself?
2. What kind of business or field are you currently in and how long have you been there?
3. What experience do you have in other areas such as, economics, business, education, finance or serving on committees or boards?
4. What is your qualification status? i.e. Matric, university degree, CA, Masters, etc.

THEMES AND COMPLIANCE STRATEGY PROPOSALS:

[The exact introduction, preliminary information and compliance strategy proposals that were given to each of the interviewees can be found in Chapter 6 where they are presented in the same wording and order as were read to the individual interviewees. Nonetheless, a table listing these themes and proposals is provided here:]

| COMPLIANCE THEME | COMPLIANCE STRATEGY PROPOSAL |
|----------------------------------|--|
| TRANSPARENCY | 1.3 Personal Taxpayer Receipt |
| | 1.4 Publication of Compliance Statistics |
| EDUCATION AND AWARENESS | 2.4 Tax Enculturation in School |
| | 2.5 Tax Aptitude in School |
| | 2.6 Taxpayers' Week |
| RESPONSIVE REGULATION | 3.3 Responsive Service Charter |
| | 3.4 Compliance Rewards System |
| REINTEGRATIVE ENFORCEMENT | 4.2 Reintegrative Shaming |

CLOSING STATEMENT AND QUESTIONS:

Thank you so very much for participating in this study! Without your valuable input this study would not be as fruitful. Regarding the interview session:

1. Were you comfortable throughout the interview?
2. Are you free of any concerns over your maintained anonymity after this session?
3. To ensure your views are correctly conveyed, would you be comfortable being contacted in the event of any uncertainties regarding your opinions?

The same contact details and methods we have been using thus far will be used to contact you should any significant matter arise. Thank you again for your time.

APPENDIX 2:

SAMPLE CHARACTERISTICS OF INTERVIEW PARTICIPANTS

| RESPONDENT | RELEVANT EXPERIENCE | QUALIFICATION | GENDER | ETHNICITY |
|------------|--|---------------|--------|-----------|
| A | Director (29yrs) | CA(SA) | M | Black |
| Br | Tax Consultant (10yrs) | MBA | M | White |
| Ca | Teacher (36yrs) | PGCE | F | White |
| Da | Lecturer (15yrs)/ Tax Consultant (5yrs) | MAcc | M | White |
| E | Teacher (6 years)/ Business School Teacher (8yrs) | MSEd | M | Black |
| Fi | Banker (8yrs)/Teacher (12yrs) | MEd | F | White |
| Ga | Accounting Association (5yrs)/ Lecturer (12yrs) | CA(SA) | M | Coloured |
| H | SARS (11yrs)/ Tax Consultant (5yrs) | Macc(Tax) | F | Indian |
| I | Business School Teacher/ Specialist Instructor (18yrs) | DBA | F | Indian |
| Ju | Tax Consultant (25yrs) | BCom (Hons) | M | White |
| Ka | Entrepreneur/Importer (15yrs) | PGDip (Tax) | F | Black |
| L | SARS (5 years)/Lecturer (14yrs) | MBA | F | Black |
| Mi | Director (24yrs) | CA(SA) | M | White |
| N | Ex-Chairperson Acc. Association (4yrs)/ Practicing Auditor (15yrs) | CA(SA) | M | White |
| O | Practicing Auditor (15yrs) | CA(SA) | M | White |

LIST OF QUALIFICATION ABBREVIATIONS

| ABBREVIATION | QUALIFICATION |
|--------------|--|
| BCom (Hons) | Bachelor of Commerce with Honours |
| CA(SA) | Chartered Accountant (South Africa) |
| DBA | Doctor of Business Administration |
| PGCE | Post-Graduate Certificate in Education |
| PGDip (Tax) | Post-Graduate Diploma in Taxation |
| MAcc | Master of Accountancy |
| MAcc(Tax) | Master of Accountancy in Taxation |
| MBA | Master of Business Administration |
| MEd | Master of Education |
| MSEd | Masters of Science in Education |

APPENDIX 3



LETTER OF INFORMATION

Title of Research Study: Collaborative Compliance Agreements between Taxpayers and Revenue Authorities: Lessons for South Africa

Principal Investigator/s/researcher: David Colin Greenham, BCompt, PGDip. (Taxation)

Co-Investigator/s/supervisor/s: Mr. Rajesh Ramlall, CA (SA), MTech
Prof. Lesley Stainbank, CA (SA), D Com

Brief Introduction and Purpose of the Study: You are being invited to take part in a research study of collaborative taxpayer compliance agreements and their implementation in South Africa. Before you decide to participate in this study, it is important that you understand why the research is being done and what it will involve. Please take the time to read the following information carefully before signing at the bottom of the page. Be advised to ask questions if there is anything that is not clear or if you need more information.

The purpose of this study is to investigate taxpayer compliance policies, strategies and agreements currently used internationally and gather expert opinions on the potential to implement them in South Africa. Possibilities, limitations and adjustments will be discussed regarding the proposed taxpayer compliance strategies. The field of the study falls within the subject discipline of Taxation. The final report will contribute to the literature available of taxation in South Africa (SA) and worldwide.

Outline of the Procedures: Your expected time of commitment for this study is: not less than 40 minutes and also not longer than 90 minutes. During this time in a face-to-face interview you will be introduced to four taxation compliance themes, provided with information about various compliance strategy proposals and sequentially asked about the possibilities and limitations of implementing each strategy. You need to answer according to your opinion as an expert in your field as it relates to taxation, give your own views and ask where you need clarity regarding the questions.

Risks or Discomforts to the Participant: The risks of this study are minimal. These risks are similar to those you experience when disclosing work-related information to others.

Benefits:

There will be no direct benefit to you for your participation in this study. However, I hope that the information obtained from this study may lead to answers for the study questions. It also gives you information about collaborative taxation compliance agreements of which you may not have been aware.

Reason/s why the Participant May Be Withdrawn from the Study: There are no foreseeable reasons why you may refrain to complete the questionnaire. If it happens you do not want to complete the questionnaire, you may withdraw anytime.

Remuneration: There is no monetary compensation to you for your participation in this study.

Costs of the Study: There are no costs to you for your participation in this study.

Confidentiality: Please do provide any identifying information at the beginning of the interview. Your responses will be anonymous. As you wish to contribute with your answers, be advised to be free to do so and be reminded that all your responses will be highly confidentially and will be only be used for the purpose of this study.

Every effort will be made by the researcher to preserve your **confidentiality** including the following:

Assigning code names/numbers for participants that will be used on all researcher notes and documents.

- Notes, questionnaire, and any other identifying participant information will be kept in a locked file cabinet in the personal possession of the researcher. When no longer necessary for research, all materials will be destroyed.
- The researcher and the members of the researcher's committee will review the researcher's collected data. Information from this research will be used solely for the purpose of this study and any publications that may result from this study.
- Each participant has the opportunity to obtain a copy of their interview. Participants should tell the researcher if a copy is desired.

Research-related Injury: There are no foreseeable research injuries.

Persons to Contact in the Event of Any Problems or Queries:

Please contact the researcher David Colin Greenham at 083 226 8629, E-mail: davidg@dut.ac.za or my academic supervisors: Prof. Lesley Stainbank CA (SA), based in Ritson Campus of Durban University of Technology, can be contacted through LesleyS@dut.ac.za, 031 373 5836 or Mr. Rajesh Ramlall CA (SA), based in Ritson Campus of DUT, can be contacted through rajeshr@dut.ac.za, 031 373 5607 or the Institutional Research Ethics Administrator on 031 373 2900. Complaints can be reported to the Director: Research and Postgraduate Support, Prof. S Moyo on 031 373 2577 or moyos@dut.ac.za.

General:

Potential participants must be assured that participation is voluntary and the approximate number of participants to be included should be disclosed. A copy of the information letter should be issued to participants. The information letter and consent form must be translated and provided in the primary spoken language of the research population e.g. isiZulu.



CONSENT

Statement of Agreement to Participate in the Research Study:

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

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

I, **David Colin Greenham** herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

David Colin Greenham _____

Full Name of Researcher **Date** **Signature**

Full Name of Witness (If applicable) **Date** **Signature**

Full Name of Legal Guardian (If applicable) **Date** **Signature**

Please note the following:

Research details must be provided in a clear, simple and culturally appropriate manner and prospective participants should be helped to arrive at an informed decision by use of appropriate language (grade 10 level - use Flesch Reading Ease Scores on Microsoft Word), selecting of a non-threatening environment for interaction and the availability of peer counselling (Department of Health, 2004)

If the potential participant is unable to read/illiterate, then a right thumb print is required and an impartial witness, who is literate and knows the participant e.g. parent, sibling, friend, pastor, etc. should verify in writing, duly signed that informed verbal consent was obtained (Department of Health, 2004).

If anyone makes a mistake completing this document e.g. a wrong date or spelling mistake, a new document has to be completed. The incomplete original document has to be kept in the participant's file and not thrown away, and copies thereof must be issued to the participant.

References:

Department of Health: 2004. *Ethics in Health Research: Principles, Structures and Processes*

<http://www.doh.gov.za/docs/factsheets/guidelines/ethnics/>

Department of Health. 2006. *South African Good Clinical Practice Guidelines*. 2nd Ed. Available at:

http://www.nhrec.org.za/?page_id=14